Photon Group Limited
Annual Report 2011

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## About this report

This Annual Report is also available on the Photon Group website at www.photongroup.com. Please go online to read more about Photon Group. You can also register to receive regular updates and Photon Group announcements.

ABN 97 091 524 515

The process of rebuilding the company after the difficult restructure and consolidation of the past year is now well underway. We are pleased to report that after an extremely difficult 2011 we enter the new financial year a stronger company and one that is better placed to rebuild and grow in the coming years

Following the recapitalisation last September and subsequent restructure, Photon now has a stronger, more sustainable, foundation for the future. This foundation will provide Photon's talented and hard-working team around the world a firmer footing from which to service their many clients

## Chairman's Report

Dear Shareholder

The process of rebuilding your company after the difficult restructure and consolidation of the past year is now well underway.

I am pleased to report that after an extremely difficult 2011 we enter the new financial year a stronger company and one that is better placed to rebuild and grow in the coming years.

Following the recapitalisation last September and subsequent restructure, Photon now has a stronger, more sustainable, foundation for the future. That foundation has given Photon's talented and hard-working team around the world a firmer footing from which to service their many clients.

**Strategic Objectives**

The key priority during the 2011 financial year was to reduce the debt burden that had become so troublesome for Photon. In the process, we sold several assets for excellent prices as well as consolidating some of our businesses, improving both the quality of our portfolio and operations of the business units.

As a result of that focus, we have dramatically reduced our debt – from $450 million to a far more manageable $146 million. During the 2012 financial year, the company will remain focused on this area.

In the course of fiscal 2011, Photon received a large number of approaches from potential acquirers of our businesses hoping to take advantage of our difficulties to acquire businesses at a discount. The board and management were firm in the view that we would not participate in a fire sale. The dispositions that we completed were on attractive terms, and if there are any future asset sales they will similarly be on terms that make sense for the company.

The financial results do not reflect many of the initiatives implemented during the year, but during 2012 we expect that many of these changes will flow through into the operating results of our business units.

At the same time, we will continue to remain opportunistic about the best way to maximise value for shareholders. Shareholders should recognise that there is more work to be done.

On behalf of the board, I want to take this opportunity to applaud the extraordinary efforts, under very difficult circumstances, of CEO Jeremy Philips and all of the staff at Photon's businesses over the past year.

Amid much media speculation and difficult operating circumstances, the team at Photon's operations in Australia and overseas continued to provide outstanding service, creativity and counsel to their clients and are recognised as leaders in their respective fields.

**Corporate Governance**

The board felt it was important to strengthen our lineup of directors with new and independent voices during the year. I was very pleased to welcome to the board Roger Amos and Max Johnston, both men of significant commercial and technical expertise. Roger and Max have brought fresh perspectives to board deliberations through their backgrounds.

Leading the management team, the company was fortunate to have an executive of Jeremy's experience and expertise during the tumultuous period Photon has come through. Jeremy, who was appointed as CEO in June 2010, was perhaps uniquely positioned to guide Photon through this period – first in putting together the recapitalisation and then in restructuring the company to reduce its debt, improve its operating structure, improve the quality of our operating businesses and management, and position the company for future growth.

Given the company's changed financial circumstances, including certain dispositions, the board has modified Jeremy's compensation structure. The board no longer believes that a short-term incentive tied to one financial measure is the best way to align the CEO's remuneration with the creation of shareholder value. Therefore, the board is discontinuing Jeremy's NPATA bonus and has instead put in place a discretionary short-term bonus and increased Jeremy's base salary.

Full details of this compensation change can be found in the remuneration report.

I am confident that, whatever challenges lie ahead, the worst is behind us and Photon now faces a future in which it can safely grasp the many opportunities available to its talented, energetic and hard-working team.

**Brian Bickmore** Chairman

Over the last year, the overriding aim has been to reduce the company's debt and put in place a group of business units that can provide a sustainable earnings base from which to rebuild. In doing this, every aspect of the business is being addressed: from creating a culture focused on long-term performance, transparency and integrity to rationalising the portfolio

## Chief Executive Officer's Report

Dear Shareholder

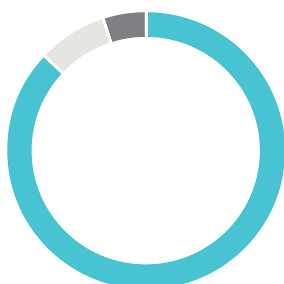
Having now been at Photon for a year, I would like to update you on our progress in rejuvenating the company after a challenging year of transformation.

We have made substantial progress in restructuring the company and putting in place a foundation for sustainable growth. This is the direct result of great efforts by our people across the company and I thank each of them for their valuable contribution, often under difficult circumstances. My thanks also to the board of Directors, whose support and contribution are greatly appreciated. As a result of this work we enter a new financial year better positioned to take advantage of the opportunities available to the businesses within the Photon Group.

During fiscal 2011, the company focused on three key areas:

1. **Reduction of debt:** Total unconditional cash liabilities reduced by 68 per cent – from $450 million at 30 June 2010 to $146 million at 30 June 2011 including raising $76 million from asset sales at 9 times EBITDA.
2. **Restructure of the portfolio:** Following successful restructure, more than 85 per cent of earnings are coming from business units with EBITDA over $3 million, and the number of business units reduced from 45 to 22.
3. **Improved management and operations:** We hired several senior executives with international experience; changed management in under-performing businesses and started the process of consolidating some back office functions.

**PROPORTION OF FY2011 EBITDA BY BUSINESS SIZE**



- 87% EBITDA > $3m
- 8% EBITDA $3m – $1m
- 5% EBITDA < $1m

Total number of entities = 22

I will discuss these in more detail below.

To understand the context for this rebuilding effort, the background is Photon's financial crisis. Major problems became evident a few weeks before the start of the 2011 financial year, just a few days after I commenced at the company. The company was subsequently forced to undertake a substantial recapitalisation and restructure to survive. At that point the company had $450 million in total liabilities – dramatically out of proportion to its earnings – and its viability was in grave doubt.

While the recapitalisation put the company onto sounder financial footing, it could not prevent the significant pain suffered by all Photon stakeholders as a result of the company's previously unsustainable financial position and the myriad issues in the company's operating structure, the individual business units, strategy, and incentives.

The problems we have dealt with in the past year are grounded in the company's past approach to acquisitions. While Photon acquired a number of leading businesses in their fields, the terms of the deals created an unsustainable financial structure. They provided a strong incentive to boost short-term results, but created disproportionate future liabilities.

Photon's complexity, built up over a decade, also made it extremely difficult to manage and decipher and gave rise to fundamental structural issues which have been difficult and time consuming to unwind.

Over the last year, the overriding aim has been to reduce the company's debt and put in place a group of business units that can provide a sustainable earnings base from which to rebuild. In doing this, every aspect of the business is being addressed: from creating a culture focused on long-term performance, transparency and integrity to rationalising the portfolio.

Due to efforts across the group, the company has made substantially greater progress during the year than initially expected – particularly in three key areas:

**1. Reduction of debt**

- The company started FY2011 with total cash liabilities of $450 million. Following the recapitalisation and the subsequent pay-down of debt from operating cashflow and asset sales, as at 30 June 2011 our total unconditional cash liability was estimated at $146 million.
- Over time the company will target a lower level of gearing to better suit its natural operating leverage and exposure to the economic cycle.
- The company remains highly pragmatic and, consistent with actions over the past year, will continue to actively explore opportunities to potentially create value and further reduce debt. During the year we completed a number of value-creating transactions – including the sale of six operating businesses. However, given there may not be buyers for our non-core businesses at acceptable prices, we have focused on performance improvement and our working assumption is "business as usual". We will not undertake a fire sale, which would be enormously value destroying.

## Chief Executive Officer's Report continued

**2. Restructure of the portfolio**

- At the start of the year, Photon consisted of 45 individual operating units, spread across 14 countries. We improved the quality of the portfolio by selling, closing or merging businesses as appropriate, reducing the number of units to 22. In doing this, we removed many of the most 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 as they existed, or required material uneconomic investment. Significantly, more than 85 per cent of Photon's earnings now 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.
- We sold six businesses during the year for a total of $76 million – an average multiple of nine times EBITDA.
- We also merged more than a dozen businesses to build stronger units with deeper capabilities, better management and more compelling client offerings. For instance, we merged Bellamy Hayden with Naked in Australia, creating a highly regarded strategic and creative agency, and put CPR into the Hotwire Group to expand Hotwire's product offering to public affairs and give CPR the benefit of Hotwire's international experience.
- We substantially exited our search arbitrage and related businesses through sales and closures, leading to an impairment in the first half of this year. In all, Photon spent $130 million acquiring these eclectic operations over a number of years which has now been written off. These businesses had no connection with Photon's other businesses and had minimal maintainable earnings or value.

**3. Management and operational improvements**

- 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.

  For instance:
  - Matthew Melhuish, previously CEO of BMF, moved into the role of Head of Australian Agencies and is leading greater collaboration amongst the Australian business.
  - Craig Hart, previously President of Retail Agencies Asia at Omnicom, joined to lead our Retail and Field Marketing division, and is building on this strong collection of businesses.
  - Steve Gatfield joined as Chairman of Naked Communications based in New York. Steve's experience running a substantial global network will be invaluable in the next stage of Naked's development.
- We increased Photon's focus on operational improvements to capture benefits from our scale, rather than simply operating as an unrelated collection of independent businesses with common ownership.
- In addition, we have been re-working incentive arrangements across the company to create a sustainable model.

**Ongoing progress**

During the year many of our operating units achieved great external recognition and new client wins. Photon has several world-class businesses in Australia and internationally which continued their record of delivering outstanding work for clients.

While we have made much progress, there is still further to go. For instance, two of our most promising global franchises, Naked Communications and The Leading Edge, are still well below their peak performance of prior years. Improving their performance is a high priority, which is being driven by strong leadership and excellent people across these businesses.

Plainly, a transformation of this magnitude takes time. The breadth and complexity of this company, and the range of issues requiring attention, means that our small corporate team is spread thinly. Even with the extraordinary effort by the core team, it has taken some time to uncover and begin to fix issues at all levels of the business.

To date, our leverage and structural issues have served as a straightjacket on strategic options – and we have undertaken a strategic consolidation from the undisciplined growth path of the past 10 years. In the future, we will focus more narrowly, building upon our strengths – with a particular emphasis on digital and high-growth market opportunities.

Despite all the challenges, it is heartening to see the great passion, commitment and depth of talent within the group. I am continually reminded of this when looking at the outstanding creative work produced for clients, the ingenuity and insights our teams bring to strategic presentations, and the ongoing obsession within all of our businesses with delivering highly effective results every day.

This should provide a strong foundation from which to rebuild and I look forward to keeping you updated on our progress.

**Jeremy Philips** Chief Executive Officer

## Board of Directors

**Brian Bickmore** Independent Non-Executive Chairman
Brian was appointed as a Non-Executive Director of the company on 25 March 2004 and appointed Non-Executive Chairman on 1 July 2010. In 1980, Brian was a founding Executive of Austereo and served as a Director of the company for almost 25 years until 2004. Brian is the Chairman of the privately held food retailer and franchisor Pie Face and a Director of oOH! Media Group Limited. Brian was initially Austereo's Finance Director and from 1997 was the group General Manager, and was previously a Director of RG Capital Radio Limited. Brian is the Chairman of the Remuneration Committee and a member of the Audit Committee.

**Susan McIntosh** Non-Executive Director
Susan was appointed as a Non-Executive Director of the company on 2 June 2000. A chartered accountant, Susan has more than 25 years' business experience in media (radio and television production and distribution) and asset management, and is also the Managing Director of RG Capital Holdings (Australia) Pty Ltd. Susan is a member of the Audit Committee and Remuneration Committee.

**Roger Amos** Independent Non-Executive Director
Roger was appointed a Director of the company with effect from 23 November 2010. Roger is a Director of Austar United Communications Limited, the Chairman of its audit and risk committee and a member of their remuneration committee. He is Chairman of Tyrian Diagnostics Limited and a member of its audit committee. He is a Director of REA Group Limited, Chairman of its audit committee and a member of its remuneration committee. All are publicly listed Australian companies. He is the Chairman of Opera Foundation Australia and a Governor of the Cerebral Palsy Alliance Research Foundation. Roger retired in 2006 after 25 years as a Partner in the Assurance and Risk Advisory Service Division of KPMG, where he focused on the information, communication and entertainment sector and held a number of global roles. Roger is a Fellow of the Institute of Chartered Accountants and a member of the Australian Institute of company Directors. Roger is the Chairman of the Audit Committee and a member of the Remuneration Committee.

**Max Johnston** Independent Non-Executive Director
Max was appointed a Director of the company with effect from 28 April 2011. Max is a non-executive director of Probiotec Limited. For 11 years he was President and Chief Executive Officer of Johnson & Johnson, Pacific and an Executive Director of Johnson & Johnson. Max has also held several prominent industry roles, including as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and a former member of the board of ASMI. Max has had extensive overseas experience during his career in leading businesses in both Western and Central-Eastern Europe and Africa. Max is a member of the Remuneration Committee.

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## Corporate Governance Statement

This statement outlines the corporate governance policies and practices of Photon, in the context of the Corporate Governance Principles and Recommendations that have been set by the ASX Corporate Governance Council (**ASX Guidelines**).

The table below sets down each of the Recommendations made in the ASX Guidelines and indicates where the relevant disclosure can be found in this report. Photon considers that its governance practices are consistent with all but two of the Recommendations contained in the ASX Guidelines. Photon has not established a formal Nomination Committee at this time (Recommendation 2.4). The Photon Board fosters and promotes diversity, including the representation of women in senior management roles. However, Photon has not yet adopted a formal diversity policy (Recommendation 3.2). An explanation for the departure from these ASX Recommendations is provided in the Corporate Governance Statement.

A copy of the ASX Guidelines can be obtained from the ASX website at www.asx.com.au.

| Recommendation | | Section |
|---|---|---|
| Recommendation 1.1 | Functions of the Board and Management | 1.1 |
| Recommendation 1.2 | Evaluation of Senior Executives | 1.2 and Remuneration Report |
| Recommendation 1.3 | Reporting on Principle 1 | 1.1, 1.2 and Remuneration Report |
| Recommendation 2.1 | Independent Directors | 2.1 and Directors' Report |
| Recommendation 2.2 | Independent Chair | 2.2 |
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| Recommendation 2.5 | Performance evaluation of the Board, Committees and Directors | 2.5, 2.6, 2.7 and Remuneration Report |
| Recommendation 2.6 | Reporting on Principle 2 | 2.1, 2.2, 2.3, 2.4, 2.5, Directors' Report and Remuneration Report |
| Recommendation 3.1 | Company code of conduct | 3.1 |
| Recommendation 3.2 | Diversity policy | 3.2, 3.3 |
| Recommendation 3.3 | Promoting diversity | 3.2, 3.3 |
| Recommendation 3.4 | Representation of women in the Company | 3.4 |
| Recommendation 3.5 | Reporting on Principle 3 | 3.1, 3.2, 3.4 |
| Recommendation 4.1 | Establishment of Audit Committee | 4.1 |
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| Recommendation 4.3 | Audit Committee Charter | 4.3 |
| Recommendation 4.4 | Reporting on Principle 4 | 4.1, 4.2, 4.3, Directors' Report and Director profiles |
| Recommendation 5.1 | Policy for compliance with continuous disclosure | 5.1 |
| Recommendation 5.2 | Reporting on Principle 5 | 5.1 |
| Recommendation 6.1 | Communications strategy | 6.1 |
| Recommendation 6.2 | Reporting on Principle 6 | 6.1 |
| Recommendation 7.1 | Policies on risk oversight and management | 7.1 |
| Recommendation 7.2 | Risk management roles and responsibilities | 7.1 and 7.2 |
| Recommendation 7.3 | Statement of CEO and CFO in relation to systems | 7.3 |
| Recommendation 7.4 | Reporting on Principle 7 | 7.1, 7.2 and 7.3 |
| Recommendation 8.1 | Establishment of Remuneration Committee | 8.1 and Director profiles |
| Recommendation 8.2 | Composition of Remuneration Committee | 8.1, 8.2, Directors' Report and Financial Statements |
| Recommendation 8.3 | Reporting on Principle 8 | 8.1, 8.2, Director profiles, Directors' Report and Financial Statements |

## Corporate Governance Statement

### Principle 1: Lay solid foundations for management and oversight

#### 1.1 Functions of the Board and management

*1.1.1 Role of the Board and management*
The Board has approved a formal Board Charter, which details the Board's role, powers, duties and functions. A copy of the Board Charter is available on the Photon website.

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Consolidated Entity. It is required to do all things that may be necessary to be done, in order to carry out the objectives of the Consolidated Entity.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

1. **Leadership of the organisation:** overseeing the Consolidated Entity and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. **Strategy formulation:** working with senior management to set and review the overall strategy and goals for the Company.
3. **Overseeing planning activities:** overseeing the development of the Consolidated Entity's strategic plan and approving that plan as well as the annual and long-term budgets.
4. **Shareholder liaison:** ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
5. **Monitoring, compliance and risk management:** overseeing the Company's management of material business risks, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
6. **Company finances:** approving expenses in excess of those approved in the annual budget and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. **Human resources:** appointing and, where appropriate, removing the Chief Executive Officer (CEO) and Executives as well as reviewing the performance of the CEO and monitoring the performance of senior Executives in their implementation of the Company's strategy.
8. **Ensuring the health, safety and wellbeing of employees:** in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the wellbeing of all employees.
9. **Delegation of authority:** other than as specifically reserved to the Board in the Board Charter, responsibility for the management of Photon's business activities is delegated to the CEO who is accountable to the Board. The Board has also delegated specific authorities to various Board Committees.

*1.1.2 Conflicts of interest*
Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Consolidated Entity; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest, then the Director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

*1.1.3 Related party transactions*
Related party transactions include any financial transaction between a Director and the Consolidated Entity and will be reported in writing to each Board meeting. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

#### 1.2 Evaluation of Senior Executives

*1.2.1 Induction of Senior Executives*
New Executives undertake an induction program upon joining Photon, including comprehensive briefings on the Company's businesses, and its policies and procedures. The program includes meetings with people in key internal and external roles in order to start developing the relationships necessary to meet the requirements of their role.

As discussed further below and in the Remuneration Report, key performance indicators are agreed with each Executive to ensure goals and performance measures are fully understood and disclosed.

*1.2.2 Performance evaluation of senior Executives*
The performance evaluation of key Executives is undertaken by the Board, in conjunction with the CEO, on both a formal regular and informal ongoing basis. Each senior Executive's performance is reviewed at least annually. Performance evaluation of senior Executives has taken place during the reporting period in accordance with the process disclosed.

The process for evaluating the performance of senior Executives and the remuneration policy for senior Executives is further discussed in the Remuneration Report.

**Principle 2: Structure the Board to add value**

2.1 Independent Directors

The Constitution of the Company provides that the number of Directors must not be less than three and not more than 13. The names of the Directors of the Company in office at the date of this report are set out in the Directors' Report on page 16 of this report, including the period of office held by each Director as at the date of this report. There are currently four Directors, each of whose skills, experience and expertise are described in their Director profiles on page 16. There are no Executive Directors and four Non-Executive Directors (Susan McIntosh, Brian Bickmore, Roger Amos and Max Johnston).

The Board meets the ASX Corporate Governance Council's recommendation that a majority of the Board should be independent. Three members of the Board, Brian Bickmore, Roger Amos and Max Johnston, are independent according to the definition in the ASX Guidelines. Susan McIntosh is not considered independent because she is an officer of the RG Capital group of companies, which has a substantial holding in Photon. The Board believes that its current composition has the required skills and independence of thought and judgment to ensure that decisions are made by the Board in the best interests of the Company.

The Board regularly assesses whether each Non-Executive Director is independent, based on the criteria specified in the Board Charter (which is consistent with the criteria set out in Recommendation 2.1 of the ASX Guidelines).

The Board does not have a formal procedure for Directors to take professional advice at the expense of the Company; however, the Directors have the ability to do so.

2.2 Independent Chair

The Chair of Photon, Brian Bickmore, is a Non-Executive Director and an independent Director. This meets with the ASX Recommendation that the Chairman should be an independent Director. Brian Bickmore assumed the role of Chair on 1 July 2010 on the resignation of Tim Hughes.

2.3 Role of the Chair and CEO

The roles of Chair and CEO are not exercised by the same individual. The division of responsibilities between the Chair and the CEO has been agreed by the Board.

2.4 Establishment of Nomination Committee

The Board has determined that due to the relative size of Photon it is not necessary or appropriate for a Nomination Committee to be established at this time. The Board will continue to revisit this question on an ongoing basis as the Company continues to grow. In addition, a number of the responsibilities identified by the ASX Guidelines as being within the ambit of a Nomination Committee have been delegated to the Remuneration Committee.

2.5 Performance evaluation of the Board, Committees and Directors

*2.5.1 Induction and education*

New Directors undergo an induction process in which they are given a full briefing on the Consolidated Entity. This includes meetings with key Executives, an induction package and presentations. Information available to new Directors includes:

– formal policies on Director appointments as well as conduct and contribution expectations;
– details of all relevant legal requirements;
– a copy of the Board Charter;
– background information on, and contact information for, key people in the organisation, including an outline of their roles and capabilities;
– an analysis of the Consolidated Entity;
– a synopsis of the current strategic direction of the Company, including a copy of the current strategic plan and annual budget; and
– a copy of the Constitution of the Company.

*2.5.2 Performance review*

The Chair is responsible, in the first instance, for monitoring the contribution of individual Directors, and providing guidance on any areas of improvement.

The Board undertakes an annual self assessment of both its collective performance and that of individual Directors and seeks specific feedback from the senior management team on particular aspects of its performance. The Remuneration Committee oversees this annual performance assessment program.

In addition, each Board Committee undertakes an annual self assessment of the performance of the committee and the achievement of committee objectives. The performance of the CEO is reviewed annually by the Remuneration Committee and the Board. The performance of the CEO is reviewed annually against set performance goals and competencies. Performance evaluation of the Board, its committees and Directors has taken place during the reporting period in accordance with the process disclosed.

2.6 Retirement and re-election

As required under Photon's Constitution and the ASX Listing Rules, and excluding any managing Director or Director newly appointed during the relevant year, at each Annual General Meeting one-third of the Directors must retire from office. Retiring Directors are eligible for re-election by shareholders.

No Director (other than the Managing Director) may hold office for more than three years without standing for re-election and any Director appointed by the Board since the previous Annual General Meeting must stand for election by no later than the next Annual General Meeting.

## Corporate Governance Statement

### 2.7 Appointment of new Directors

When a vacancy exists for a Board position, through whatever cause, or where the Board considers that it would benefit from the services of a new member with particular skills, the Board will consider candidates having regard to:

- what may be appropriate for the Company;
- the skills, expertise and experience of the candidates;
- the desirability of those skills, expertise and experience when combined with those of the existing Directors; and
- the perceived compatibility of the candidates with the Company and with the existing Directors.

Potential candidates to be appointed as Directors will be considered by the Board. The Board will appoint the most suitable candidates who (assuming that they consent to act as Directors) continue in office only until the next Annual General Meeting and are then eligible for election. During the reporting period, the Board used the services of a specialist executive recruitment consultant to assist it to identify and assess suitable candidates for appointment to the Board.

The terms and conditions of the appointment of all new members of the Board must be specified in a letter of appointment to be signed by the Chair with the authority of the Board.

The Board is committed to ensuring that Directors appointed to the Board hold a mix of skills and experience and diversity.

## Principle 3: Promote ethical and responsible decision making

### 3.1 Company Code of Conduct

To assist the Board in carrying out its functions, Photon has developed a Code of Conduct to guide the Directors, the CEO and other key Executives in the performance of their roles. The Company Code of Conduct was adopted by resolution of the Board on 27 May 2004. This Code includes the following:

*Responsibilities to shareholders and the financial community generally*

The Company complies with the spirit, as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

*Responsibilities to clients, customers and consumers*

Each employee has an obligation to use their best efforts to deal in a fair and responsible manner with each of the Company's suppliers and customers.

*Employment practices*

The Company endeavours to ensure that its employees maintain the highest standard of conduct at all times and to provide an environment in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

*Obligations relative to fair trading and dealing*

The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant laws. The Company strives to deal fairly with the Company's customers, suppliers, competitors and other employees and encourages its employees to strive to do the same.

*Conflicts of interest*

Employees and Directors must avoid conflicts, as well as the appearance of conflicts, between personal interests and the interests of the Company. Employees are required to sign-up to terms of employment which include specific reference to their responsibilities in relation to conflicts of interest.

*Compliance with legislation affecting its operations*

Directors, officers and senior Executives of the Company and all subsidiaries are responsible for setting up and maintaining a system of internal controls, financial and otherwise, in order to provide reasonable assurance of effective and efficient operations, reliable financial information and reporting, and compliance with laws and regulations.

*How the Company monitors and ensures compliance with its Code*

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

A copy of the Code is available on the Photon website.

### 3.2 and 3.3 Diversity policy and promoting diversity

Photon has not yet adopted a formal diversity policy. However, the Board is committed to ensuring that the Board, Photon and its Consolidated Entities promote and benefit from a diverse range of talent and experience.

The Company promotes an environment which is conducive to the employment of well qualified employees, senior management and Board candidates regardless of gender, race or age. Individual entities are responsible for and are encouraged to adopt work practices which ensure that they are able to attract and keep the best employees, regardless of gender, age or race; such measures include flexible work practices, part-time work and, in some instances, paid maternity leave.

The Company continues to monitor and seek to identify ways in which it can promote a corporate culture which embraces diversity when determining the composition of employees, senior management, and the Board, including continuing to recruit employees and directors from a diverse pool of qualified candidates.

### 3.4 Representation of women in the Company

Women are well represented at Board and senior management level within the Company. Susan McIntosh has been a Director of Photon since June 2000 and is one of four Directors on the Board. The Chief Financial Officer and the Company Secretary of Photon are both women. Women comprised approximately 24% of senior management across the Company as at the conclusion of the reporting period.

The Remuneration Committee has been charged with the duty to review and report annually on the relative proportion of women and men in the workforce at all levels of the Company.

**Principle 4: Safeguard integrity in financial reporting**
4.1 Establishment of Audit Committee
The Audit Committee monitors and reviews the effectiveness of the Consolidated Entity's controls in the areas of operational and balance sheet risk, legal, compliance and financial reporting. The Committee discharges these responsibilities by:

- overseeing the adequacy of the controls established by senior management to identify and manage areas of potential risk and to safeguard the assets of Photon;
- overseeing Photon's relationship with the external auditor and the external audit function generally; and
- evaluating the processes in place to ensure that accounting records are properly maintained in accordance with statutory requirements, and that financial information provided to investors and the Board is accurate and reliable.

The Audit Committee has also adopted a policy on the provision of non-audit services, and complies with the statutory requirements regarding the rotation of external audit personnel. All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor. The non-audit services provided do not undermine the general principals relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company, or jointly sharing risks and rewards.

Members of management and the external auditors attend meetings of the Committee by invitation. The Committee may also have access to financial and legal advisers, in accordance with the Board's general policy.

4.2 Structure of Audit Committee
The Audit Committee consists only of Non-Executive Directors, including a majority of independent Directors. The current members of the Audit Committee are Brian Bickmore, Susan McIntosh and Roger Amos. Roger Amos became the member of this Committee on 23 November 2010 and replaced Brian Bickmore as the independent Chair of this Committee on 1 March 2011. All members can read and understand financial statements and are otherwise financially literate. The details of the members' qualifications can be found in their Director profiles on page 16.

Details of the number of meetings of the Audit Committee and the names of attendees can be found in the Directors' Report on page 17. The Audit Committee meets with an external auditor at least twice a year.

4.3 Audit Committee Charter
The Audit Committee Charter sets out the Committee's role and responsibilities, structure, membership requirements and procedures. The Committee meets at least four times each year and reports to the Board on all matters within its role and responsibilities.

The Audit Committee reviews the audited annual and half yearly financial statements and other reports which accompany published financial statement before submission to the Board and recommends their approval.

The Audit Committee also recommends to the Board the appointment of the external auditor each year and reviews the appointment of the external auditor, their independence, the audit fee, and any question of resignation or dismissal.

The Audit Committee is also responsible for establishing policies on risk oversight and management.

A copy of the Charter is available on the Photon website.

**Principle 5: Make timely and balanced disclosure**
5.1 Policy for compliance with continuous disclosure
Photon has established a Continuous Disclosure Plan to ensure compliance with the ASX Listing Rule disclosure requirements.

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX, as well as communicating with the ASX. In accordance with the ASX Listing Rules, the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

A copy of the Company's Continuous Disclosure Plan is available on the Photon website.

# Corporate Governance Statement

**Principle 6: Respect the rights of shareholders**

6.1 Communications strategy

To facilitate the effective exercise of the rights of shareholders, the Company is committed to ensuring that all external communications with shareholders will:

- be factual;
- not omit material information; and
- be timely and expressed in a clear and concise manner.

Where practicable, Photon uses the latest widely available electronic technology to communicate openly with shareholders and the market in general. Announcements to the ASX and notices of meetings are posted on the Company's website and retained there for at least three years.

The Company encourages shareholders to participate in general meetings of the Consolidated Entity. The Company seeks to choose a date, venue and time for the Annual General Meeting that is convenient to the greatest number of its shareholders, and takes reasonable measures to ensure the attendance of the external auditor to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Consolidated Entity.

**Principle 7: Recognise and manage risk**

7.1 Policies on risk oversight and management

Photon recognises that identification and effective management of risk are viewed as an essential part of good corporate governance and the Company's approach to creating long-term shareholder value.

Photon has therefore established and implemented the Risk Management Policy designed to identify and respond to risks in a way that creates value for Photon shareholders and to allow the Company to meet its long-term growth objectives. The Risk Management Policy includes specific risk management activities in core areas of risk for the Consolidated Entity, including: operational, financial reporting and compliance risks.

The Risk Management Policy adopted by the Company includes:

- process for identification of the material business risks faced by the Company;
- prioritisation of material business risks;
- where the level of risk is greater than the risk tolerance, identification of controls to manage the risk; and
- ongoing reporting and discussion of material business risks throughout the year.

Risk management is a key element of Photon's strategic planning and decision-making. Photon strives to balance the risks and rewards in conducting business to optimise returns, in accordance with its goals of delivering shareholder value and its commitments to stakeholders, customers and the broader community.

7.2 Risk management roles and responsibilities

Management, through the CEO, is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system. Management reports to the Audit Committee on the Company's key risks and the extent to which it believes these risks are being managed. This is performed on an annual basis or more frequently as required by the Board.

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound risk management and internal control system. Detailed work on this task is delegated to the Audit Committee and reviewed by the Board. The Audit Committee also oversees the adequacy of the Company's risk reporting from management.

Strategic and operational risks are reviewed at least annually by all operating divisions as part of the annual strategic planning and budgeting process. Division risk profiles are also reviewed quarterly as part of the regular reporting to the Board. The CEOs of the Company's subsidiaries and managing Directors of the Company's divisions are required to report to the Board each month on operational risks. These are then reviewed by the CEO, CFO and General Counsel each month and external auditors as part of the half-yearly reporting to the market.

The General Counsel monitors the Company's compliance with its legal and regulatory obligations. Senior management meets regularly to deal with specific areas of risk, such as treasury risk and exposure to interest rates and foreign exchange rates, and provides reporting to the Board on these areas at least annually.

The Company will provide updates to any changes in its circumstances in press releases on the investor section of the Company's website.

7.3 Statement of CEO and CFO in relation to systems

The Board has received assurance from the CEO and the CFO that the declaration provided by them in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control and that, in their opinion, the Company's risk management system is operating effectively in all material respects in relation to financial reporting risks.

The Board notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgment and because much of the evidence available is persuasive, rather than conclusive, and therefore is not and cannot be designed to detect all weaknesses in control procedures.

**Principle 8: Remunerate fairly and responsibly**

8.1 Establishment of Remuneration Committee

The Remuneration Committee was formed by resolution of the Board on 25 March 2004. The Remuneration Committee has established a Charter, a copy of which is available on the Company's website.

*8.1.1 Role*

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies, including but not limited to succession

planning, recruitment and the appointment of the CEO, senior Executives and Directors themselves, and overseeing succession planning, selection and appointment practices and remuneration packages for management and employees of Photon.

The objectives of the Committee include to:

- review, assess and make recommendations to the Board on the desirable competencies of the Board;
- assess the performance of the members of the Board;
- oversee the selection and appointment practices for Non-Executive Directors and senior management of Photon;
- develop succession plans for the Board and oversee the development of succession planning in relation to senior Executives; and
- assist the Board in determining appropriate remuneration policies.

*8.1.2 Composition*

- Brian Bickmore, Susan McIntosh, Roger Amos and Max Johnston are the current members of the Remuneration Committee. All members of the Committee are Non-Executive Directors and all members, bar Susan McIntosh, are independent Directors. Brian Bickmore, the Chair of the Remuneration Committee, is an independent Director. The current size and composition of the Board are such that the Board believes it is important that all Directors are presently involved in decisions regarding the remuneration of key employees.
- Details of the number of meetings of the Remuneration Committee and the names of the attendees can be found in the Directors' Report on page 17.

*8.1.3 Responsibilities*

- The responsibilities of the Remuneration Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the CEO, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, making recommendations to the Board on any proposed changes to the Board, and undertaking an annual review of the CEO's performance, including setting with the CEO goals for the coming year and reviewing progress in achieving these goals.

### 8.2 Executive and Non-Executive Directors' remuneration

The Senior Executive Remuneration Policy was approved by resolution of the Board in September 2004 and the Non-Executive Director Remuneration Policy was approved by resolution of the Board on 25 March 2004.

*8.2.1 Senior Executive Remuneration Policy*

The Consolidated Entity is committed to remunerating its senior Executives in a manner that is market-competitive and consistent with best practice, as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy, the remuneration of senior Executives may be comprised of (or some combination of) the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in the equity based incentive scheme with thresholds approved by shareholders; and
- statutory superannuation.

By remunerating senior Executives through performance and long-term incentive plans, in addition to their fixed remuneration, the Company aims to align the interests of senior Executives with those of shareholders, and increase Company performance.

Details of the amount of remuneration, including both monetary and non-monetary components, for each of the five highest paid (non-Director) Executives during the year (discounting accumulated entitlements) is detailed in the Directors' Report and Note 21 of the notes to the financial statements.

*8.2.2 Non-Executive Director Remuneration Policy*

The Constitution provides that the Non-Executive Directors are each entitled to be paid such remuneration from the Company as the Directors decide for their services as a Director, but the total amount paid to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in a general meeting. This amount is currently fixed at $750,000. The remuneration of Non-Executive Directors must not include a commission on, or a percentage of, profits or operating revenue. Directors may also be reimbursed for travelling and other expenses incurred in attending to the Company's affairs. Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra services or makes exertions for the benefit of the Company.

Non-Executive Directors are entitled to statutory superannuation, but do not otherwise receive retirement benefits.

Details of the amount of remuneration, including both monetary and non-monetary components, for each of the Directors paid during the year (discounting accumulated entitlements) is detailed in the Directors' Report and Note 21 to the notes to the financial statements.

## Directors' Report

The Directors present their report, together with the financial statements of Photon Group Limited (**the Company**) and of the Consolidated Entity, being the Company and its controlled entities and the Company's interest in associates, for the year ended 30 June 2011 and the auditor's report thereon.

### Directors

The Directors of the Company at any time during or since the end of the financial year are:

Brian Bickmore – Independent Non-Executive Chairman
Brian was appointed as a Non-Executive Director of the Company on 25 March 2004 and appointed Non-Executive Chairman on 1 July 2010. In 1980, he was a founding Executive of Austereo and served as a Director of the Company for almost 25 years until 2004. Brian is the Chairman of the privately held food retailer and franchisor Pie Face and a Director of oOH! Media Group Limited. He was initially Austereo's Finance Director and from 1997 was the Group General Manager. He was previously a Director of RG Capital Radio Limited. Brian is the Chairman of the Remuneration Committee and a member of the Audit Committee.

Susan McIntosh – Non-Executive Director
Susan was appointed as a Non-Executive Director of the Company on 2 June 2000. A Chartered Accountant, she has more than 25 years' business experience in media (radio and television production and distribution) and asset management, and is also the Managing Director of RG Capital Holdings (Australia) Pty Ltd. Susan is a member of the Audit Committee and Remuneration Committee.

Roger Amos – Independent Non-Executive Director
Roger was appointed a Director of the Company with effect from 23 November 2010. He is a Director of Austar United Communications Limited, the Chairman of its audit and risk committee and a member of its remuneration committee. Roger is Chairman of Tyrian Diagnostics Limited and a member of its audit committee. He is a Director of REA Group Limited, Chairman of its audit committee and a member of its remuneration committee. All are publicly listed Australian companies. He is the Chairman of Opera Foundation Australia and a Governor of the Cerebral Palsy Alliance Research Foundation. Roger retired in 2006 after 25 years as a Partner in the Assurance and Risk Advisory Service Division of KPMG, where he focused on the information, communication and entertainment sector and held a number of global roles. Roger is a Fellow of the Institute of Chartered Accountants and a member of the Australian Institute of Company Directors. Roger is the Chairman of the Audit Committee and a member of the Remuneration Committee.

Max Johnston – Independent Non-Executive Director
Max was appointed a Director of the Company with effect from 28 April 2011. Max is a Non-Executive Director of Probiotec Limited. For 11 years he was President and Chief Executive Officer of Johnson & Johnson, Pacific and an Executive Director of Johnson & Johnson. Max has also held several prominent industry roles, including as a past President of ACCORD Australasia Limited, a former Vice Chairman of the Australian Food and Grocery Council and a former member of the Board of ASMI. He has had extensive overseas experience during his career in leading businesses in both Western and Central-Eastern Europe and Africa. Max is a member of the Remuneration Committee.

Paul Gregory – Independent Non-Executive Director
Paul was appointed as a Non-Executive Director of the Company on 25 March 2004 and was a member of the Audit Committee and the Remuneration Committee. Paul resigned as a Director on 23 November 2010.

Tim Hughes – Non-Executive Director
Tim was appointed a Director of the Company on 2 June 2000 and was Executive Chairman from 2 June 2000 to 1 July 2010. Tim resigned as a Director on 11 August 2010.

### Company Secretary

Eleni North was appointed Company Secretary on 11 February 2009. She is also the General Counsel of the Consolidated Entity. Prior to joining Photon, Eleni was Vice President, Legal at Travelport. Eleni has a Bachelor of Economics and a Bachelor of Laws (Honours) from the Australian National University. She is admitted to practise as a lawyer in Australia and the United Kingdom.

### Principal activities

The principal activities of the Consolidated Entity during the course of the financial year were integrated marketing services, specialising in retail marketing and merchandising, advertising, public relations, graphic design, digital printing, production of sales promotion material, communications planning, events management, direct marketing, and market research services.

There were no significant changes in the nature of the activities of the Consolidated Entity during the year.

### Review and results of operations

The consolidated earnings before interest, tax, depreciation, amortisation and impairment charges (EBITDA) were $53,255,855 (2010: $46,681,680). The prior year EBITDA included significant costs of $28,374,062 as described in the 30 June 2010 Annual Financial Report. The consolidated net loss from ordinary activities after income tax attributable to the members of the parent entity amounted to $59,710,695 (2010: $87,566,342).

The results for the year included an impairment charge of $87,481,182 (2010: $88,929,375). Additionally, the Consolidated Entity recognised a loss on sale of subsidiaries of $6,802,582 (2010: $nil) as a result of disposals as detailed below.

A total tax benefit of $4,546,407 was recognised in the income statement in relation to the impairment charges ($1,166,784) and the loss on sale of subsidiaries ($3,379,623).

Disposals
On 22 December 2010, the Consolidated Entity entered into a share sale agreement to dispose of the businesses Be Interactive, C4 Communications, Returnity and Messagenet for a consideration of $75,300,000. On 22 December 2010, the Consolidated Entity's control over these businesses passed to the acquirer. The proceeds

from the disposal of these businesses were received on 12 January 2011. The Consolidated Entity recognised a loss on sale of $4,272,238 in the income statement for the year ended 30 June 2011.

On 22 December 2010, the Consolidated Entity also resolved to dispose of the Sledge and Findology businesses for nominal consideration. The transactions were considered to be arm's length. During the year, an impairment charge of $17,195,280 was recognised in the income statement in relation to these assets. The sales were completed on 13 January 2011 and 14 January 2011 respectively and at such time the Consolidated Entity recognised a further loss on sale of $2,530,342 primarily in relation to the respective amounts held in the foreign currency translation reserve at the date of sale.

The Consolidated Entity recognised a tax benefit of $3,379,623 in relation to the above disposals of subsidiaries.

Acquisitions

There were no acquisitions during the year ended 30 June 2011.

In the prior year ended 30 June 2010, the acquisition of Dark Blue Sea Pty Limited was completed.

On 7 December 2009, the Company acquired a controlling interest in Dark Blue Sea Pty Limited, as a result of acceptances under the takeover offer which was announced on 1 October 2009. After gaining acceptance in excess of 90% of the share capital, the Company compulsorily acquired the remaining share capital in Dark Blue Sea Limited and therefore owns 100% of the share capital.

Further detail in relation to the above is provided in Note 28 of the notes to the consolidated financial statements

### Issue of shares and share options

On 29 September 2010, the Company issued 400,000,000 ordinary shares pursuant to a placement announced on 17 August 2010. These shares rank equally with existing shareholders.

On 29 September 2010, the Company issued 624,542,233 ordinary shares following the completion of a rights issue announced on 17 August 2010. These shares rank equally with existing shareholders.

On 29 September 2010, the Company issued 263,133,333 ordinary shares to deferred consideration beneficiaries pursuant to the deferred consideration element of the recapitalisation proposal. A total of 124,352,969 shares issued under such agreements are free of escrow conditions at the balance date following completion of individual deferred consideration periods. The remaining 138,780,364 are subject to ongoing escrow conditions until such time as set out in individual deferred consideration agreements but ending no later than 30 September 2013. These shares rank equally with existing shareholders.

On 29 September 2010, the Company issued 64,946,415 ordinary shares to the Chief Executive Officer, Jeremy Philips, under a long-term incentive plan as part of the recapitalisation proposal. The funding for the Chief Executive Officer's subscription of shares was facilitated by the Consolidated Entity providing a limited recourse loan.

On 29 October 2010, the Company issued 480,731 ordinary shares for no consideration to certain executives of Photon and its subsidiaries pursuant to an incentive scheme. These shares rank equally with existing shareholders.

On 15 April 2011, the Company issued 343,509 ordinary shares for no consideration to certain Executives of Photon and its subsidiaries pursuant to an incentive scheme. These shares rank equally with existing shareholders.

### Dividends

No dividend was declared during the year ended on 30 June 2011 or after the balance sheet date at the date of this report.

| | Note |
|---|---|
| Dealt with in the financial statements as: | |
| – Dividends | 23 |

### State of affairs

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

### Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year are:

| | Board meetings | | Audit Committee meetings | | Remuneration Committee meetings | |
|---|---|---|---|---|---|---|
| **Director** | **A** | **B** | **A** | **B** | **A** | **B** |
| Brian Bickmore | 15 | 15 | 6 | 6 | 2 | 2 |
| Susan McIntosh | 15 | 15 | 5 | 6 | 2 | 2 |
| Roger Amos | 7 | 7 | 3 | 3 | – | – |
| Max Johnston | 2 | 2 | – | – | – | – |
| Paul Gregory | 2 | 8 | – | 3 | – | – |
| Tim Hughes | 4 | 4 | – | – | – | – |

A – Number of meetings attended.

B – Number of meetings held during the time the Director held office during the year.

# Directors' Report

## Directors' interests

The relevant interest of each Director in the shares or options issued by the Consolidated Entity, as notified by the Directors to the Australian Securities Exchange in accordance with section 205G(1) of the *Corporations Act 2001*, at the date of this report is as follows:

| Director | Ordinary shares | Options over ordinary shares |
|---|---|---|
| Susan McIntosh | 2,200,006 | Nil |
| Brian Bickmore | 732,084 | Nil |
| Roger Amos | 136,000 | Nil |
| Max Johnston | Nil | Nil |
| Total | 3,068,090 | Nil |

## Share options

Unissued shares under option

At the date of this report, unissued shares of the Company under option are:

| Expiry date | Number of options | Exercise price |
|---|---|---|
| 30 August 2011 | 745,000 | $3.82 |
| 28 November 2011(i) | 250,000 | $3.82 |
| 31 March 2012(ii) | 600,000 | $6.00 |
| 26 August 2012 | 100,000 | $5.17 |
| 10 October 2012 | 624,500 | $4.85 |
| 10 October 2012(i) | 250,000 | $4.85 |
| 28 February 2013 | 240,000 | $4.49 |
| 31 March 2013 | 55,000 | $3.12 |
| 1 April 2013(ii) | 400,000 | $6.00 |
| 30 September 2013(i) | 250,000 | $2.26 |
| 30 September 2013 | 824,000 | $1.84 |
| 11 February 2014 | 250,000 | $0.91 |
| 30 June 2014 | 150,000 | $0.62 |
| 26 October 2014 | 590,000 | $1.11 |
| 12 February 2015 | 200,000 | $1.06 |
| 4 March 2015 | 100,000 | $1.06 |
| Total unissued shares under options granted | 5,628,500 | |
| SEOP options(ii) | (1,000,000) | |
| Total unissued shares under option(iii) | 4,628,500 | |

(i) Represents options held by former Executives.

(ii) Represents options granted under the SEOP as at 30 June 2011 but subject to vesting conditions which have not been met at 30 June 2011. SEOP options were not issued as at 30 June 2011 and expired on 1 July 2011.

(iii) 73,946,415 shares issued to the CEO under a limited recourse loan are treated as in-substance options but are not included in the above table.

These options in the table above do not entitle the holder to participate in any share issue of the Company.

## Shares issued on exercise of options

During or since the end of the financial year, no ordinary shares were issued by the Company as a result of the exercise of options.

## Events subsequent to balance date

Since the balance date, the Company has entered into agreements with the vendors of Belgiovane, Williams and Mackay Pty Limited (BWM) regarding the terms of the put option they hold over 49% of the shares in BWM. The put option could be exercised at the election of the vendors at the end of FY2011 or FY2012 and was subject to amendment as part of the restructure of deferred consideration payments in September 2010, with payments for the 49% of shares capped and to be paid in accordance with the overall terms of the deferred consideration restructure. Subject to the further agreements entered into in August 2011, the put option will now be exercised in July 2012. Following that, the BWM vendors will retain an equity stake in the business subject to certain conditions.

The Consolidated Entity is in the process of finalising agreements regarding the sale of certain operating assets based in the UK. Completion of the sale is expected to be finalised shortly after these financial statements are authorised.

Please refer to Note 32 Subsequent events for further details.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2011.

Other than the matters discussed above, there has not arisen, in the interval between the end of the financial year 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 years.

## Likely developments

Information about likely developments and business strategy in the operations of the Consolidated Entity and the expected results of those operations in the future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

## Indemnification and insurance of officers and auditors

Indemnification

The Company has agreed to indemnify the following current Directors of the Company Susan McIntosh, Brian Bickmore, Roger Amos, Max Johnston, Company Secretary Eleni North, Chief Executive Officer, Jeremy Philips, and Chief Financial Officer, Clare Battellino against liabilities to another person (other than the Company or a related body corporate) that may arise from their positions as Directors, Secretaries or Executives of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors and Secretaries of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreements stipulate that the Company will meet the full amount of any such liabilities, including costs and expenses.

Insurance premiums

During the financial year, the Company has paid insurance premiums in respect of Directors' and Officers' liabilities, for current Directors and Officers covering the following:

– costs and expense incurred by the relevant officers in defending proceedings, whether civil or criminal; and
– other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The Directors have not included details of the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contract.

**Non-audit services**

During the year KPMG, the Company's auditor, has performed certain other services in addition to its statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

– Non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
– Non-audit services provided do not undermine the general principals relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company, or jointly sharing risks and rewards.

A copy of the Lead Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is on page 94 of this annual report.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed in Note 5 to the financial statements.

| | 2011 $ | 2010 $ |
|---|---|---|
| *Services other than statutory audit* | | |
| **Auditors of the Company** | | |
| *Migration services work:* | | |
| KPMG Australia | – | 10,100 |
| *Taxation compliance services:* | | |
| KPMG Australia | 13,500 | 28,000 |
| Overseas KPMG firms | 173,519 | 249,494 |
| *Transaction and due diligence services:* | | |
| KPMG Australia | 325,000 | 949,489 |
| Overseas KPMG firms | – | 2,684 |
| Total services other than statutory audit | 512,019 | 1,239,767 |

**Rounding off**

The Company is 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 financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Remuneration report – Audited**

1 Principles of remuneration

Compensation is referred to as remuneration throughout this report.

1(a) Remuneration policies

The key management personnel who have authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity include the Directors of the Company and the senior Executives of the Company and the Consolidated Entity, including the five most highly remunerated Executives of the Company and Consolidated Entity.

The remuneration levels for key management personnel of the Consolidated Entity are competitively set to attract and retain appropriately qualified and experienced Directors and senior Executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the long-term creation of value for shareholders.

The compensation structures take into account:

– the responsibility, performance and experience of key management personnel;
– the key management personnel's ability to control the relevant Company's performance;
– the Consolidated Entity's performance, including:
    – the Consolidated Entity's earnings;
    – the growth in share price and delivering constant returns on shareholder wealth; and
    – the Consolidated Entity's achievement of strategic objectives.

Remuneration packages contain a mix of fixed and variable remuneration, short-term and long-term performance-based incentives and equity-based remuneration.

# Directors' Report

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies, including but not limited to recruitment and the appointment of the Chief Executive Officer, senior Executives and Directors themselves and overseeing succession planning, selection and appointment practices, and remuneration packages for management and employees of Photon.

### 1(b) Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost-to-Company basis and includes fringe benefits tax charges related to employee benefits, including motor vehicles), as well as employer contributions to superannuation/pension funds.

Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers the responsibility, performance and experience of the individual and the overall performance of the Consolidated Entity. A senior Executive's remuneration may also be reviewed on promotion.

### 1(c) Performance-linked remuneration

Performance-linked remuneration includes both short-term and long-term incentives and is designed to reward key management personnel for meeting or exceeding financial, strategic and personal targets. The short-term incentives (**STI**) are "at risk" bonuses provided in the form of cash and shares, while the long-term incentives (**LTI**) are provided as equity-based incentives in the Company under the terms of the Share Appreciation Rights (**SAR**) (see Note 20) or the subscription of ordinary shares in the Company funded by a limited recourse loan for the CEO (**CEO LTIP**) (see Note 20).

Options over ordinary shares in the Company which were granted in prior financial years under the terms of the Executive Share Option Scheme (**ESOS**) (see Note 20) remain outstanding, however given the exercise price of such options relative to the current price of ordinary shares in the Company, they are no longer considered to provide any meaningful LTI. The performance hurdles of options granted in prior financial years under the Senior Executive Option Plan (**SEOP**) (see Note 20), and the Executive Committee Option Scheme (**ECOS**) (see Note 20) have not been met and therefore these options have not vested and therefore do not provide any LTI.

**Short-term incentives**

There are a number of short-term incentive plans available to employees, senior Executives, Heads of Divisions and the CEO.

The short-term incentives for the chief executive officers and senior employees of individual subsidiaries are typically linked to the financial performance of their relevant subsidiary, relative to that subsidiary's budgets or financial performance in the prior financial year. The incentives are typically payable in cash at the end of the financial year.

Short-term incentives for the Heads of Divisions and other senior Executives in the current financial year are in accordance with the terms of their individual service agreements and include capped bonuses payable at the discretion of the Remuneration Committee based on the achievement of non-financial measures, including achievement of strategic objectives set by the Board. In the current financial year, these objectives included completion of certain operational restructuring targets, capital management activities and recruitment of key senior Executives. The discretionary capped bonuses in the current financial year are detailed on page 27. In some cases, a bonus may also be awarded based on the EBITDA or EBIT performance of the relevant division relative to its budgeted performance. EBITDA and EBIT have been selected as the relevant financial measure for STI as it is the measure considered most relevant in judging the operational performance of the Divisions. In the current financial year, no bonuses based on financial metrics were achieved.

The short-term incentive for the CEO for FY2011 is based on the financial performance of the Consolidated Entity, calculated as 5% of net profit after tax and before amortisation of acquired intangibles and significant items (**NPATA**) in each financial year above a threshold of $20 million. In accordance with the terms of the CEO's service agreement, NPATA excludes the contribution of the businesses divested during the financial year and the threshold has also been adjusted for these divestments to $15.75 million. In the current financial year, NPATA excludes significant items, including the impairment charges and losses net of tax incurred on the sale of certain subsidiaries. The CEO is also entitled to a capped discretionary bonus based on non-financial measures which includes achievement of strategic objectives set by the Board. In the current financial year, these objectives included completion of the recapitalisation and of certain operational restructuring targets, capital management activities and recruitment of key senior Executives.

Given the Consolidated Entity's changed financial circumstances and actions required to achieve its strategic objectives, including certain disposals, the Board has modified the CEO's future compensation structure with effect from the commencement of FY2012. The Board no longer believes that a short-term incentive tied to one financial measure is the best way to align the CEO's remuneration with the creation of shareholder wealth. Therefore, the Board has decided to change the CEO's short-term incentive from one based on a single financial metric (**NPATA**) to a discretionary bonus for maintaining and building a sustainable earnings base, with reference to a set of objectives set by the Board including measures such as quality of management in the business units, efficacy of incentive plans, and quality of client relationships, as well as financial metrics. The CEO's base salary has also been increased. His long-term incentive arrangements remain unchanged. For the immediate future, therefore, the Board is discontinuing the CEO's NPATA bonus ($892,060 in FY11) and instead has increased the CEO's base salary by $800,000 and put in place an annual discretionary short-term bonus of not less than $200,000. His other arrangements, including his long-term incentive plan, remain unchanged. The Board will review these arrangements in due course as the company's circumstances evolve. The Board believes that the quantum of compensation paid to the CEO is fair and reasonable and designed to maximise shareholder value.

**Long-term incentives**

Long-term incentives are designed to link Executive remuneration with long-term shareholder value and the performance of the Consolidated Entity. During the financial year, LTI are provided as equity-based incentives in the Company under the terms of the Share Appreciation Rights Scheme (**SAR**) (see Note 20) or the subscription of ordinary shares in the Company funded by a limited recourse loan for the CEO (**CEO LTIP**) (see Note 20).

The Company also has an Executive Share Option Scheme (**ESOS**), Senior Executive Option Plan (**SEOP**) (see Note 20) and the Executive Committee Option Scheme (**ECOS**) however these plans are no longer active. Options over ordinary shares in the Company which were granted in prior financial years under the terms of the ESOS (see Note 20) remain outstanding, however given the exercise price of such options relative to the current price of ordinary shares in the Company, they are no longer considered to provide any meaningful LTI.

The performance conditions for options over ordinary shares in the Company issued under the SEOP (see Note 20) and the ECOS (see Note 20) have not been met and therefore these options have not vested and do not provide any LTI.

In a limited number of cases, LTI is provided to chief executive officers and senior employees of individual subsidiaries via schemes which allow those individuals to earn a minority equity interest in the relevant subsidiary over a period of time based on the financial performance of the subsidiary.

***Current long-term incentive plans***

CEO Long-term Incentive Plan (CEO LTIP)

In April 2010, the Company granted Jeremy Philips a limited recourse loan to subscribe for 9,000,000 ordinary shares in the Company. The ordinary shares were issued at $1.13, with the limited recourse loan being provided for the issue price. The ordinary shares issued under the CEO LTIP are subject to vesting and escrow conditions.

In accordance with the terms of the CEO's service agreement, and in connection with the equity raising completed on 29 September 2010, Jeremy Philips subscribed for a further 64,946,415 shares funded by the limited recourse loan provided by the Company. The additional ordinary shares under the CEO LTIP were issued at 10 cents, with the further limited recourse loan being provided for the issue price.

The CEO is not able to deal with any ordinary shares issued under the CEO LTIP until they vest as follows (or immediately on change of control of the Consolidated Entity):

– 16,432,537 at 30 June 2012;
– 24,648,805 at 30 June 2013; and
– 32,865,073 at 30 June 2014.

Any dividends received from the ordinary shares will be offset against interest payable on the limited recourse loan. Repayment of the loan will be made on the earlier of the sale of the relevant shares or 12 months after vesting. The CEO may elect to forfeit the shares to which any loan repayment relates, in lieu of making a repayment which is due.

If the CEO resigns, the CEO LTIP continues to vest (subject to compliance with post-employment restrictions) during the contractual notice period and the period of the post-employment restrictions. If the CEO is terminated without cause, the CEO LTIP vests in accordance with the above vesting profile. The CEO forfeits the CEO LTIP if terminated for serious misconduct.

Share Appreciation Rights (SAR)

During the year, the Company introduced a Share Appreciation Rights plan, designed to incentivise the Company's Heads of Division, senior Executives and other senior management of the Consolidated Entity.

The plan allows for the Board to determine who is entitled to participate in the SAR and may grant rights accordingly. Photon's Board may determine whether or not the grant of rights is conditional on the achievement of performance hurdles, and if so the nature of those hurdles.

The exercise of each right will entitle the rights holder to receive a fraction of an ordinary share based on a conversion formula of (A – B)/A, where A is the volume weighted average price (**VWAP**) for the Company's shares for the 20 business days prior to the vesting date of the rights and B is the VWAP for the Company's shares for the 20 business days before the rights were granted.

A total of 95,258,992 rights were issued following balance date on 18 August 2011 however the service period for these rights commenced on 31 May 2011 when the employees accepted the invitations to be granted rights. The VWAP for the 20 days prior to the grant date (**B**) was 3.5 cents.

The rights issued on 18 August 2011 vest as follows:

– 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2012 – 2/9ths;
– 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2013 – 3/9ths; and
– 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2014 – 4/9ths.

The Board may exercise discretion on early vesting of rights in the event of a change of control of the Consolidated Entity.

Rights expire at five business days after the relevant vesting date or the termination of the individual's employment.

***Prior long-term incentive plans***

Executive Share Option Scheme (ESOS)

The Company has an Executive Share Option Scheme (**ESOS**) however no options have been issued under the ESOS in the current financial year nor are they expected to be issued under the ESOS in the future.

The plan allows for the Board to determine who is entitled to participate in the ESOS and to grant options accordingly. The exercise of an option will entitle the option holder to subscribe for one share. All options were granted

## Directors' Report

at an exercise price, being the average of the daily VWAP of the Company shares on each of the 30 business days prior to the issue date. The average exercise price of these options is $2.69. All options expire on the earlier of their expiry date or termination of the individual's employment. The options issued on or after 1 April 2004 under the ESOS, are exercisable by the option holder as follows:

– after two years from issue date – 33⅓%;
– after three years from issue date – 66⅔%; and
– after four years from issue date, the option holder is entitled to exercise all options until expiry date (being five years after the issue date).

No options were granted under the ESOS during the financial year, however as at 30 June 2011, 3,878,500 ESOS options over unissued shares remain outstanding. Due to the average exercise price of these options being significantly higher than the current share price of the Company, these options are no longer considered to provide any meaningful LTI.

Senior Executive Option Plan (SEOP)
In July 2007, the Company introduced a Senior Executive Option Plan (SEOP), designed to incentivise the Company's Executive Directors, Division Managing Directors and other senior Executives.

The options were granted on 20 November 2007 or, if later, when the employee commenced employment, with an exercise price of $6.00. Each option granted had both a service condition and a market performance hurdle. Options are only issued if both the performance vesting hurdle, requiring an 18% year-on-year increase in Photon Group's share price, and the service vesting condition are satisfied.

As at 30 June 2011 no SEOP options had been issued as none of the performance vesting hurdles had been met and therefore remaining SEOP options outstanding expired on 1 July 2011. No further options are expected to be issued under the SEOP in the future.

Executive Committee Option Scheme (ECOS)
In October 2008, the Company introduced an Executive Committee Option Scheme (ECOS), designed to incentivise the Company's Executive Directors, Division Managing Directors and other senior Executives.

Each option granted had both a service condition and a non-market performance hurdle (determined at the Board's discretion). Options are only issued if both performance hurdles and service conditions are satisfied. This scheme was approved at the Company's 2008 AGM on 28 October 2008.

As at 30 June 2011, the performance hurdles required for the ECOS to vest had not been satisfied and therefore no ECOS options had been issued. No further options are expected to be issued under the ECOS in the future.

Refer to section 2(b) of the Directors' Report for further information regarding the SAR, ESOS, SEOP and ECOS.

The board has requested Directors disclose any interests in shares or other share-based payments that allow borrowing against share interests or limit exposures to the losses that would result from share price decreases.

### 1(d) Service contracts

It is the Consolidated Entity's policy that service contracts for key management personnel are in force either for a fixed period, with an extension period negotiable after completion of the initial term, or on a rolling basis. The agreements are capable of termination, acknowledging appropriate notice periods, and the Consolidated Entity retains the right to terminate the contract immediately for contractual breach by the executive or by making payment in lieu of notice.

The service agreements outline the components of remuneration paid to the key management personnel. Remuneration levels are reviewed annually by the Remuneration Committee or in accordance with the terms of the service agreements.

Refer to the table below for a summary of terms for current service agreements for key management personnel.

Summary terms for current service agreements for key management personnel:

| Key management personnel | Duration of contract | Notice period on termination by Consolidated Entity | Notice period on resignation by key management personnel | Termination payment on termination by Consolidated Entity (i) (ii) (iii) (iv) (v) | Termination payment on resignation by key management personnel (i) (ii) (iv) |
|---|---|---|---|---|---|
| CEO | Rolling | 12 months | 6 months | 12 months average base salary calculated in accordance with the *Corporations Act 2001*. | 12 months average base salary calculated in accordance with the *Corporations Act 2001* |
| CFO | 30 June 2012 | 6 months | 3 months | 6 months base salary | 3 months base salary |
| Heads of Divisions and Head of Strategy & Development | 31 Dec 2011 – 30 June 2014 | 6 months | 6 months | 6 months base salary | 6 months base salary |

(i) In addition to termination payments, key management personnel are also entitled to receive, on termination of their employment, their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

(ii) Includes any payment in lieu of notice.

(iii) No termination payment is due if termination is for serious misconduct.

(iv) CEO is entitled to a pro-rata STI payment on termination, except for termination for serious misconduct.

(v) The Head of the Australian Agencies Division is entitled to a pro-rata STI payment on termination by the Company, except for termination for serious misconduct.

### 1(e) Non-Executive Directors

The Company's Constitution provides that the Non-Executive Directors are each entitled to be paid such remuneration from the Company as the Directors decide for their services as Director, but the total amount provided to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Company in a general meeting. This amount has been fixed by the Company at $750,000 for the financial year ended 30 June 2011.

The remuneration of Non-Executive Directors must not include a commission on, or percentage of, profits or operating revenue. Directors may also be reimbursed for travelling and other expenses incurred in attending to the Company's affairs. Directors may be paid such additional or special remuneration as the Directors decide is appropriate where a Director performs extra services or makes special exertions for the benefit of the Company.

### 1(f) Consequences of performance on shareholder wealth

The Remuneration Committee has given consideration to the Consolidated Entity's performance and consequences on shareholder wealth in the current financial year and the four previous financial years. Given the significant capital and operational restructure which took place during the current financial year, including the impact of significant costs in the years ended 30 June 2011 and 30 June 2010 and the change in the key management personnel of the Consolidated Entity, the financial performance, share price and dividends of the last four financial years have been given less weight in the setting of appropriate remuneration structures which align remuneration of the new key management personnel with future shareholder wealth.

The Remuneration Committee considers the achievement of financial targets as well as non-financial measures in setting the short-term incentives. In the financial year to 30 June 2011, an emphasis has been placed by the Remuneration Committee on the achievement of stated strategic objectives associated with the capital, operational and management restructure of the Company when determining short-term remuneration. Longer-term profitability, changes in share price and return of capital are factors the Remuneration Committee takes into account in assessing the LTI.

The Remuneration Committee has reviewed both the financial performance in the current financial year as well as the achievement of stated strategic objectives including the capital, operational and management restructure which took place during the financial year. The Remuneration Committee believes the complex nature of the strategic achievements have been reflected in the short-term remuneration of the key management personnel and that these strategic achievements are critical for the achievement of future shareholder wealth. The Remuneration Committee also believes that the LTI in place align the key management personnel with the achievement of shareholder wealth by aligning remuneration with future share price performance.

# Directors' Report

## 2(a) Directors' and Executive officers' cash and post-employment and other long-term remuneration

Details of the nature and amount of each element of the remuneration of each Director of the Company and each of the Executives of the Company and Consolidated Entity, who are key management personnel and include the five most highly remunerated Executives are shown in the table below:

| | | | | | Post-employment | Other long-term | Other compensation | Total |
|---|---|---|---|---|---|---|---|---|
| | | Salary and fees $ | Cash bonus (i) $ | Non-cash benefits $ | Super/ Pension contributions $ | $ | Termination benefits $ | Cash and other compensation excluding equity-based remuneration $ |
| **Directors** | | | | | | | | |
| **Non-Executive** | | | | | | | | |
| Susan McIntosh | 2011 | 125,000 | – | – | 11,250 | – | – | 136,250 |
| | 2010 | 125,000 | – | – | 11,250 | – | – | 136,250 |
| Brian Bickmore | 2011 | 275,000 | – | – | 15,199 | – | – | 290,199 |
| | 2010 | 125,000 | – | – | 11,250 | – | – | 136,250 |
| Roger Amos(vi) | 2011 | 80,801 | – | – | 7,272 | – | – | 88,073 |
| | 2010 | – | – | – | – | – | – | – |
| Max Johnston(vi) | 2011 | 21,795 | – | – | 1,964 | – | – | 23,759 |
| | 2010 | – | – | – | – | – | – | – |
| Paul Gregory(vii) | 2011 | 49,653 | – | – | – | – | – | 49,653 |
| | 2010 | 125,000 | – | – | – | – | – | 125,000 |
| **Executive** | | | | | | | | |
| Tim Hughes(viii) | 2011 | 280,000 | – | 1,994 | 3,800 | – | – | 285,794 |
| | 2010 | 1,120,000 | – | 7,532 | 14,461 | 201,154 | 1,120,000 | 2,463,147 |
| **Relevant Consolidated Entity Executives** | | | | | | | | |
| Jeremy Philips, Chief Executive Officer(ix) | 2011 | 1,304,216 | 1,092,860 | 10,025 | 50,000 | 2,082 | – | 2,459,183 |
| | 2010 | 147,909 | – | 1,751 | 25,000 | 93 | – | 174,753 |
| Clare Battellino, Chief Financial Officer(x) | 2011 | 461,851 | 45,000 | – | 15,199 | 2,810 | – | 524,860 |
| | 2010 | – | – | – | – | – | – | – |
| Nigel Long, Head of International Agencies Division | 2011 | 429,271 | 37,532 | 7,303 | 93,051 | – | – | 567,157 |
| | 2010 | 475,935 | 159,222 | 2,496 | 110,603 | – | – | 748,256 |
| Matthew Melhuish, Head of Australian Agencies Division(xi) | 2011 | 666,250 | 50,000 | 8,986 | 12,666 | 135,715 | – | 873,617 |
| | 2010 | – | – | – | – | – | – | – |
| Craig Hart, Head of Field Marketing Division(xii) | 2011 | 207,116 | 50,000 | – | 5,066 | 152 | – | 262,334 |
| | 2010 | – | – | – | – | – | – | – |
| Jon Wilkins, Head of Strategy & Development | 2011 | 749,928 | 14,785 | 4,831 | 32,922 | – | – | 802,466 |
| | 2010 | 476,416 | 115,000 | 19,359 | 58,689 | – | – | 669,464 |
| Stewart Bailey, Managing Director, Field Marketing Division(xiii) | 2011 | 356,686 | 11,860 | – | 11,478 | 21,069 | 588,368 | 989,461 |
| | 2010 | 644,334 | 51,933 | – | 26,132 | 14,999 | – | 737,398 |
| Adam Kilgour, Managing Director, Specialised Communications Division(xiii) | 2011 | 248,096 | 11,188 | – | 3,800 | 8,495 | 458,333 | 729,912 |
| | 2010 | 324,295 | 3,760 | – | 14,461 | 11,189 | – | 353,705 |

Refer to page 26 for footnote details.

## 2(b) Directors' and Executive officers' equity-based remuneration

Details of the nature and amount of each element of the remuneration of each Director of the Company and each of the Executives of the Company and Consolidated Entity, who are key management personnel and include the five most highly remunerated Executives are shown in the table below:

| | | Share-based payments – Accounting value at Grant Date | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Value of options under CEO LTIP (ii)(iii) | Value of options under ESOS (iii) | Value of options under SEOP (iii) | Value of options under ECOS (iii) | Value of rights under SAR (iv) | Value of shares | Total Equity-based remuneration | Proportion of total remuneration performance related (v) | Value of options proportion of total remuneration (v) |
| | | $ | $ | $ | $ | $ | $ | $ | % | % |
| **Directors** | | | | | | | | | | |
| **Non-Executive** | | | | | | | | | | |
| Susan McIntosh | 2011 | – | – | – | – | – | – | – | – | – |
| | 2010 | – | – | – | – | – | – | – | – | – |
| Brian Bickmore | 2011 | – | – | – | – | – | – | – | – | – |
| | 2010 | – | – | – | – | – | – | – | – | – |
| Roger Amos (vi) | 2011 | – | – | – | – | – | – | – | – | – |
| | 2010 | – | – | – | – | – | – | – | – | – |
| Max Johnston (vi) | 2011 | – | – | – | – | – | – | – | – | – |
| | 2010 | – | – | – | – | – | – | – | – | – |
| Paul Gregory (vii) | 2011 | – | – | – | – | – | – | – | – | – |
| | 2010 | – | – | – | – | – | – | – | – | – |
| **Executive** | | | | | | | | | | |
| Tim Hughes (viii) | 2011 | – | – | – | – | – | – | – | – | – |
| | 2010 | – | 610,000 | 1,127,500 | – | – | – | 1,737,500 | 41.36 | 41.36 |
| **Relevant Consolidated Entity Executives** | | | | | | | | | | |
| Jeremy Philips, Chief Executive Officer (ix) | 2011 | 1,506,466 | – | – | – | – | – | 1,506,466 | 65.55 | 37.99 |
| | 2010 | 152,710 | – | – | – | – | – | 152,710 | 46.63 | 46.63 |
| Clare Battellino, Chief Financial Officer (x) | 2011 | – | 41,735 | 95,000 | – | 4,562 | – | 141,297 | 27.97 | 21.21 |
| | 2010 | – | – | – | – | – | – | – | – | – |
| Nigel Long, Head of International Agencies Division | 2011 | – | 20,636 | 2,464 | – | 4,562 | – | 27,662 | 10.96 | 4.65 |
| | 2010 | – | 36,749 | 11,367 | – | – | – | 48,116 | 26.04 | 6.06 |
| Matthew Melhuish, Head of Australian Agencies Division (xi) | 2011 | – | – | – | – | 4,562 | – | 4,562 | 6.21 | 0.52 |
| | 2010 | – | – | – | – | – | – | – | – | – |
| Craig Hart, Head of Field Marketing Division (xii) | 2011 | – | – | – | – | 4,562 | – | 4,562 | 20.44 | 1.71 |
| | 2010 | – | – | – | – | – | – | – | – | – |
| Jon Wilkins, Head of Strategy & Development | 2011 | – | 15,224 | – | – | 4,562 | – | 19,786 | 4.20 | 2.41 |
| | 2010 | – | 15,224 | – | 16,310 | – | – | 31,534 | 20.90 | 4.50 |
| Stewart Bailey, Managing Director, Field Marketing Division (xiii) | 2011 | – | – | – | – | – | – | – | 1.20 | – |
| | 2010 | – | 139,568 | 131,000 | – | – | – | 270,568 | 32.00 | 26.84 |
| Adam Kilgour, Managing Director, Specialised Communications Division (xiii) | 2011 | – | – | – | – | – | – | – | 1.53 | – |
| | 2010 | – | 144,317 | 131,000 | – | – | – | 275,317 | 44.37 | 43.77 |

Refer to page 26 for footnote details.

## Directors' Report

(i) The short-term incentive bonus is for performance during the 30 June 2011 financial year using the criteria set out on page 20. The table above includes in the expense incurred during the financial year for the bonuses awarded. Refer to the table on page 27 for the bonuses awarded.

(ii) The fair values of the ESOS options are calculated at the date of grant using either the Black Scholes model or the Binomial option pricing model. The fair values of the SEOP options are calculated at the date of grant using a Monte Carlo Simulation Model. The fair values of the ECOS options are calculated at the date of the grant using either the Black Scholes model or the Binomial option pricing model. The fair value is allocated to each reporting period on a straight-line basis over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting period. In valuing options, market conditions have been taken into account. The factors and assumptions used in determining the fair value of options on grant date are discussed in Note 20 Employee benefits. The options issued under the ESOS have an average exercise price of $2.69 and are therefore considered to have no significant LTI at balance sheet date. The performance hurdles for options granted under SEOP and ECOS have not been met and therefore no options have been issued under the SEOP or ECOS. The ECOS expense in the financial year ended 30 June 2010 was reversed during the financial year ended 30 June 2011.

(iii) The ordinary shares under the CEO LTIP funded through a limited recourse loan are accounted for as an in-substance option under AASB 2 Share-based Payments. The fair values of the in-substance options issued are calculated at the date of the grant using the Binomial Tree option pricing model. The fair value is allocated to each reporting period on a straight-line basis over the period from grant date to vesting date.

(iv) Share Appreciation Rights are calculated at the date of grant using either the Black Scholes model or the Binomial option pricing model. The fair value is allocated to each reporting period on a straight line basis over the period from the grant date (or service commencement date) to vesting date. The rights were granted on 18 August 2011. However, as the service commenced on 31 May 2011, the amounts included above represent the fair value allocated between the service commencement date and the balance sheet date.

(v) Percentages are based on total remuneration, including equity, cash, post-employment and other long-term remuneration.

(vi) Roger Amos and Max Johnston were appointed as Directors on 23 November 2010 and 28 April 2011 respectively.

(vii) Resigned as a Director on 23 November 2010.

(viii) Resigned as Executive Chairman on 1 July 2010 and as a Director on 11 August 2010. Fifty per cent of the termination benefits incurred in the financial year ended 30 June 2010 have not been paid at the date of this financial report and will only be paid if the Consolidated Entity meets certain leverage and EBITDA targets prior to 30 June 2015.

(ix) Jeremy Philips was appointed Chief Executive Officer on 1 June 2010.

(x) Clare Battellino became a key management personnel effective 1 July 2010.

(xi) Appointed Head of Australian Agencies Division on 1 October 2010.

(xii) Appointed Head of Field Marketing Division on 28 February 2011.

(xiii) Adam Kilgour and Stewart Bailey ceased to be employees or key management personnel, effective 30 July 2010 and 6 December 2010 respectively. Fifty per cent of Stewart Bailey's termination benefits incurred during the year ended 30 June 2011 have not been paid at the date of this financial report and will only be paid subject to compliance with continuing contractual obligations. Stewart Bailey's cash bonus of $11,860 paid during the period related to the final payment of a bonus in relation to the year ended 30 June 2009.

### 2(c) Details of performance-related remuneration

Details of the Company's policy in relation to the proportion of remuneration that is performance-based are discussed on page 20.

### 2(d) Analysis of bonuses included in remuneration

Details of the vesting profile of the short-term incentive bonuses awarded as remuneration to each executive of the Company and the Consolidated Entity who was a key management personnel, are discussed below.

| | Short-term incentive bonus[i] | |
|---|---|---|
| | Included in remuneration $ | % vested in year |
| **Company Executives** | | |
| Jeremy Philips | 1,092,860 | 100 |
| Clare Battellino | 45,000 | 100 |
| Matthew Melhuish | 50,000 | 100 |
| Craig Hart | 50,000 | 100 |
| Adam Kilgour[ii] | 11,188 | 100 |
| **Relevant Consolidated Entity Executives** | | |
| Nigel Long | 50,000 | 100 |
| Jon Wilkins | 50,000 | 100 |

(i) Amounts included in remuneration for the financial year represent the amount that vested in the financial year based on the achievement of satisfaction of specified performance criteria as discussed in section 1(c) Short-term incentives and are approved following the completion of the reporting period audit.

(ii) Adam Kilgour ceased to be an employee or key management personnel, effective 30 July 2010. The bonus, included in remuneration above, related to the year ended 30 June 2010.

Other key management personnel did not receive an STI. The calculation of STI for certain key management personnel based on financial metrics resulted in a nil bonus however they received discretionary awards. No bonuses were forfeited during the year.

### 2(e) Directors' and senior Executives' remuneration

The following factors and assumptions were used in determining the fair value of the options on the grant date:

| Grant date | Expiry date | Value per option $ | Exercise price $ | Price of shares on grant date $ | Expected volatility % | Risk free interest rate % | Dividend yield % | Expected life (years) |
|---|---|---|---|---|---|---|---|---|
| 17 Sep 2010[i] | 30 Jun 2015 | 0.03 – 0.04 | 0.10 | 0.10 | 40 | 4.72 | 0.0 | 2–5 |
| 18 Aug 2011[ii] | 30 Sept 2014 | 0.014 – 0.021 | 0.035 | 0.042 | 60 | 3.50–3.60 | 0.0 | 1.1–3.1 |

(i) Grant is in relation to a CEO LTIP provided to the CEO for the sole purposed of subscribing for 64,946,415 ordinary shares in the Company. Dividends paid by the Company will be applied against interest on the loan. The grant date is 17 September 2010, being the date of shareholder approval at a general meeting.

(ii) Grant is in relation to SAR provided to senior employees of the Consolidated Entity which were issued on 18 August 2011. The last expiry date of the rights is 20 business days after the release of the Consolidated Entity's financial report for the year ended 30 June 2014, which is estimated to be around 30 September 2014. The valuation factors and assumptions are an estimate as the valuation has not been finalised as at the date of this report.

### 2(f) Options granted during 2011 as remuneration to Directors and senior Executives

**CEO Long-term Incentive Plan (CEO LTIP)**

In the prior financial year, the Company granted Jeremy Philips a limited recourse loan for the sole purpose of subscribing to 9,000,000 ordinary shares. Under AASB 2 *Share-based payments* this grant is accounted for as an in-substance option. The issue price of the shares is $1.13, being the VWAP for the 30 business day period prior to the grant date.

In accordance with the terms of the CEO's service agreement, the CEO LTIP was adjusted for the additional shares issued in connection with the equity raising completed on 29 September 2010. A further 64,946,415 shares were subscribed for by Jeremy Philips at an issue price of 10 cents, with a further limited recourse loan being provided for the issue price.

**Share Appreciation Rights (SAR)**

Share Appreciation Rights were issued to senior employees of the Consolidated Entity following balance date on 18 August 2011 however the service period for these rights commenced on 31 May 2011 when the employees accepted the invitation to be granted rights. The conversion formula for the rights will be based on the VWAP for the Company's shares for the 20 business days prior to the grant date, being 3.5 cents.

## Directors' Report

### 3(a) Options over equity instruments granted as remuneration

Details on options over ordinary shares in the Company that were granted as compensation to each key management personnel during the reporting period and details of options that vested during the reporting period are as follows:

| | Type of option granted during 2011 | Number of options granted during 2011 (iii) | Grant date | Fair value per option at grant date $ | Exercise price per option $ | Expiry date | Number of options vested during 2011 |
|---|---|---|---|---|---|---|---|
| **Executives** | | | | | | | |
| Jeremy Philips(i) | CEO LTIP | 64,946,415 | 17 Sep 2010 | 0.03 – 0.04 | 0.10 | 30 Jun 2015 | – |
| Clare Battellino(ii) | SAR | 6,000,000 | 18 Aug 2011 | 0.014 – 0.02 | 0.035 | 30 Sept 2014 | – |
| Nigel Long(ii) | SAR | 6,000,000 | 18 Aug 2011 | 0.014 – 0.02 | 0.035 | 30 Sept 2014 | – |
| Matthew Melhuish(ii) | SAR | 6,000,000 | 18 Aug 2011 | 0.014 – 0.02 | 0.035 | 30 Sept 2014 | – |
| Craig Hart(ii) | SAR | 6,000,000 | 18 Aug 2011 | 0.014 – 0.02 | 0.035 | 30 Sept 2014 | – |
| Jon Wilkins(ii) | SAR | 6,000,000 | 18 Aug 2011 | 0.014 – 0.02 | 0.035 | 30 Sept 2014 | – |

(i) Grant is in relation to a CEO LTIP provided to CEO for the sole purposed of subscribing for 64,946,415 ordinary shares in the Company. Dividends paid by the Company will be applied against interest on the loan. The grant date is 17 September 2010, being the date of shareholder approval at a general meeting.

(ii) Grant is in relation to SAR provided to senior employees of the Consolidated Entity which were issued on 18 August 2011, however the service period commenced during the financial year on 31 May 2011 when the employees accepted the invitations to be granted rights. The last expiry date of the rights is 20 business days after the release of the Consolidated Entity's financial report for the year ended 30 June 2014, which is estimated to be around 30 September 2014. The valuation factors and assumptions are an estimate, as the valuation has not been finalised as at the date of this report.

(iii) All options refer to options over ordinary shares of Photon Group Limited, which are exercisable on a one-for-one basis under the CEO LTIP and SAR plans.

### 3(b) Analysis of share-based payments granted as remuneration

Details of the vesting profile of the options granted as remuneration to each Director of the Company and each of the key management personnel, who include the five most highly remunerated Executives, are detailed below:

| Options Granted | Number of options granted | Type of option granted | Grant date | % vested in year | % forfeited in year | % Vesting condition not met(ii) | % remaining to vest | Vesting date (i) |
|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | |
| Tim Hughes | 1,000,000 | ESOS | 20 Nov 2007 | 100 | – | – | – | 1 Jul 2010 |
| | 3,000,000 (ii) | SEOP | 20 Nov 2007 | – | 66⅔ | 33⅓ | – | 1 Jul 2010<br>1 Jul 2011 |

| Company and Consolidated Entity | Number of options granted | Type of option granted | Grant date | % vested in year | % forfeited in year | % vesting condition not met (v) | % remaining to vest | Vesting date (i) |
|---|---|---|---|---|---|---|---|---|
| **Executives** | | | | | | | | |
| Jeremy Philips | 9,000,000 | CEO LTIP | 20 Apr 2010 | – | – | – | 100 | 30 Jun 2012<br>30 Jun 2013<br>30 Jun 2014 |
| | 64,946,415 | CEO LTIP | 17 Sep 2010 | – | – | – | 100 | 30 Jun 2012<br>30 Jun 2013<br>30 Jun 2014 |
| Clare Battellino | 100,000 | ESOS | 27 Aug 2007 | 33⅓ | – | – | 33⅓ | 27 Aug 2009<br>27 Aug 2010<br>27 Aug 2011 |
| | 200,000 | ESOS | 1 Oct 2008 | 33⅓ | – | – | 66⅔ | 1 Oct 2010<br>1 Oct 2011<br>1 Oct 2012 |
| | 250,000 | ESOS | 11 Feb 2009 | 33⅓ | – | – | 66⅔ | 11 Feb 2011<br>11 Feb 2012<br>11 Feb 2013 |
| | 600,000 | SEOP | 1 Apr 2008 | – | – | 33⅓ | 66⅔ | 1 Jul 2010<br>1 Jul 2011 |
| | 6,000,000 | SAR | 18 Aug 2011 | – | – | – | 100 | 30 Sep 2012<br>30 Sep 2013<br>30 Sep 2014 |

| Company and Consolidated Entity | Number of options granted | Type of option granted | Grant date | % vested in year | % forfeited in year | % vesting condition not met (v) | % remaining to vest | Vesting date (i) |
|---|---|---|---|---|---|---|---|---|
| Executives (continued) | | | | | | | | |
| Nigel Long | 55,000 | ESOS | 1 Apr 2008 | 33⅓ | – | – | 33⅓ | 1 Apr 2010<br>1 Apr 2011<br>1 Apr 2012 |
| | 95,000 | ESOS | 5 Feb 2008 | 33⅓ | – | – | 33⅓ | 28 Feb 2010<br>28 Feb 2011<br>28 Feb 2012 |
| | 450,000 | SEOP | 1 Apr 2008 | – | – | 11⅓ | 88⅔ | 1 Jul 2010<br>1 Jul 2011 |
| | 100,000 | ESOS | 1 Oct 2008 | 33⅓ | – | – | 66⅔ | 1 Oct 2010<br>1 Oct 2011<br>1 Oct 2012 |
| | 6,000,000 | SAR | 18 Aug 2011 | – | – | – | 100 | 30 Sep 2012<br>30 Sep 2013<br>30 Sep 2014 |
| Matthew Melhuish | 6,000,000 | SAR | 18 Aug 2011 | – | – | – | 100 | 30 Sep 2012<br>30 Sep 2013<br>30 Sep 2014 |
| Craig Hart | 6,000,000 | SAR | 18 Aug 2011 | – | – | – | 100 | 30 Sep 2012<br>30 Sep 2013<br>30 Sep 2014 |
| Jon Wilkins | 150,000 | ESOS | 30 Jun 2009 | 33⅓ | – | – | 66⅔ | 30 Jun 2011<br>30 Jun 2012<br>30 Jun 2013 |
| | 6,000,000 | SAR | 18 Aug 2011 | – | – | – | 100 | 30 Sep 2012<br>30 Sep 2013<br>30 Sep 2014 |
| Stewart Bailey | 80,000 | ESOS | 30 Aug 2006 | 33⅓ | – | – | – | 30 Aug 2008<br>30 Aug 2009<br>30 Aug 2010 |
| | 100,000 (iii) | ESOS | 1 Jul 2007 | 33⅓ | 33⅓ | – | – | 1 Jul 2009<br>1 Jul 2010<br>1 Jul 2011 |
| | 600,000 (iii) | SEOP | 20 Nov 2007 | – | 66⅔ | 33⅓ | – | 1 Jul 2010<br>1 Jul 2011 |
| | 100,000 (iii) | ESOS | 1 Oct 2008 | 33⅓ | 66⅔ | – | – | 1 Oct 2010<br>1 Oct 2011<br>1 Oct 2012 |
| | 100,000 (iii) | ESOS | 30 Jun 2009 | – | 100 | – | – | 30 Jun 2011<br>30 Jun 2012<br>30 Jun 2013 |
| Adam Kilgour | 100,000 | ESOS | 30 Aug 2006 | 33⅓ | – | – | – | 30 Aug 2008<br>30 Aug 2009<br>30 Aug 2010 |
| | 100,000 (iv) | ESOS | 1 Jul 2007 | 33⅓ | 33⅓ | – | – | 1 Jul 2009<br>1 Jul 2010<br>1 Jul 2011 |
| | 600,000 (iv) | SEOP | 20 Nov 2007 | – | 66⅔ | 33⅓ | – | 1 Jul 2010<br>1 Jul 2011 |
| | 200,000 (iv) | ESOS | 1 Oct 2008 | – | 100 | – | – | 1 Oct 2010<br>1 Oct 2011<br>1 Oct 2012 |

(i) The options granted vest over various periods, based on the terms of the option agreements. The date reflected in the table above represents all of the vesting dates for each tranche of options. The vesting date of the SAR is 20 business days after the release of the Consolidated Entity's preliminary financial report for the relevant financial year. This is estimated to be around 30 September each year.

(ii) Tim Hughes resigned as a Director on 11 August 2010 and therefore 2,000,000 options granted under the SEOP were forfeited as the service condition was not met.

(iii) Stewart Bailey ceased employment during the year therefore these options were forfeited, as the service condition was not met

(iv) Adam Kilgour ceased employment during the year therefore these options were forfeited, as the service condition was not met.

(v) The % vesting condition not met represents the reduction from the maximum number of options available to vest due to performance criteria not being met.

## Directors' Report

### 3(c) Analysis of movements in options

The movement during the reporting period by value, of options over ordinary shares in the Company held by each Company Director and each of the key management personnel, is detailed below.

| | | | Value of Options | |
|---|---|---|---|---|
| | Granted in year $ (i) | Type of option granted in year | Exercised in year $ | Forfeited in year $ |
| **Consolidated Entity Executives** | | | | |
| Jeremy Philips | 2,237,043 | CEO LTIP | – | – |
| Clare Battellino | 134,668 | SAR(ii) | – | – |
| Nigel Long | 134,668 | SAR(ii) | – | – |
| Matthew Melhuish | 134,668 | SAR(ii) | – | – |
| Craig Hart | 134,668 | SAR(ii) | – | – |
| Jon Wilkins | 134,668 | SAR(ii) | – | – |

(i) The value of options granted in the year is the fair value of the options calculated at grant date using a range of valuation models including the Black Scholes, Binomial and Monte Carlo Simulation. For further details on the valuation methodologies of these valuations, see Note 20 Employee benefits. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. on a straight-line basis).

(ii) Share Appreciation Rights are calculated at the date of grant using either the Black Scholes model or Binomial option pricing model. The fair value is allocated to each reporting period on a straight-line basis over the period from the grant date (or service commencement date) to the vesting date. The rights were granted on 18 August 2011. However as the service commenced on 31 May 2011 when the employees accepted the grant, the amounts included above represent the fair value allocated between the service commencement date and the balance sheet date.

### 3(d) Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to key management personnel) have been altered or modified by the issuing entity during the reporting period or the prior period.

**Lead Auditor's independence declaration**

The lead auditor's independence declaration is set out on page 94, and forms part of the Directors' Report for the year ended 30 June 2011.

This report is made in accordance with a resolution of the Directors.

Dated at Sydney this 2nd day of September 2011.

**Brian Bickmore**

Chairman

## Consolidated income statement
for the year ended 30 June 2011

| In thousands of AUD | Note | 2011 | 2010 |
|---|---|---|---|
| Gross revenue | 3 | 538,345 | 587,259 |
| Directly attributable costs of sales | 3 | (194,795) | (208,652) |
| Net revenue | 3 | 343,550 | 378,607 |
| Other income | | 409 | 792 |
| Employee expenses | | (234,012) | (260,267) |
| Occupancy costs | | (16,341) | (20,178) |
| Depreciation and amortisation expense | | (15,296) | (21,096) |
| Insurance expense | | (1,194) | (1,186) |
| Consultancy fees | | (11,942) | (13,542) |
| Equipment hire charges | | (879) | (990) |
| Travel expenses | | (5,368) | (5,266) |
| Communication expenses | | (5,998) | (6,516) |
| Other operating expenses | | (14,928) | (23,389) |
| Acquisition transaction cost | | (42) | (1,266) |
| Fair value adjustment to deferred consideration liability | | 29,739 | (52) |
| Loss on sale of subsidiaries | 29 | (6,803) | – |
| Impairment of intangible assets | 16 | (87,481) | (86,871) |
| Impairment of investment in equity accounted investee | 16 | – | (2,059) |
| Share of loss of associates | 13 | – | (117) |
| Present value interest expense | | (9,106) | (5,480) |
| Other finance costs | | (15,220) | (18,645) |
| Total finance costs | 4 | (24,326) | (24,125) |
| Loss before tax | | (50,912) | (87,521) |
| Income tax expense | 6 | (8,826) | (586) |
| Loss for the period | | (59,738) | (88,107) |
| Attributable to: | | | |
| Equity holders of the parent | | (59,711) | (87,566) |
| Non-controlling interest | | (27) | (541) |
| | | (59,738) | (88,107) |
| Basic earnings per share (AUD cents) | 7 | (4.98) | (26.83) |
| Diluted earnings per share (AUD cents) | 7 | (4.98) | (26.83) |

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

# Consolidated statement of comprehensive income
for the year ended 30 June 2011

| In thousands of AUD | Note | 2011 | 2010 |
|---|---|---|---|
| Loss for the period | | (59,738) | (88,107) |
| Other comprehensive income | | | |
| Cash flow hedge gain | | 2,084 | 1,402 |
| Foreign currency translation differences for foreign operations | | (16,728) | (12,752) |
| Net loss on hedge of net investment in foreign operations | | – | (2,281) |
| Income tax on items of other comprehensive income | 6 | (625) | 885 |
| Other comprehensive income for the period net of tax | | (15,269) | (12,746) |
| Total comprehensive income for the period | | (75,007) | (100,853) |
| Attributable to: | | | |
| Equity holders of the parent | | (74,871) | (100,223) |
| Non-controlling interest | | (136) | (630) |
| | | (75,007) | (100,853) |

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

# Consolidated statement of changes of equity
as at 30 June 2011

| | | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| In thousands of AUD | Note | Share capital | (Accumulated losses)/ retained earnings | Option reserve | Cash flow hedge reserve | Foreign currency translation reserve | Total | Non-controlling interest | Total equity |
| Opening balance at 1 July 2009 | | 255,500 | 8,695 | 9,542 | (4,352) | (6,673) | 262,712 | 1,993 | 264,705 |
| Loss for the period | | – | (87,566) | – | – | – | (87,566) | (541) | (88,107) |
| Other comprehensive income for the period, net of tax | | – | – | – | 2,287 | (14,944) | (12,657) | (89) | (12,746) |
| Total comprehensive income for the period | | – | (87,566) | – | 2,287 | (14,944) | (100,223) | (630) | (100,853) |
| Transactions with owners recorded directly in equity: | | | | | | | | | |
| Shares issued | 23 | 114,749 | – | – | – | – | 114,749 | – | 114,749 |
| Shares issued as part of business combinations | 23 | 3,732 | – | – | – | – | 3,732 | – | 3,732 |
| Tax effect of share issue costs | 23 | 1,015 | – | – | – | – | 1,015 | – | 1,015 |
| Share issue costs | 23 | (5,728) | – | – | – | – | (5,728) | – | (5,728) |
| Dividends paid to equity holders | 23 | – | (12,976) | – | – | – | (12,976) | (718) | (13,694) |
| Share options expense | | – | – | 2,267 | – | – | 2,267 | – | 2,267 |
| Closing balance at 30 June 2010 | | 369,268 | (91,847) | 11,809 | (2,065) | (21,617) | 265,548 | 645 | 266,193 |
| Opening balance at 1 July 2010 | | 369,268 | (91,847) | 11,809 | (2,065) | (21,617) | 265,548 | 645 | 266,193 |
| Loss for the period | | – | (59,711) | – | – | – | (59,711) | (27) | (59,738) |
| Other comprehensive income for the period net of tax | | – | – | – | 1,459 | (16,619) | (15,160) | (109) | (15,269) |
| Total comprehensive income for the period | | – | (59,711) | – | 1,459 | (16,619) | (74,871) | (136) | (75,007) |
| Transactions with owners recorded directly in equity: | | | | | | | | | |
| Shares issued | 23 | 102,529 | – | – | – | – | 102,529 | – | 102,529 |
| Shares issued as part of business combinations | 23 | 12,436 | – | – | – | – | 12,436 | – | 12,436 |
| Tax effect of share issue costs | 23 | 2,978 | – | – | – | – | 2,978 | – | 2,978 |
| Share issue costs | 23 | (9,927) | – | – | – | – | (9,927) | – | (9,927) |
| Share options expense | | – | – | (770) | – | – | (770) | – | (770) |
| Closing balance at 30 June 2011 | | 477,284 | (151,558) | 11,039 | (606) | (38,236) | 297,923 | 509 | 298,432 |

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

# Consolidated statement of financial position
as at 30 June 2011

| In thousands of AUD | Note | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 8 | 18,564 | 22,762 |
| Trade and other receivables | 9 | 72,144 | 92,901 |
| Other assets | 10 | 10,051 | 12,139 |
| Income tax receivable | 12 | 7,014 | 9,263 |
| Total current assets | | 107,773 | 137,065 |
| Receivables | 9 | 376 | 570 |
| Other financial assets | 11 | 50 | 565 |
| Deferred tax assets | 14 | 1,950 | 4,037 |
| Plant and equipment | 15 | 12,199 | 18,002 |
| Other assets | 10 | 1,116 | 1,151 |
| Intangible assets | 16 | 456,738 | 662,551 |
| Total non-current assets | | 472,429 | 686,876 |
| Total assets | 2 | 580,202 | 823,941 |
| **Liabilities** | | | |
| Trade and other payables | 17 | 57,972 | 76,098 |
| Deferred consideration payables | 18 | 40,021 | 78,848 |
| Interest-bearing loans and borrowings | 19 | 2,042 | 45,540 |
| Employee benefits | 20 | 7,361 | 8,681 |
| Income tax payable | 12 | 2,505 | 2,952 |
| Provisions | 22 | 2,864 | 7,876 |
| Total current liabilities | | 112,765 | 219,995 |
| Trade and other payables | 17 | 33 | 26 |
| Deferred consideration payables | 18 | 49,933 | 90,690 |
| Interest-bearing loans and borrowings | 19 | 115,919 | 241,490 |
| Deferred tax liabilities | 14 | – | 1,165 |
| Employee benefits | 20 | 1,269 | 1,666 |
| Provisions | 22 | 1,851 | 2,716 |
| Total non-current liabilities | | 169,005 | 337,753 |
| Total liabilities | 2 | 281,770 | 557,748 |
| Net assets | | 298,432 | 266,193 |
| **Equity** | | | |
| Issued capital | 23 | 477,284 | 369,268 |
| Reserves | | (27,803) | (11,873) |
| Retained earnings | | (151,558) | (91,847) |
| Total equity attributable to equity holders of the parent | | 297,923 | 265,548 |
| Non-controlling interest | | 509 | 645 |
| Total equity | | 298,432 | 266,193 |

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

## Consolidated statement of cash flows
for the year ended 30 June 2011

| In thousands of AUD | Note | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 631,557 | 663,171 |
| Cash paid to suppliers and employees | | (588,338) | (591,542) |
| Cash generated from operations | | 43,219 | 71,629 |
| Interest received | | 528 | 426 |
| Income taxes paid | | (3,328) | (17,247) |
| Interest paid | | (14,274) | (19,076) |
| Net cash from operating activities | 30 | 26,145 | 35,732 |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of non-current assets | | 626 | 718 |
| Payments of deferred consideration | | (42,616) | (108,621) |
| Payments for equity accounted investments | 13 | – | (423) |
| Acquisition of controlled entities, net of cash acquired | 28 | – | (16,848) |
| Disposal of controlled entities, net of cash | 29 | 73,171 | – |
| Acquisition of plant and equipment | | (5,015) | (4,284) |
| Acquisition of intangibles | 16 | – | (5,747) |
| Development expenditure | 16 | (1,496) | (4,876) |
| Net cash from/(used in) investing activities | | 24,670 | (140,081) |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of share capital | 23 | 102,454 | 114,673 |
| Transaction costs for the issue of share capital | 23 | (9,927) | (5,728) |
| Proceeds from borrowings | | 44,211 | 126,703 |
| Repayment of borrowings | | (188,673) | (115,349) |
| Finance lease payments | | (2,542) | (2,343) |
| Dividends paid to shareholders of Photon Group Limited | | – | (12,976) |
| Dividends paid to non controlling interest in controlled entities | | – | (718) |
| Net cash from/(used in) financing activities | | (54,477) | 104,262 |
| Net decrease in cash and cash equivalents | | (3,662) | (87) |
| Effect of exchange rate fluctuations on cash held | | (536) | (710) |
| Cash and cash equivalents at 1 July | | 22,762 | 23,559 |
| Cash and cash equivalents at 30 June | 8 | 18,564 | 22,762 |

The notes on pages 36 to 90 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements
for the year ended 30 June 2011


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## 1. Significant accounting policies

Photon Group Limited (**the Company**) is a Company domiciled in Australia. The address of the Company's registered office is Level 9, 155 George St, Sydney, NSW 2000. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity") and the Consolidated Entity's interest in associates.

The financial statements for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the Directors on 2 September 2011.

### (a) Statement of compliance

The consolidated financial statements are a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (**IFRS**) and interpretations adopted by the International Accounting Standards Board (**IASB**).

### (b) Basis of preparation

*(i) Basis of measurement*

The financial statements are prepared on the historical cost basis except for the items as described in Note 1(t).

*(ii) Going concern*

Notwithstanding the net current liabilities and the after tax loss during the year, the consolidated financial statements have been prepared on a going concern basis which assumes the Consolidated Entity will continue its operations and be able to meet its obligations as and when they become due and payable. This assumption is based on an analysis of the Consolidated Entity's ability to meet its future cash flow objectives using its projected cash flows from operations and capacity under its debt facilities.

During the current financial year, the Consolidated Entity completed a recapitalisation which included a capital raising of $102,500,000 through an underwritten entitlement issue and placement, a restructure of deferred consideration payments, and refinancing the Consolidated Entity's debt facilities. Additionally, the Consolidated Entity completed a restructuring program which has streamlined and sold a number of operating businesses and used the proceeds of $75,300,000 to repay borrowings. At 30 June 2011, the Consolidated Entity had $150,000,000 of debt facilities in place which are due for refinance in September 2013, of which there was $32,423,000 unused capacity available.

At 30 June 2011, the Consolidated Entity had an estimated gross current deferred consideration liability of $40,823,000, of which $11,810,000 will be satisfied by the issue of equity. Of the balance to be settled in cash, $10,500,000 is subject to agreements entered into subsequent to balance date to fix the payment in July 2012. This amount, along with the remainder of the balance of the current liability to be settled in cash will be funded by drawing on unused capacity under the Consolidated Entity's debt facilities. The lender to the Consolidated Entity has agreed to adjust certain covenants contained in debt facilities to reflect the expected total debt balance (including drawings for deferred consideration payments) during the next 12 months and the current earnings run-rate. The covenants revert to the pre-adjusted levels at 30 June 2012. The financial statements are prepared on a going concern basis based on the assumption that current liabilities will be met through cash flows generated from operations and the company will remain in compliance with covenants at 30 June 2012 and thereafter, as a result of a reduction in the debt balance, through proceeds from asset sales, and/or an increase in earnings from the run-rate achieved in the year ended 30 June 2011.

*(iii) Functional and presentation currency*

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Company is 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 consolidated financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

*(iv) Use of estimates and judgments*

The preparation of financial statements in conformity with AASBs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Refer to Note 1(u) for further details on critical accounting estimates and judgments.

*(v) Changes in accounting policies*

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements.

### (c) Basis of consolidation

*(i) Business combinations*

The Consolidated Entity has applied the acquisition method for the business combinations disclosed in Note 28 Acquisitions of subsidiaries and non-controlling interests.

For every business combination, the Consolidated Entity identifies the acquirer, which is the combining entity that obtains control of other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Consolidated Entity takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which

## Notes to the consolidated financial statements
for the year ended 30 June 2011

**1. Significant accounting policies (continued)**
control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

**Measuring goodwill**
The Consolidated Entity measures goodwill at fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Consolidated Entity to the previous owners of the acquiree, and equity interests issued by the Consolidated Entity. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination.

**Business combinations between 1 July 2004 and 30 June 2009**
All business combinations between 1 July 2004 and 30 June 2009 are accounted for by applying the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the time of exchange, of assets given, liabilities incurred or assumed and equity instruments issued in exchange for control of the acquiree, plus any costs attributable to the business combination. Goodwill represents the difference between the cost of the acquisition and the fair value of net assets, liabilities and contingent liabilities acquired.

Deferred consideration on acquisitions is provided based on management's best estimate of the liability at the reporting date. The liability is discounted using a market interest rate for the liability and a present value interest charge is included in the income statement as the discount unwinds. Changes to estimates of amounts payable are made by adjusting deferred consideration using the original interest rate, together with goodwill.

**Business combinations prior to 1 July 2004**
As part of the transition to AASBs, the classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has been recognised under the Consolidated Entity's previous accounting framework, Australian GAAP.

**Contingent liabilities**
A contingent liability of the acquiree assumed in a business combination is recognised only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

**Non-controlling interest**
The Consolidated Entity measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

**Transaction costs**
Transaction costs that the Consolidated Entity incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

*(ii) Subsidiaries*
Subsidiaries are entities controlled by the Consolidated Entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies of the Consolidated Entity.

*(iii) Investments in associates (equity accounted investees)*
Associates are those entities in which the Consolidated Entity has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Consolidated Entity holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Consolidated Entity's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Consolidated Entity's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. The Consolidated Entity's share of movements in reserves is recognised directly in consolidated reserves. When the Consolidated Entity's share of losses exceeds its interest in an associate, the Consolidated Entity's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Consolidated Entity has incurred legal or constructive obligations or made payments on behalf of an associate.

*(iv) Transactions eliminated on consolidation*
Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Consolidated Entity's interest in the entity, with adjustments made to the "Investment in associates" and "Share of associate's net profit" accounts. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised as the contributed assets are sold by the associate or, if not sold by the associate, when the Consolidated Entity's interest in such entities is disposed of.

*(v) Loss of control*
Upon the loss of control, the Consolidated Entity derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If the Consolidated Entity retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an available-for-sale financial asset, depending on the level of influence retained.

### (d) Foreign currency

*(i) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Consolidated Entities at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the respective functional currencies of the Consolidated Entity at the foreign exchange rate ruling at that date. Foreign exchange differences arising on re-translation are recognised in the income statement, except for differences arising on the retranslation of available-for-sale equity instruments and a financial liability designated as a hedge of the net investment in a foreign operation, which are recognised directly in equity (see (iii) below). Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

*(ii) Foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates prevailing at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Since 1 July 2004, the date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (**FCTR**). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

*(iii) Hedge of net investment in foreign operations*

Foreign currency differences arising from the retranslation of a financial liability designated as a hedge of the net investment in foreign operations are recognised in other comprehensive income to the extent that the hedge is effective, and are presented within equity in the FCTR. To the extent that the hedge is ineffective, such differences are recognised in profit or loss. When the hedged net investment is disposed of, the relevant amount in the FCTR is transferred to profit or loss as an adjustment to the profit or loss on disposal.

### (e) Financial instruments

*Non-derivative financial assets*

The Consolidated Entity initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated as fair value through the profit and loss) are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument.

The Consolidated Entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Consolidated Entity is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Consolidated Entity has the following non-derivative financial assets: loans and receivables, work in progress, and cash and cash equivalents.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables. Trade and other receivables are stated at their cost less impairment losses (see Note 1(h)). The collectability of debts is assessed at reporting date, and specific provision is made for any doubtful accounts. Bad debts are written off as incurred.

Work in progress represents accrued revenue recognised in accordance with Note 1(m) together with rechargeable disbursements.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Consolidated Entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

*Non-derivative financial liabilities*

The Consolidated Entity initially recognises debt securities issued and subordinated liabilities on the date they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument. The Consolidated Entity derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has a legal right to offset the amounts and intends either to settle on a net

## Notes to the consolidated financial statements
for the year ended 30 June 2011

**1. Significant accounting policies (continued)**

basis or to realise the asset and settle the liability simultaneously.

The Consolidated Entity has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts and trade, other payables and deferred consideration.

Financial liabilities, other than deferred consideration, are recognised initially at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

**Deferred consideration**

Deferred consideration is classified as a financial liability and is measured at fair value through profit or loss. Deferred consideration on acquisitions is provided based on management's best estimate of the liability (up to any relevant cap) at the reporting date. The liability is discounted using a market interest rate for the liability and a present value interest charge is included in the income statement as the discount unwinds. Fair value adjustments through the income statement are made in relation to changes to estimates of the fair value of amounts payable of the deferred consideration.

**Derivative financial instruments including hedging accounting**

The Consolidated Entity uses derivative financial instruments to hedge its exposure to interest rate risks and foreign currency exposure arising from operational, financing and investment activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

On initial designation of the hedge, the Consolidated Entity formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Consolidated Entity makes an assessment, both at the inception of the hedge relationship and on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125 per-cent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are described below.

**Cash flow hedges**

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit and loss. In other cases, the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(f) Plant and equipment

*(i) Recognition and measurement*

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see Note 1(h)). The cost of plant and equipment at 1 July 2004, the date of transition to AASBs, was measured on the basis of deemed cost and was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "other income" in profit or loss.

*(ii) Leased assets*

Leases in terms of which the Consolidated Entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases; the leased assets are not recognised on the Consolidated Entity's statement of financial position.

The Consolidated Entity recognises in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other costs are recognised in the income statement as an expense as incurred.

*(iii) Depreciation*
Depreciation is charged to the income statement on both a straight-line and diminishing value basis, as indicated below, over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Consolidated Entity will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Straight-line | Diminishing Value | Straight-line | Diminishing Value |
| Computer equipment | 25%–40% | 20%–40% | 25%–40% | 20%–40% |
| Office furniture and equipment | 5%–25% | 5%–40% | 5%–25% | 5%–40% |
| Plant and equipment | 10%–25% | – | 10%–25% | – |
| Leasehold improvements | Life of lease | Life of lease | Life of lease | Life of lease |
| Plant and equipment under finance lease | Life of lease | Life of lease | Life of lease | Life of lease |

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

### (g) Intangible assets

*(i) Goodwill*
Goodwill arises on the acquisition of subsidiaries and associates.

**Acquisitions of non-controlling interests**
Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

**Subsequent measurement**
Goodwill is measured at cost, less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of the investment, and an impairment loss on such an investments are not allocated to any assets, including goodwill, that forms part of the carrying amount of equity accounted investee.

**Goodwill allocation to cash generating units**
Goodwill is allocated to cash generating units expected to benefit from synergies created by the business combination and is tested for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired.

Negative goodwill arising on an acquisition is recognised immediately in profit or loss.

*(ii) Research and development*
Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes (including internally developed software), is capitalised only if development costs can be reliably measured, the product or process is technically and commercially feasible, future economic benefits are probable, and the Consolidated Entity intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is measured at cost, less accumulated amortisation (see below) and impairment losses (see Note 1(h)).

*(iii) Other intangible assets*
Other intangible assets that are acquired by the Consolidated Entity are stated at cost less accumulated amortisation (see below) and impairment losses (see Note 1(h)). For each business combination, a review is completed to identify any intangible assets and a valuation of fair value is performed for all intangible assets identified.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

*(iv) Subsequent expenditure*
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

*(v) Amortisation*
Amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Goodwill is systematically tested for impairment each year at the same time. Other intangible assets are amortised from the date they are available for use. The estimated useful lives in the current and comparative periods are as follows:

- IT related intellectual property – 2 to 8 years
- Customer contracts – 3 to 4 years
- Customer relationships – 2 to 8 years
- Brand names – 6 years
- Internally generated intangibles – 2 to 5 years

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

### (h) Impairment

*(i) Financial assets (including receivables)*
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a

## Notes to the consolidated financial statements
for the year ended 30 June 2011

**1. Significant accounting policies (continued)**
negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Consolidated Entity on terms that the Consolidated Entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in profit and loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss.

The Consolidated Entity considers evidence of impairment for receivables at a specific asset level. In assessing impairment the Consolidated Entity uses historical trends of the probability of default, timing of recoveries, and the amount of loss incurred/adjusted for management's judgment. The remaining financial assets are assessed collectively, which share similar credit risk characteristics.

*(ii) Non-financial assets*
The carrying amounts of the Consolidated Entity's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less costs to sell. In assessing value in use, the estimated future post tax cash flows are discounted to their present value using a post tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, cash generating units (CGUs) to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Share capital
*(i) Ordinary shares*
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary share and share options are recognised as a deduction from equity, net of tax effects.

*(ii) Dividends*
Dividends are recognised as a liability in the period in which they are declared.

*(iii) Transaction costs*
Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(j) Employee benefits
*(i) Long-term employee benefits*
The Consolidated Entity's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates, including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating to the terms of the Consolidated Entity's obligations.

*(ii) Wages, salaries, annual leave, and non-monetary benefits*
Liabilities for employee benefits for wages, salaries, and annual leave that are due to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Entity expects to pay as at reporting date, including related on-costs, such as workers compensation insurance, statutory superannuation and payroll tax.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Consolidated Entity has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be reliably estimated.

*(iii) Termination benefits*
Termination benefits are recognised as an expense when the Consolidated Entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Consolidated Entity has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

*(iv) Share-based payment transactions*
The grant date fair value of share-based payment awards granted to employees is recognised and an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related services and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(k) Provisions
A provision is recognised in the statement of financial position when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

*(i) Make good provision*
The Consolidated Entity has made provision for make good on all operating leases for premises which require make good expenditure at completion of the lease. The amount of the provision for make good is capitalised and then amortised over the remaining term of the individual leases. The provision is the best estimate of the expenditure required to settle the make good obligation. Future make good costs are reviewed annually and any changes are reflected in the provision at the end of the reporting period.

*(ii) Lease incentive provision*
The Consolidated Entity has made provision for lease incentives received. Lease incentives received are recognised in the income statement as an integral part of the total lease expense spread over the lease term.

*(iii) Restructuring*
A provision for restructuring is recognised when the Consolidated Entity has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

*(iv) Onerous contracts*
A provision for onerous contracts is recognised when the expected benefits to be derived by the Consolidated Entity from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Consolidated Entity recognises any impairment loss on the assets associated with that contract.

(l) Revenue
All operating revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is determined by reference to outputs and deliverables in connection with the completion of the service. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, or if the costs incurred or to be incurred cannot be measured reliably.

Gross revenue represents billings to clients, inclusive of directly attributable costs of sales, relating to Consolidated Entity subsidiaries where a principal relationship exists between the entity and its client. Where the Consolidated Entity subsidiaries act as an agent, the amount included as revenue is recognised net of amounts collected/paid on behalf of clients.

Net revenue is the amount that flows to the Consolidated Entity net of directly attributable cost of sales. Directly attributable cost of sales includes any project-related costs and rechargeable disbursements.

*(i) Advertising, media and production revenue*
Advertising, media and production revenues are recognised net of directly attributable cost of sales.

*(ii) Retainer fees and commissions*
Retainer fees which arise as part of a contract to provide services to a client are recognised over the term of the contract on a straight-line basis, unless there is some other method that better represents the stage of completion.

Commissions-based client revenue is recognised as the service is performed.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred, or to be incurred, cannot be measured reliably, there is a risk of return of goods, or there is continuing management involvement to the degree usually associated with ownership or effective control of the goods.

*(iii) Interest*
Interest income is recognised in the income statement as it accrues, using the effective interest method.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

**1. Significant accounting policies (continued)**

(m) Lease payments

*(i) Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

*(ii) Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

*(iii) Determining whether an arrangement contains a lease*

At inception of an arrangement, the Consolidated Entity determines whether such an arrangement is, or contains, a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specific asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Consolidated Entity the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Consolidated Entity separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Consolidated Entity concludes, for a finance lease, that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently, the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Consolidated Entity's incremental borrowing rate.

(n) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Consolidated Entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, present value interest charges with respect to the deferred consideration of acquisitions, unwinding of the discount on provisions and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current and deferred tax is recognised in the income statement except, to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(p) Segment reporting

The Consolidated Entity early adopted AASB 8 *Operating Segments* in the year ended 30 June 2009, in which the Consolidated Entity determines and presents segments based on the information that is provided internally to the CEO, who is the Consolidated Entity's chief operating decision maker.

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Consolidated Entity's other components. All operating segments' operating results are regularly reviewed by the Consolidated Entity's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items consist mainly of costs associated with the centralised management and governance of the Consolidated Entity, such as interest bearing loans, costs of borrowings and related expenses, and corporate head office assets and expenses.

Segment capital expenditure, development expenditure and acquisition of intangibles are the total cost incurred during the period to acquire plant and equipment, and intangible assets other than goodwill.

### (q) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### (r) Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (**EPS**) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible share options granted to employees.

### (s) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing the financial statements.

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Consolidated Entity's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Consolidated Entity has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements of a government related entity. The amendments, which will become mandatory for the Consolidated Entity's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

### (t) Determination of fair values

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### *(i) Intangible assets*

The fair value of other intangible assets acquired is based on valuation techniques generally using the excess earnings method.

#### *(ii) Trade and other receivables*

The fair value of other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The fair value is determined for disclosure purposes only.

#### *(iii) Derivatives*

The fair value of interest rate swaps is based on market valuation, which includes estimated future cash flows based on the terms and maturity of each contract. The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

#### *(iv) Share-based payment transactions*

The fair value of employee share options is measured using the Black Scholes, Binomial model or Monte Carlo sampling. Measurement inputs include share price on measurement date, exercise price of the instruments, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

#### *(v) Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases, the market rate of interest is determined by reference to similar lease arrangements.

Notes to the consolidated financial statements
for the year ended 30 June 2011

**1. Significant accounting policies (continued)**

(u) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Consolidated Entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, not always equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(i) Estimated impairment of goodwill*

The Consolidated Entity tests annually whether there is any impairment of goodwill. The recoverable amounts of cash generating units have been determined by applying a value in use method using assumptions of future profit margins and cash flows. Refer to Note 16 for the details of these assumptions and the potential impact of changes to the assumptions.

*(ii) Intangible assets and business combinations*

AASB 3 *Business Combinations* and AASB 138 *Intangible Assets*, the Australian standards on business combinations and intangibles respectively, require the acquirer to separately identify the acquiree's identifiable assets and liabilities, including other intangibles arising on acquisition. This means that the acquirer must recognise other intangible assets, separately from goodwill, where the definition of an intangible asset is met and the fair value of the intangible asset can be measured reliably.

Where significant business acquisitions are undertaken, the Directors commission an independent expert, having satisfied themselves that the expert was appropriately qualified to form a view and to assist them in determining the valuation of intangible assets separately identified and recognised as part of the business combination.

For further details, refer to Note 16 Intangible assets and Note 28 Acquisitions of subsidiaries and non-controlling interests.

*(iii) Share-based payments*

The grant date fair value of share-based payment arrangements is determined by an appropriately qualified independent expert commissioned by the Directors. Inputs to the determination of fair value are subjective and include the market value of the instrument on the grant date, expected volatility of the Company's share price, the risk free interest rate, the dividend yield, the expected life of the instrument and the exercise price. Certain of these inputs are estimates.

The Directors review the methodologies used by the expert and make enquiries with management to assure themselves that the factual information used by the expert is correct prior to relying on the expert's opinion. Refer to Note 20 for further details.

*(iv) Deferred consideration liability*

Certain acquisitions of subsidiaries made by the Consolidated Entity contain arrangements for further consideration to be paid to vendors subject to certain targets being met. At each reporting date, an estimate is made of whether such targets will be achieved and the Consolidated Entity's liability is then based on the achievement of such targets. The estimate is based on budgets and forecasts prepared by management of the subsidiary, subject to potential additional consideration. The nature of the arrangements means that at the reporting date there is uncertainty around the amount and timing of the liability to be paid in the future under such deferred consideration arrangements.

During the year ended 30 June 2011, the consolidated entity entered into agreements to restructure its deferred consideration liabilities such that substantially all agreements contain caps on the total liability. The consolidated entity has identified an estimate of the liability for future deferred consideration liabilities based on its best estimates of the achievement of the forecast targets by the relevant subsidiaries and also the Consolidated Entity up to the relevant capped liabilities. There is uncertainty around the actual payments that will be made subject to the performance of the relevant subsidiaries and the Consolidated Entity subsequent to the reporting date versus the targets. Actual future payments may be below the capped amounts, however, they may exceed the estimated liability.

*(v) Impairment of receivables*

The Consolidated Entity carries trade receivables at amortised cost less impairment. The impairment of these receivables is an estimate based on whether there is evidence suggesting that an event has occurred leading to a negative effect on the estimated future cash inflow. Events subsequent to the reporting date but prior to the signing of the financial statements which indicate a negative effect are taken into account in the calculation of impairment. Future events may occur which change these estimates of the future cash inflows related to impaired trade receivables.

*(vi) Revenue recognition*

The Consolidated Entity recognises revenue from services rendered in proportion to the stage of completion of the transaction. Stage of completion estimates are determined by reference to the relative value of services completed in comparison to the total expected services to be completed in any specific project. The estimates require judgments and assumptions and actual results may differ from estimates as at the reporting date.

*(vii) Utilisation of tax losses*

The Consolidated Entity has recognised deferred tax assets on tax losses arising from capital losses generated from disposed subsidiaries during the reporting period. The recognition of tax losses as deferred tax assets is based on the assumption of future taxable capital gains in the same tax jurisdiction due to the recognition of fair value gains in relation to deferred consideration liabilities.

**2. Operating segments**

During the previous reporting period, the Consolidated Entity has realigned its organisational structure and now focuses on four business divisions which are the entity's operating segments based on regularly reviewed internal reporting and management by the Chief Executive Officer and the management team (the chief operating decision makers). The divisions are the basis for assessing performance and determining allocation of resources.

The operating segments are defined by management, based on the manner in which the services are provided and the geographies which each segment operates in, and report to the Chief Executive Officer and the management team on a monthly basis. Each operating segment is a reportable segment, and these are the sources of the Consolidated Entity's major risks and returns.

The Consolidated Entity considers it operates in four segments:

- **International Agencies**: international specialised marketing services weighted towards public relations, communications strategy and research and data analytics.
- **Australian Agencies**: focused on providing a broad spectrum of marketing services to Australian clients including above the line advertising, direct marketing, promotional campaigns, consumer research, public relations and stakeholder communications.
- **Australian Field Marketing**: outsourced merchandising and point-of-sale marketing.
- **Search Marketing**: primarily US facing search marketing group. This segment has been significantly restructured during the reporting period.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Unallocated items consist mainly of costs associated with the centralised management and governance of Photon Group Limited, such as interest bearing loans, costs of borrowings and related expenses, and corporate head office assets and expenses.

Segment capital expenditure and development expenditure is the total cost incurred during the period to acquire assets that are expected to be used for more than one period.

The measure of reporting to the chief operating decision maker is on a normalised EBITDA basis, which excludes significant items which are separately presented because of their nature, size and expected infrequent occurrence.

In relation to segment reporting, the following definitions apply to operating segments:

**EBITDA before significant items**: earnings before one off significant items, interest, taxes, depreciation, amortisation and impairment charges.

**EBITDA**: earnings before interest, taxes, depreciation, amortisation and impairment charges.

**EBIT**: earnings before interest, taxes and impairment charges

Notes to the consolidated financial statements
for the year ended 30 June 2011

## 2. Operating segments (continued)

| 2011<br>In thousands of AUD | International Agencies | Australian Agencies | Field Marketing | Search Marketing | Total segment | Unallocated | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Gross revenue | 132,800 | 254,480 | 125,782 | 31,476 | 544,538 | – | (6,193) | 538,345 |
| Directly attributable cost of sales | (35,447) | (135,366) | (7,607) | (22,568) | (200,988) | – | 6,193 | (194,795) |
| Net revenue | 97,353 | 119,114 | 118,175 | 8,908 | 343,550 | – | – | 343,550 |
| Other income | 138 | 153 | 118 | – | 409 | – | – | 409 |
| Operating expenses | (79,412) | (96,676) | (98,223) | (8,077) | (282,388) | (8,316) | – | (290,704) |
| Significant one off costs | – | – | – | – | – | – | – | – |
| EBITDA | 18,079 | 22,591 | 20,070 | 831 | 61,571 | (8,316) | – | 53,255 |
| Depreciation and amortisation expenses | | | | | | | | (15,296) |
| EBIT | | | | | | | | 37,959 |
| Impairment relating to assets disposed | (5,098) | – | – | (12,097) | (17,195) | – | – | (17,195) |
| Impairment of intangibles | – | (34,293) | – | (35,993) | (70,286) | – | – | (70,286) |
| Loss on sale of subsidiaries | (665) | (4,272) | – | (1,866) | (6,803) | – | – | (6,803) |
| Fair value adjustment | | | | | | | | 29,739 |
| Net finance expenses | | | | | | | | (24,326) |
| Income tax expense | | | | | | | | (8,826) |
| Profit for the period | | | | | | | | (59,738) |
| Goodwill | 176,791 | 135,246 | 134,745 | – | 446,782 | – | – | 446,782 |
| Other intangibles | 2,784 | 4,981 | 2,191 | – | 9,956 | – | – | 9,956 |
| Assets excluding intangibles | 47,653 | 39,123 | 33,597 | 7,728 | 128,101 | 173,916 | (178,553) | 123,464 |
| Total assets | 227,228 | 179,350 | 170,533 | 7,728 | 584,839 | 173,916 | (178,553) | 580,202 |
| Liabilities | 24,888 | 26,184 | 14,233 | 18,748 | 84,053 | 376,270 | (178,553) | 281,770 |
| Total liabilities | 24,888 | 26,184 | 14,233 | 18,748 | 84,053 | 376,270 | (178,553) | 281,770 |
| Amortisation of intangibles | 2,185 | 2,299 | 1,709 | 923 | 7,116 | – | – | 7,116 |
| Depreciation | 1,752 | 3,437 | 1,675 | 577 | 7,441 | 739 | – | 8,180 |
| Capital expenditure | 1,213 | 1,960 | 957 | 124 | 4,254 | 761 | – | 5,015 |
| Development expenditure | 640 | 190 | 106 | 560 | 1,496 | – | – | 1,496 |
| Acquisition of intangibles | – | – | – | – | – | – | – | – |

*All segments are continuing operations.

### Geographical segments

The operating segments are managed on a worldwide basis. However, there are three geographic areas of operation.

| Geographical information<br>In thousands of AUD | 2011<br>Net revenues | 2011<br>Non-current assets | 2010<br>Net revenues | 2010<br>Non-current assets |
|---|---|---|---|---|
| Australasia | 245,131 | 306,730 | 265,429 | 458,514 |
| UK & Europe | 89,456 | 161,936 | 96,257 | 201,319 |
| USA | 8,963 | 3,763 | 16,921 | 27,043 |
| Total | 343,550 | 472,429 | 378,607 | 686,876 |

| 2010<br>In thousands of AUD | International Agencies | Australian Agencies | Field Marketing | Search Marketing | Total segment | Unallocated | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Gross revenue | 152,567 | 277,274 | 125,808 | 38,317 | 593,966 | – | (6,707) | 587,259 |
| Directly attributable cost of sales | (45,095) | (135,700) | (7,320) | (27,244) | (215,359) | – | 6,707 | (208,652) |
| Net revenue | 107,472 | 141,574 | 118,488 | 11,073 | 378,607 | – | – | 378,607 |
| Other income | 280 | 306 | 41 | 165 | 792 | – | – | 792 |
| Operating expenses | (83,517) | (113,463) | (99,424) | (17,711) | (314,115) | (18,485) | – | (332,600) |
| Significant one off costs | 862 | 3,908 | 1,196 | 12,962 | 18,928 | 9,446 | – | 28,374 |
| EBITDA before significant one off costs | 25,097 | 32,325 | 20,301 | 6,489 | 84,212 | (9,039) | – | 75,173 |
| Reconciliation to EBITDA | | | | | | | | |
| Significant one off costs | (862) | (3,908) | (1,196) | (12,962) | (18,928) | (9,446) | – | (28,374) |
| EBITDA | 24,235 | 28,417 | 19,105 | (6,473) | 65,284 | (18,485) | – | 46,799 |
| Depreciation and amortisation expenses | | | | | | | | (21,096) |
| EBIT | | | | | | | | 25,703 |
| Share of loss of equity accounted investee | | | | (117) | | | | (117) |
| Impairment of investment in equity accounted investee | | | | (2,059) | | | | (2,059) |
| Impairment of intangibles | | | | (86,871) | | | | (86,871) |
| Fair value adjustment | | | | | | | | (52) |
| Net finance expenses | | | | | | | | (24,125) |
| Income tax expense | | | | | | | | (586) |
| Profit for the period | | | | | | | | (88,107) |
| Goodwill | 210,185 | 237,451 | 137,870 | 49,950 | 635,456 | – | – | 635,456 |
| Other intangibles | 5,659 | 9,357 | 3,945 | 8,134 | 27,095 | – | – | 27,095 |
| Assets excluding intangibles | 66,558 | 56,961 | 37,751 | 1,679 | 162,949 | 127,809 | (129,368) | 161,390 |
| Total assets | 282,402 | 303,769 | 179,566 | 59,763 | 825,500 | 127,809 | (129,368) | 823,941 |
| Liabilities | 30,298 | 36,555 | 16,406 | 8,703 | 91,962 | 595,154 | (129,368) | 557,748 |
| Total liabilities | 30,298 | 36,555 | 16,406 | 8,703 | 91,962 | 595,154 | (129,368) | 557,748 |
| Amortisation of intangibles | 2,528 | 4,789 | 1,833 | 4,004 | 13,154 | – | – | 13,154 |
| Depreciation | 2,125 | 3,336 | 1,077 | 600 | 7,138 | 804 | – | 7,942 |
| Capital expenditure | 1,048 | 1,688 | 928 | 402 | 4,066 | 218 | – | 4,284 |
| Development expenditure | 1,122 | 1,084 | 151 | 2,519 | 4,876 | – | – | 4,876 |
| Acquisition of intangibles | – | – | – | 5,747 | 5,747 | – | – | 5,747 |

*All segments are continuing operations.

## Significant costs

There were no significant costs included in the 2011 segment results.

The following significant costs were included in the 2010 segment results:

**Significant Costs**

| In thousands of AUD | 2010 |
|---|---|
| Redundancy charges | 2,870 |
| Closed business costs | 13,000 |
| Incidental acquisition costs | 1,267 |
| Restructuring provision | 6,227 |
| Impairment of working capital | 4,277 |
| Other | 733 |
| Total | 28,374 |

## Notes to the consolidated financial statements
for the year ended 30 June 2011

### 3. Revenue

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Gross revenue from the rendering of services | 538,345 | 587,259 |
| Directly attributable cost of sales | (194,795) | (208,652) |
| Net revenue | 343,550 | 378,607 |

### 4. Finance costs

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Finance costs | | |
| Present value interest charges on deferred consideration for business combinations | (9,106) | (5,480) |
| Interest on external loans | (15,380) | (18,616) |
| Finance lease interest | (368) | (455) |
| Interest income | 528 | 426 |
| Finance costs | (24,326) | (24,125) |

Foreign exchange losses of $495,620 (2010: $238,927) have been recognised in the consolidated income statement and have been included in other operating expenses.

### 5. Auditors' remuneration

| In AUD | 2011 | 2010 |
|---|---|---|
| Audit services – auditors of the Company | | |
| KPMG Australia | 551,000 | 659,000 |
| Overseas KPMG firm | 234,033 | 253,296 |
| | 785,033 | 912,296 |
| Other services – auditors of the Company | | |
| Migration services work: | | |
| KPMG Australia | – | 10,100 |
| Taxation compliance services: | | |
| KPMG Australia | 13,500 | 28,000 |
| Overseas KPMG firm | 173,519 | 249,494 |
| Transaction and due diligence service: | | |
| KPMG Australia | 325,000 | 949,489 |
| Overseas KPMG firm | – | 2,684 |
| | 512,019 | 1,239,767 |

## 6. Income tax expense

Recognised in the income statement

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| **Current tax expense** | | |
| Current year | 5,607 | 9,177 |
| Adjustments for prior years | (374) | (1,820) |
| Adjustments for prior years due to tax legislation changes | – | (2,819) |
| | 5,233 | 4,538 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 3,593 | (3,917) |
| Benefit of tax losses recognised | – | (35) |
| | 3,593 | (3,952) |
| Total income tax expense in income statement | 8,826 | 586 |

Numerical reconciliation between tax expense and pre-tax accounting loss

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Loss before income tax | (50,912) | (87,521) |
| Income tax expense using the Company's domestic tax rate of 30% (2010: 30%) | (15,273) | (26,256) |
| **Increase in income tax expense due to:** | | |
| Present value interest charges | 2,651 | 1,597 |
| Other non-deductible/(subtraction) items | 762 | 2,380 |
| Effect of higher/(lower) tax rate on overseas incomes | (248) | 420 |
| Accounting amortisation of identifiable intangible assets | 1,463 | 2,581 |
| Imputation gross up on dividends received | 477 | 281 |
| Share option expense/(credit) | (231) | 680 |
| Impairment charge | 26,111 | 25,719 |
| **Decrease in income tax expense due to:** | | |
| Tax amortisation of identifiable intangible assets | (255) | (387) |
| Share of associates net loss | – | 35 |
| Effect of losses not previously recognised | – | (559) |
| Non-assessable fair value gain | (1,894) | – |
| Effect of tax losses on sale of subsidiaries | (1,488) | – |
| Franking credits on dividends received | (1,591) | (937) |
| Under/(over) provision for tax in previous years | (374) | (1,820) |
| Under/(over) provision for tax in previous years due to tax legislation changes | – | (2,819) |
| Unwinding of deferred tax liability established in business combinations | (1,523) | (2,133) |
| Tax losses not brought to account | 239 | 1,804 |
| Income tax expense on pre-tax net loss | 8,826 | 586 |

| | 2011 | 2010 |
|---|---|---|
| **Deferred tax asset recognised directly in equity** | | |
| Share issue costs | 2,978 | 1,015 |
| | 2,978 | 1,015 |
| **Income tax recognised in other comprehensive income** | | |
| Cash flow hedges | (625) | 885 |
| | (625) | 885 |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 7. Earnings per share

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Net loss for the year | (59,738) | (88,107) |
| Non-controlling interest | 27 | 541 |
| Net loss for the year attributable to shareholders | (59,711) | (87,566) |
| In thousands of shares | | |
| Weighted average number of ordinary shares – basic[(i)] | 1,199,177 | 326,331 |
| Shares issuable under equity-based compensation plans[(ii)] | – | – |
| Weighted average number of ordinary shares – diluted | 1,199,177 | 326,331 |
| Earnings per share – basic (AUD cents) | (4.98) | (26.83) |
| Earnings per share – diluted (AUD cents) | (4.98) | (26.83) |

(i) The weighted average number of shares outstanding includes an adjustment for the equity raising completed on 29 September 2010 after receiving shareholder approval at a general meeting on 17 September 2010. The earnings per share for the year ended 30 June 2010 included an adjustment for the equity raisings on 29 September 2010 and 21 August 2009, and rights issue completed on 18 September 2009.

(ii) The weighted average shares outstanding includes the incremental shares that would be issued upon the assumed exercise of stock options if the effect is dilutive. Because the Consolidated Entity has a loss from continuing operations in 2011, no potentially dilutive shares were included in the denominator computing diluted earnings per shares since the impact on earnings per share would be anti-dilutive.

## 8. Cash and cash equivalents

| In thousands of AUD | Note | 2011 | 2010 |
|---|---|---|---|
| Cash at bank and on hand | | 18,262 | 22,607 |
| Bank short-term deposits | | 302 | 155 |
| Cash and cash equivalents in statement of financial position and statement of cash flows | 30 | 18,564 | 22,762 |

The Consolidated Entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in Note 24 Financial risk management/financial instruments.

## 9. Trade and other receivables

| In thousands of AUD | Note | 2011 | 2010 |
|---|---|---|---|
| Current | | | |
| Trade receivables | | 71,927 | 92,615 |
| Less: provision for impairment loss | 24 | (838) | (3,257) |
| | | 71,089 | 89,358 |
| Other receivables | | 1,055 | 3,543 |
| | | 72,144 | 92,901 |
| Non-current | | | |
| Other non-current receivables | | 376 | 570 |
| | | 376 | 570 |
| Total trade and other receivables | | 72,520 | 93,471 |

No interest is charged on trade debtors. The Consolidated Entity's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in Note 24.

## 10. Other assets

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Current | | |
| Work in progress | 4,783 | 4,394 |
| Prepayments | 4,609 | 5,662 |
| Other current assets | 659 | 2,083 |
| | 10,051 | 12,139 |
| Non-current | | |
| Deposits | 515 | 587 |
| Other non-current assets | 601 | 564 |
| | 1,116 | 1,151 |

## 11. Other financial assets

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Non-current investments | | |
| Deposits – interest bearing | 50 | 565 |
| | 50 | 565 |

Deposits – interest bearing

Interest bearing deposits are amounts paid to secure leasing facilities. These amounts are held in bank term deposit accounts and pay at an average weighted interest rate of 3.75% at 30 June 2011 (30 June 2010: 5.82%).

## 12. Current tax assets and liabilities

The Consolidated Entity has a net current tax receivable of $4,509,430 (2010: $6,311,398). The net current receivable is comprised of current tax receivables of $7,014,601 (2010: $9,263,298) and current tax payables of $2,505,171 (2010: $2,951,900).

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 13. Investments accounted for using the equity method

Investments in associates

The Consolidated Entity had the following investments in associates during the previous period:

| | Principal activities | Country | Reporting date | Ownership 2011 | Ownership 2010 |
|---|---|---|---|---|---|
| Dark Blue Sea Limited | Internet property development | Australia | 30 June 2011 | 100% | 100% |

| In thousands of AUD | Revenues (100%) | Profit/(loss) (100%) | Share of associates net profit/(loss) recognised | Total assets (100%) | Total liabilities (100%) | Net assets as reported by associates (100%) | Share of associate net assets equity accounted |
|---|---|---|---|---|---|---|---|
| 2011 | | | | | | | |
| – | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| 2010 | | | | | | | |
| Dark Blue Sea Limited | 2,248 | (393) | (117) | – | – | – | – |
| | 2,248 | (393) | (117) | – | – | – | – |

| | 2011 | 2010 |
|---|---|---|
| Movements in carrying amount of associated entities | | |
| Carrying amount at the beginning of the year | – | 10,132 |
| Acquisition of interest in associated entity | – | 423 |
| Share of associate entity (loss)/profit | – | (117) |
| Impairment loss | – | (2,059) |
| Reclassification to controlled entity | – | (8,379) |
| Carrying amount at the end of the year | – | – |

From 7 December 2009, as a result of acquiring a controlling interest, the equity accounting method no longer applies and Dark Blue Sea forms part of the consolidated financial statements of the Consolidated Entity.

In accordance with Australian Accounting Standard AASB 3 *Business Combinations,* the Company re-measured its previously held equity interest in Dark Blue Sea at fair value on 7 December 2009 and recognised the resulting impairment loss of $2,058,698 in the income statement for the year ended 30 June 2010. The fair value of the equity interest was deemed at 35 cents per share, being the final price under the takeover offer.

### 14. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| **Deferred tax asset** | | |
| Tax losses carried forward | 4,061 | 37 |
| Employee benefits | 2,474 | 3,002 |
| Impairment of doubtful debts | 199 | 970 |
| Accruals and income in advance | 1,925 | 3,776 |
| Leased assets | 156 | 159 |
| Lease make good | 410 | 486 |
| Lease incentive | 159 | 280 |
| Deductible share issue costs | 3,978 | 2,241 |
| Plant and equipment | 695 | 633 |
| Identifiable intangibles | 702 | 528 |
| Hedge reserve on interest rate swaps | 260 | 885 |
| Fair value loss | 400 | – |
| Other | 339 | 467 |
| Gross deferred tax asset | 15,758 | 13,464 |
| Set-off of deferred tax asset | (13,808) | (9,427) |
| Net deferred tax asset | 1,950 | 4,037 |
| **Deferred tax liabilities** | | |
| Identifiable intangibles | 3,816 | 7,397 |
| Lease make good asset | 106 | 106 |
| Work in progress | 2,509 | 2,876 |
| Fair value gain | 7,226 | – |
| Fixed assets | 79 | – |
| Other | 72 | 213 |
| Gross deferred tax liability | 13,808 | 10,592 |
| Set-off of deferred tax liability | (13,808) | (9,427) |
| Net deferred tax liability | – | 1,165 |

Deferred tax assets/liabilities not taken into account

Deferred tax assets have not been recognised in respect of the following items because it is not probable that future taxable profit will be available against which the Consolidated Entity can utilise the benefits from:

| | 2011 | 2010 |
|---|---|---|
| Revenue losses | 9,480 | 8,765 |
| Capital losses | 29,584 | – |
| Gross tax losses carried forward | 39,064 | 8,765 |

### 15. Plant and equipment

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| **Computer equipment** | | |
| At cost | 12,720 | 21,355 |
| Accumulated depreciation | (9,124) | (15,556) |
| | 3,596 | 5,799 |
| **Office furniture and equipment** | | |
| At cost | 8,173 | 12,259 |
| Accumulated depreciation | (5,934) | (8,767) |
| | 2,239 | 3,492 |
| **Plant and equipment** | | |
| At cost | 6,936 | 7,255 |
| Accumulated depreciation | (5,328) | (4,908) |
| | 1,608 | 2,347 |
| **Leasehold improvements** | | |
| At cost | 8,901 | 9,443 |
| Accumulated depreciation | (5,562) | (5,854) |
| | 3,339 | 3,589 |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 15. Plant and equipment (continued)

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| **Plant and equipment under finance lease** | | |
| At cost | 5,639 | 7,481 |
| Accumulated amortisation | (4,222) | (4,706) |
| | 1,417 | 2,775 |
| Total plant and equipment, net written-down value | 12,199 | 18,002 |
| **Reconciliations** | | |
| *Reconciliations of the carrying amounts of each class of property, plant and equipment are set out below:* | | |
| **Computer equipment** | | |
| Carrying amount at the beginning of the year | 5,799 | 6,247 |
| Acquisitions through business combinations | – | 188 |
| Disposal of subsidiaries | (1,368) | – |
| Additions | 2,361 | 3,079 |
| Depreciation | (2,874) | (3,227) |
| Effect of movements in exchange rates | (305) | (266) |
| Disposals | (17) | (222) |
| Carrying amount at the end of the year | 3,596 | 5,799 |
| **Office furniture and equipment** | | |
| Carrying amount at the beginning of the year | 3,492 | 4,709 |
| Acquisitions through business combinations | – | 68 |
| Disposal of subsidiaries | (185) | – |
| Additions | 447 | 224 |
| Depreciation | (1,310) | (1,278) |
| Effect of movements in exchange rates | (96) | (204) |
| Disposals | (109) | (27) |
| Carrying amount at the end of the year | 2,239 | 3,492 |
| **Plant and equipment** | | |
| Carrying amount at the beginning of the year | 2,347 | 2,913 |
| Acquisitions through business combinations | – | – |
| Disposal of subsidiaries | (248) | – |
| Additions | 760 | 648 |
| Depreciation | (1,188) | (1,073) |
| Effect of movements in exchange rates | (12) | (25) |
| Disposals | (51) | (116) |
| Carrying amount at the end of the year | 1,608 | 2,347 |
| **Leasehold improvements** | | |
| Carrying amount at the beginning of the year | 3,589 | 3,490 |
| Acquisitions through business combinations | – | – |
| Disposal of subsidiaries | (93) | – |
| Additions | 1,396 | 1,455 |
| Amortisation | (1,358) | (1,276) |
| Effect of movements in exchange rates | (114) | (78) |
| Disposals | (81) | (2) |
| Carrying amount at the end of the year | 3,339 | 3,589 |
| **Leased plant and equipment** | | |
| Carrying amount at the beginning of the year | 2,775 | 3,332 |
| Additions | 316 | 557 |
| Disposal of subsidiaries | (152) | – |
| Amortisation | (1,468) | (1,088) |
| Effect of movements in exchange rates | – | (12) |
| Disposals | (54) | (14) |
| Carrying amount at the end of the year | 1,417 | 2,775 |

## 16. Intangible assets

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| **Goodwill** | | |
| At cost | 566,947 | 710,750 |
| Impairment | (120,165) | (75,294) |
| | 446,782 | 635,456 |
| **IT related intellectual property** | | |
| At cost | 12,200 | 18,611 |
| Accumulated amortisation | (3,284) | (7,378) |
| Impairment | (8,884) | (5,836) |
| | 32 | 5,397 |
| **Contracts and customer relationships** | | |
| At cost | 33,420 | 40,160 |
| Accumulated amortisation | (24,614) | (25,975) |
| Impairment | (739) | (46) |
| | 8,067 | 14,139 |
| **Brand names** | | |
| At cost | 751 | 751 |
| Accumulated amortisation | (713) | (588) |
| | 38 | 163 |
| **Internally generated intangible assets** | | |
| At cost | 7,398 | 20,908 |
| Accumulated amortisation | (3,451) | (7,817) |
| Impairment | (2,128) | (5,695) |
| | 1,819 | 7,396 |
| Total intangible assets, net carrying value | 456,738 | 662,551 |

**Reconciliations**

Reconciliations of the carrying amounts of intangibles are set out below:

| | 2011 | 2010 |
|---|---|---|
| **Goodwill** | | |
| Carrying amount at the beginning of the year | 635,456 | 547,202 |
| Acquisitions through business combinations | 301 | 19,017 |
| Disposal of subsidiaries | (72,692) | – |
| Adjustments through deferred consideration[(i)] | (540) | 169,302 |
| Impairment | (78,325) | (75,294) |
| Effect of movement in exchange rate | (37,418) | (24,771) |
| Carrying amount at the end of the year | 446,782 | 635,456 |
| **IT related intellectual property** | | |
| Carrying amount at the beginning of the year | 5,397 | 1,845 |
| Acquisitions through business combinations | – | 5,561 |
| Disposal of subsidiaries | (113) | – |
| Additions | – | 5,747 |
| Impairment | (4,458) | (5,836) |
| Amortisation | (699) | (1,844) |
| Effect of movement in exchange rate | (95) | (76) |
| Carrying amount at the end of the year | 32 | 5,397 |
| **Contracts and customer relationships** | | |
| Carrying amount at the beginning of the year | 14,139 | 21,095 |
| Acquisitions through business combinations | – | 1,502 |
| Disposal of subsidiaries | (160) | – |
| Impairment | (693) | (46) |
| Amortisation | (4,035) | (6,672) |
| Effect of movement in exchange rate | (1,184) | (1,740) |
| Carrying amount at the end of the year | 8,067 | 14,139 |

(i) Adjustments through deferred consideration are in relation to business combinations arising before1 July 2009 for which changes to the estimates of amounts payable in deferred consideration are adjusted against goodwill.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 16. Intangible assets (continued)

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Brand name | | |
| Carrying amount at the beginning of the year | 163 | 288 |
| Amortisation | (125) | (125) |
| | 38 | 163 |
| Internally generated intangible assets | | |
| Carrying amount at the beginning of the year | 7,396 | 10,351 |
| Acquisitions through business combinations | – | 2,632 |
| Disposal of subsidiaries | (2,049) | – |
| Additions | 1,496 | 4,876 |
| Impairment | (2,338) | (5,695) |
| Amortisation | (2,257) | (4,513) |
| Effect of movement in exchange rate | (429) | (255) |
| Carrying amount at the end of the year | 1,819 | 7,396 |

Amortisation charge

The amortisation charge of $7,116,000 (2010: $13,154,000) is recognised in the depreciation and amortisation expense in the income statement.

Impairment charge

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Impairment of intangibles | 70,286 | 86,871 |
| Impairment relating to assets disposed during year[(i)] | 17,195 | – |
| Impairment of equity accounted investee | – | 2,059 |
| Impairment charge | 87,481 | 88,930 |

(i) An amount of $1,667,000 of the above amount was in relation to tangible assets impaired on assets disposed of during the year.

***Impairment of intangible assets in the year ended 30 June 2011:***

*Search Marketing CGU group impaired:*

During the year ended 30 June 2011, the Search Marketing cash generating unit (CGU) group continued to experience declines in trading due to the same factors disclosed in the Annual Report for the financial year ended 30 June 2010 (see page 59 for further details). As a result of this, the Consolidated Entity reviewed the likely future capital requirements, the return on investment in the Search Marketing CGU and the volatility of the cash flows due to the changes in the market dynamics, and significantly discounted the expected cash flows from the CGU. The Consolidated Entity therefore recognised an impairment charge on all goodwill and intangible assets in the Search Marketing CGU. An impairment charge on intangible assets of $35,993,000 was recognised in the income statement relating to the Search Marketing CGU.

*Australian Agency CGU group impaired:*

During the year ended 30 June 2011, the Australian Agency CGU, which provides a range of integrated marketing and advertising services in Australia, lost a significant client contract. The Consolidated Entity reviewed the future cash flows of the Australian Agency CGU and adjusted for the estimated cash flow impact of this client contract. As the carrying value of the Australian Agency CGU is higher than its recoverable amount based on its value in use, the Consolidated Entity has recognised an impairment charge against the goodwill of the Australian Agency CGU in the income statement of $34,293,000.

The estimate of the value in use for the Australian Agency CGU group impairment testing was determined using:

- a post-tax discount rate of 9.64% (2010: 9.83%);
- growth rate of 3% for four years from the best estimate of the CGU group future cash flows (2010: 7.5%); and
- long-term growth rate of 3% into perpetuity (2010: 3%).

*Impairment relating to assets disposed during the year:*
During the year ended 30 June 2011, the Consolidated Entity disposed of the Sledge and Findology businesses. An impairment charge of $17,195,000 was recognised in the income statement to recognise these assets at their recoverable amount at the date of classification as held for sale. See Note 29 Disposal of subsidiaries for further details.

***Impairment of intangible assets in the year ended 30 June 2010:***

During the year ended 30 June 2010, the Search Marketing cash generating unit (CGU) group, which is a segment specialising in search marketing, experienced a significant decline in trading due to general weakness in the online global advertising spend market, a reliance on US online advertising spend, weakness in the domain name sales market, and exposure to a weaker US dollar. During the year, this CGU group also closed or divested the Geekversity, Future House, iMega and Crystal Storm businesses.

*Specific assets impaired:*
The Consolidated Entity closed various development projects within the Search Marketing CGU group including developed software and technology products and domain names which were assessed to have no individual recoverable amounts and therefore an impairment charge of $11,531,000 was recognised. Customer relationships recognised for the closed businesses were also impaired in the amount of $46,000.

*Specific goodwill impaired:*
The Consolidated Entity closed businesses identified above and therefore these businesses were excluded from the Search Marketing CGU group as they were no longer obtaining synergies from the CGU group. These businesses were assessed to have no recoverable amounts and therefore an impairment charge of $41,264,000 was recognised.

*Search Marketing CGU group impaired:*
The recoverable amount of the CGU group was estimated based on its value in use excluding the closed or divested businesses and reflecting the best estimate of future cash flows for that CGU group. An impairment charge of $34,030,000 was recognised relating to goodwill for the CGU group.

The estimate of the value in use for the Search Marketing CGU group impairment testing was determined using:

– a post-tax discount rate of 12.78% (2009: 9.23%);
– growth rate of 7.5% for four years from the best estimate of the CGU group future cash flows (2009: 7.5%); and
– long-term growth rate of 3% into perpetuity (2009: 3%).

### Impairment tests for cash generating unit (CGU) groups containing goodwill

Goodwill is tested for impairment on a division or business unit basis, reflecting the synergies obtained by the division or business unit. During the financial year ended 30 June 2010, the Consolidated Entity announced an organisational restructure. In doing so, the aggregation of assets for identifying CGU groups was adjusted to reflect the lowest level of management of the groups of assets and the synergies of the business groupings. The reorganisation has not significantly changed the allocation of goodwill to CGUs, but has resulted in previously separate CGUs being aggregated based on a management strategy to reduce the number of operating businesses and merging together similar businesses. The aggregation of assets in CGU groups continues to be determined using both a service offering and geographical approach. The CGU groups are consistent with the operating segments of the Consolidated Entity.

The recoverable amount of a CGU group is assessed using calculation methodologies based on value-in-use calculation. The recoverable amount methodologies and assumptions for all of the CGU groups other than the Search Marketing CGU have remained materially consistent with those applied as at 30 June 2010, as disclosed in the 30 June 2010 annual financial report.

**Goodwill CGU group allocation**

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| *The Consolidated Entity's carrying amount of goodwill for each of the CGU groups identified:* | | |
| International Agencies | 176,791 | 200,261 |
| Australian Agencies | 135,246 | 221,246 |
| Australian Communication | – | 26,129 |
| Field Marketing | 134,745 | 137,870 |
| Search Marketing | – | 49,950 |
| | 446,782 | 635,456 |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 16. Intangible assets (continued)

Key assumptions used in the value in use approach to test for impairment relate to the discount rate and the medium-term and long-term growth rates applied to projected cash flows.

*Projected cash flows*
The projected first year of cash flows are derived from results for the current financial year adjusted in some cases for expectations of future trading performance to reflect the best estimate of the CGU group's cash flows at the time of this report. Projected cash flows can differ from future actual results of operations and cash flows.

*Discount rates*
The discount rate is based on the Consolidated Entity's pre-tax weighted average cost of capital (WACC) adjusted if necessary to reflect the specific characteristics of each CGU group and to obtain a post-tax discount rate.

*Growth rates*
A growth rate of 3% (30 June 2010: 7.5%) has been applied to the cash flows of the first financial year to determine cash flows for the next four years. The five years of cash flows are discounted to present value. The reduction from 7.5% to 3% in the growth rate is a result of analysis of medium term historical trading performance and organic growth expectations and targets.

*Long-term growth rate into perpetuity*
Long-term growth rates of 3% (30 June 2010: 3%) are used into perpetuity, based on expected long-range growth rates for the industry.

| | | | 2011 inputs | | | 2010 inputs |
|---|---|---|---|---|---|---|
| | Post-tax discount rate % | Pre-tax discount rate % | Forecast growth rate % | Post-tax discount rate % | Pre-tax discount rate % | Forecast growth rate % |
| Impairment testing assumptions for CGU groups | | | | | | |
| International Agencies | 9.64 | 12.73 | 3 | 9.83 | 13.03 | 7.5 |
| Australian Agencies | 9.64 | 12.73 | 3 | 9.83 | 13.03 | 7.5 |
| Field Marketing | 9.64 | 12.73 | 3 | 9.83 | 13.03 | 7.5 |
| Search Marketing | 12.90 | 17.24 | 3 | 12.78 | 17.24 | 7.5 |

The higher discount rate applied to the cash flows of the Search Marketing CGU group reflects the risks and returns associated with that group of assets. The inputs disclosed for the Search Marketing CGU represent inputs as at December 2010, being the last impairment testing before all of the intangible assets in this CGU were impaired.

Sensitivity range assumptions for impairment testing assumptions
The following sensitivity ranges are attributable to each CGU group for impairment testing for which the impairment loss was calculated on the assumptions above:

| | 2011 Sensitivity range | | 2010 Sensitivity range | |
|---|---|---|---|---|
| | Post-tax discount rate % | Growth rate % | Post-tax discount rate % | Growth rate % |
| International Agencies | 8.29–10.99 | 0–10 | 8.48–11.18 | 5–10 |
| Australian Agencies | 8.29–10.99 | 0–10 | 8.48–11.18 | 5–10 |
| Field Marketing | 8.29–10.99 | 0–10 | 8.48–11.18 | 5–10 |

As all of the Search Marketing CGU's intangible assets have been impaired to nil during the current financial year, no impairment testing sensitivity range assumptions were required for this CGU as at 30 June 2011.

In the sensitivity ranges tested, the International Agencies CGU would be impaired applying a 0% growth rate and a post-tax discount rate of 9.64% or by increasing the post-tax discount rate to 9.95% and reducing the growth rate to 2.5%. The estimated recoverable amount of the International Agencies CGU exceeds its carrying amount by approximately $7,957,000 (30 June 2010: $124,894,000). The Field Marketing CGU is not impaired at any of the sensitivity ranges tested.

## 17. Trade and other payables

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Current liabilities | | |
| Trade payables | 16,297 | 27,094 |
| Other trade payables and accrued expenses | 26,511 | 32,580 |
| Unearned income | 15,164 | 16,424 |
| | 57,972 | 76,098 |
| Non-current liabilities | | |
| Other payables | 33 | 26 |
| | 33 | 26 |

The Consolidated Entity's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 24 Financial risk management/financial instruments.

## 18. Deferred consideration payables

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Current liabilities | | |
| Deferred consideration payable | 40,021 | 78,848 |
| | 40,021 | 78,848 |
| Non-current liabilities | | |
| Deferred consideration payable | 49,933 | 90,690 |
| | 49,933 | 90,690 |
| Total deferred consideration payable current and non-current | 89,954 | 169,538 |

Deferred consideration liabilities at year end reporting date are the present value of expected future payments.

During the year, the consolidated entity entered into agreements to restructure its deferred consideration liability such that substantially all of the deferred consideration liabilities have been capped. The consolidated entity has estimated the liability for future deferred consideration liabilities based on the probability of the achievement of forecast targets by the relevant subsidiaries and also the Consolidated Entity. There is uncertainty around the actual payments that will be made subject to the performance of the relevant subsidiaries and the Consolidated Entity after the reporting date versus the forecast targets. The aggregate nominal capped deferred consideration liability at 30 June 2011 is $120,859,000 of which $105,245,000 has been estimated as a future liability (which is equivalent to the present value of expected future payments of $89,954,000). Approximately 50% of the aggregate capped liability will only be made if the Consolidated Entity reaches certain financial performance and leverage ratio targets. Actual future payments may be below the capped amounts however they may exceed the estimated liability.

Of the estimated nominal current deferred consideration liability of $40,021,000, $11,810,000 will be satisfied by the issue of equity. Of the balance to be settled in cash, $10,500,000 is subject to agreements entered into subsequent to balance date to fix the payment in July 2012 (refer to Note 32 Subsequent events). This amount, along with remainder of the balance of the current liability to be settled in cash will be funded by drawing on unused capacity under the Consolidated Entities debt facilities. The Consolidated Entity's exposure to currency and liquidity risk in relation to deferred consideration liabilities is described in Note 24 Financial risk management/financial instruments.

Notes to the consolidated financial statements
for the year ended 30 June 2011

### 19. Loans and borrowings

This note provides information about the contractual terms of the Consolidated Entity's interest-bearing loans and borrowings. For more information about the Consolidated Entity's exposure to interest rate, liquidity risk and foreign currency risk, see Note 24 Financial risk management/financial instruments.

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| **Current liabilities** | | |
| Secured bank loans | – | 38,801 |
| Finance lease liabilities | 572 | 803 |
| Hire purchase lease liabilities | 994 | 1,560 |
| Loan notes payable | – | 3,892 |
| Derivative financial liability | 476 | 484 |
| | 2,042 | 45,540 |
| **Non-current liabilities** | | |
| Secured bank loans | 114,443 | 235,065 |
| Other non-current loans | 16 | 703 |
| Finance lease liabilities | 379 | 1,413 |
| Hire purchase lease liabilities | 691 | 1,843 |
| Derivative financial liability | 390 | 2,466 |
| | 115,919 | 241,490 |

Terms and debt repayment schedule

Terms and conditions of outstanding bank loans were as follows:

In thousands of AUD

| Currency | Date of maturity | Face value | 30 June 2011 carrying amount | Face value | 30 June 2010 carrying amount |
|---|---|---|---|---|---|
| AUD | 31 Mar 2011 | – | – | 22,973 | 22,973 |
| GBP | 31 Mar 2011 | – | – | 15,828 | 15,828 |
| USD | 31 Oct 2011 | – | – | 31,103 | 31,103 |
| GBP | 31 Oct 2011 | – | – | 17,604 | 17,604 |
| AUD | 31 Oct 2011 | – | – | 28,150 | 28,150 |
| AUD | 30 Apr 2012 | – | – | 38,000 | 38,000 |
| AUD | 31 Oct 2012 | – | – | 70,581 | 70,581 |
| GBP | 31 Oct 2012 | – | – | 49,627 | 49,627 |
| AUD | 30 Sep 2013 | 48,605 | 48,605 | – | – |
| GBP | 30 Sep 2013 | 47,736 | 47,736 | – | – |
| USD | 30 Sep 2013 | 21,236 | 21,236 | – | – |
| Total secured bank loans[(i)] | | 117,577 | 117,577 | 273,866 | 273,866 |

(i) Represents the gross secured bank loans payable. In the current reporting period, ancillary borrowing costs of $3,134,000 are applied against the gross balances resulting in a net secured bank loan payable of $114,443,000. The ancillary costs are unwound over the term of the facility.

Financing facilities

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| The Consolidated Entity has access to the following lines of credit: | | |
| *Total facilities available:* | | |
| Bank overdrafts | 3,303 | 4,284 |
| Cash advance facility | 150,000 | 280,000 |
| Interest rate swap facility | 11,400 | 11,400 |
| Lease finance facility | 6,460 | 6,874 |
| Indemnity guarantee facility | 5,322 | 3,500 |
| Earn out bank guarantee facility | 30,807 | – |
| ANZ Online facility | 7,000 | 7,000 |
| Credit card facility | 2,300 | 2,300 |
| Invoice discounting facility | – | 879 |
| | 216,592 | 316,237 |
| *Facilities used at reporting date:* | | |
| Bank overdrafts | – | – |
| Cash advance facility(i) | 117,577 | 274,284 |
| Interest rate swap facility | – | – |
| Lease finance facility | 2,639 | 5,071 |
| Indemnity guarantee facility | 3,491 | 3,460 |
| Earn out bank guarantee facility | 30,807 | – |
| ANZ Online facility | – | – |
| Credit card facility | 321 | 386 |
| Invoice discounting facility | – | – |
| | 154,835 | 283,201 |
| *Facilities not utilised at reporting date:* | | |
| Bank overdrafts | 3,303 | 4,284 |
| Cash advance facility | 32,423 | 5,716 |
| Interest rate swap facility | 11,400 | 11,400 |
| Lease finance facility | 3,821 | 1,802 |
| Indemnity guarantee facility | 1,831 | 40 |
| Earn out bank guarantee facility | – | – |
| ANZ Online facility | 7,000 | 7,000 |
| Credit card facility | 1,979 | 1,914 |
| Invoice discounting facility | – | 879 |
| | 61,757 | 33,035 |

(i) As at 30 June 2010, the fixed/variable rate cash advance facility used at reporting date includes a financial guarantee drawn against the facility in the amount of $417,622. In the current reporting period there is no financial guarantee drawn against the cash advance facility.

**19. Loans and borrowings (continued)**

Financing arrangements

All finance facilities, with the exception of a portion of the bank overdrafts, are negotiated by the Company on behalf of the Consolidated Entity. The carrying amount of amounts drawn down on facilities as at the reporting date equates to face value.

*Bank overdrafts*

The bank overdraft of Photon Group Limited is included in the security arrangements associated with the Fixed/Variable Rate Cash Advance Facility. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

The bank overdraft of Belgiovane Williams Mackay Pty Limited is secured by a debenture over the assets and undertakings of Belgiovane Williams Mackay Pty Limited. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

The bank overdraft of Naked Communications BV is secured by a debenture over the assets and undertakings of Naked Communications BV. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

The bank overdraft of Naked Communications Limited, Hyper Happen Limited and Lunch Communications Limited is secured by a debenture over the assets and undertakings of Naked Communications Limited, Hyper Happen Limited and Lunch Communications Limited. The bank overdraft is payable on demand and subject to annual review. Interest on the bank overdraft is charged at prevailing market rates.

*Cash Advance Facility*

Amounts drawn on the Cash Advance Facility are denominated in AUD, GBP and USD and bear interest, based on the following:

– $150,000,000 (2010: $280,000,000) general corporate finance facility: the bank bill swap reference rate – average bid for 90 days plus a fixed margin.

Some exposure to the bank bill swap rate is fixed through the use of interest rate swap arrangements (as detailed below).

The Cash Advance Facility is secured by:

– a first registered company charge (Mortgage Debenture) over all the assets and undertakings of Photon Group Limited and certain of its wholly owned subsidiaries;
– cross guarantee and indemnity between Photon Group Limited and certain of its wholly owned subsidiaries; and
– standard shares and securities mortgage over all shares held by Photon Group Limited and certain of its wholly owned subsidiaries in their controlled and associated entities.

*Interest rate swap facility*

The interest rate swap facility is in place to assist with hedging in interest rate exposures.

As at 30 June 2011 interest rate swap transactions swapping floating for fixed interest rates were in place under the following arrangements:

– fixed rate of 5.92% for a notional amount of GBP 10,000,000 for the period 25 July 2008 to 31 October 2011;
– fixed rate of 3.98% for a notional amount of USD 10,000,000 for the period 25 July 2008 to 31 October 2011;
– fixed rate of 1.40% for a notional amount of USD 12,500,000 for the period 24 December 2009 to 31 October 2011; and
– fixed rate of 2.72% for a notional amount of GBP 10,000,000 for the period 24 December 2009 to 31 October 2012.

As at 30 June 2010 interest rate swap transactions swapping floating for fixed interest rates were in place under the following arrangements:

– fixed rate of 5.93% for a notional amount of GBP 15,000,000 for the period 25 July 2008 to 31 October 2010;
– fixed rate of 5.92% for a notional amount of GBP 10,000,000 for the period 25 July 2008 to 31 October 2011;
– fixed rate of 3.98% for a notional amount of USD 10,000,000 for the period 25 July 2008 to 31 October 2011;
– fixed rate of 2.72% for a notional amount of GBP 10,000,000 for the period 24 December 2009 to 31 October 2012; and
– fixed rate of 1.40% for a notional amount of USD 12,500,000 for the period 24 December 2009 to 31 October 2011.

*Lease finance facility*

The lease finance facility is subject to annual review and is in place to assist with capital expenditure requirements.

*Indemnity guarantee facility*

The indemnity guarantee facility is in place to support financial guarantees outstanding at any one time. Specific guarantee amounts are $3,491,499 (2010: $3,459,765) supporting property rental and other obligations.

*Earn out bank guarantee facility*

The earn-out bank guarantee facility is in place to support financial guarantees of cash earn-out payments due to vendors as part of deferred consideration arrangements. Specific guarantee amounts are $30,807,000 (2010: Nil).

*ANZ Online facility*

The ANZ Online facility of $7,000,000 (2010: $7,000,000) is subject to annual review and is in place to assist with distribution of payroll and payments to creditors.

*Credit card facility*

The credit card facility is subject to annual review and is subject to application approval and the bank's standard terms and conditions.

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Finance lease and hire purchase payable commitments | | |
| *Finance lease commitments are payable:* | | |
| Within one year | 1,690 | 2,550 |
| One year or later and no later than five years | 1,163 | 3,600 |
| | 2,853 | 6,150 |
| Less: Future lease finance charges | (217) | (531) |
| | 2,636 | 5,619 |
| Finance lease and hire purchase liabilities provided for in the financial statements | | |
| Current | 1,566 | 2,363 |
| Non-current | 1,070 | 3,256 |
| Finance lease commitments are payable | 2,636 | 5,619 |

The Consolidated Entity leases plant and equipment under finance leases expiring from one to five years (2010: one to five years). At the end of the lease term, the Consolidated Entity has the option to purchase the equipment at a substantial discount to market value. The terms of the leases require that additional debt and further leases are not undertaken without prior approval of the lessor.

**20. Employee benefits**

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Aggregate liability for employee benefits, including on-costs | | |
| Current | | |
| Employee benefits provision | 7,361 | 8,681 |
| Non-current | | |
| Employee benefits provision | 1,269 | 1,666 |

| | | Consolidated |
|---|---|---|
| | 2011 | 2010 |
| *The present values of employee entitlements not expected to be settled within 12 months of reporting date have been calculated using the following weighted averages:* | | |
| Assumed rate increase in salary and wage rates (%) | 0–5 | 0–5 |
| Discount rate (%) | 5.22 | 5.42 |
| Settlement term (years) | 7–10 | 7–10 |

The Consolidated Entity has recognised $6,973,207 (2010: $9,063,196) as an expense in the income statement for defined contribution plans during the reporting period

# Notes to the consolidated financial statements
for the year ended 30 June 2011

**20. Employee benefits (continued)**
**Equity-based plans**
During the financial year, long term incentives (LTI) were provided as equity-based incentives in the Company under the terms of the subscription of ordinary shares in the Company funded by a limited recourse loan for the CEO (**CEO LTIP**) or the Share Appreciation Rights scheme (**SAR**).

Options over ordinary shares in the Company which were granted in prior financial years under the terms of the Executive Share Option Scheme (**ESOS**) remain outstanding, however given the exercise price of such options relative to the current price of ordinary shares in the Company, they are no longer considered to provide any meaningful LTI.

The performance conditions for option over ordinary shares in the Company issued under the Senior Executive Option Plan (**SEOP**) and the Executive Committee Option Scheme (**ECOS**) have not been met, therefore these options have not vested and do not provide any LTI.

**CEO Long-term Incentive Plan (CEO LTIP)**
In April 2010, the Company granted Jeremy Philips a limited recourse loan to subscribe for 9,000,000 ordinary shares in the Company. The ordinary shares were issued at $1.13, with the limited recourse loan being provided for the issue price. The ordinary shares issued under the CEO LTIP are subject to vesting and escrow conditions.

The fair value of the in-substance options is measured using the Binomial method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service conditions attached to the transactions are not taken into account in determining fair value.

In accordance with the terms of the CEO's service agreement, and in connection with the equity raising completed on 29 September 2010, Jeremy Philips subscribed for a further 64,946,415 shares funded by limited recourse loan provided by the Company. The additional ordinary shares under the CEO LTIP were issued at 10 cents, with the further limited recourse loan being provided for the issue price.

The CEO is not able to deal with any ordinary shares issued under the CEO LTIP until they vest as follows:

- 16,432,537 at 30 June 2012
- 24,648,805 at 30 June 2013
- 32,865,073 at 30 June 2014

Any dividends received from the ordinary shares will be offset against interest payable on the limited recourse loan. Repayment of the loan will be made on the earlier of the sale of the relevant shares or 12 months after vesting. The CEO may elect to forfeit the shares to which any loan repayment relates, in lieu of making a repayment which is due.

If the CEO resigns, the CEO LTIP continues to vest (subject to compliance with post-employment restrictions) during the contractual notice period and the period of the post-employment restrictions. If the CEO is terminated without cause, the CEO LTIP vests in accordance with the above vesting profile. The CEO forfeits the CEO LTIP if terminated for serious misconduct.

**Share Appreciation Rights (SAR)**
During the year, the Company introduced a Share Appreciation Rights plan, designed to incentivise the Company's Heads of Division, senior Executives and other senior management of the Consolidated Entity.

The fair value of the SAR is measured using the Black Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service conditions attached to the transactions are not taken into account in determining fair value.

The plan allows for the Board to determine who is entitled to participate in the SAR and may grant rights accordingly. Photon's Board may determine whether or not the grant of rights is conditional on the achievement of performance hurdles, and if so the nature of those hurdles.

The exercise of each right will entitle the rights holder to receive a fraction of an ordinary share based on a conversion formula of (A – B)/A, where A is the volume weighted average price (**VWAP**) for the Company's shares for the 20 business days prior to the vesting date of the rights and B is the VWAP for the Company's shares for the 20 business days before the rights were granted.

A total of 95,258,992 rights were issued following balance date on 18 August 2011 however the service period for these rights commenced on 31 May 2011, when the employees accepted invitations to be granted rights. The VWAP for the 20 days prior to the grant date (**B**) was 3.5 cents. The rights issued on 18 August 2011 vest as follows:

- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2012 – 2/9ths;
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2013 – 3/9ths; and
- 20 days after the release of the Consolidated Entity's financial report for year ended 30 June 2014 – 4/9ths.

Rights expire on the relevant vesting date or the termination of the individual's employment, if earlier.

**Executive Share Option Scheme (ESOS)**
The Company has an Executive Share Option Scheme (**ESOS**).

The plan allows for the Board to determine who is entitled to participate in the ESOS and to grant options accordingly. The exercise of an option will entitle the option holder to subscribe for one share.

The fair value options issued under the ESOS is measured using the Black Scholes formula or the Binomial model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

No options were granted under the ESOS during the financial year however as at 30 June 2011, 3,878,500 ESOS options over unissued shares remain outstanding. The ESOS outstanding have an average exercise price of $2.69 and therefore are not considered to provide any LTI.

**Senior Executive Option Plan (SEOP)**
In July 2007, the Company introduced a Senior Executive Option Plan (**SEOP**), designed to incentivise the Company's Executive Directors and other senior Executives.

The options were granted on 20 November 2007 or, if later, when the employee commenced employment, with an exercise price of $6.00. Each option granted had both a service condition and a market performance hurdle. Options only vest if both the performance vesting hurdle, requiring an 18% year-on-year increase in Photon Group's share price, and the service vesting condition are satisfied.

The fair value of options issued under the SEOP is measured using the Monte Carlo simulation method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The Monte Carlo simulation method requires the use of many individual simulations, each simulation entails the following steps:

- Simulate the share price of the Company, and the companies in the peer group, as at a performance test date. The share prices are simulated such that they are consistent with the assumed distribution of, and correlation between, share price outcomes.
- Determine whether any awards vest at the current test date, based on simulated share prices.
- For any vesting awards, calculate the value using the simulated share price. This valuation uses either an analytic or a Binomial tree methodology.
- Calculate the present value of the award as at the valuation date.

The results of many simulations are aggregated to determine the total fair value of the award.

As at 30 June 2011, no SEOP options had been issued as none of the performance vesting hurdles had been met and therefore remaining SEOP options outstanding expired on 1 July 2011.

**Executive Committee Option Scheme (ECOS)**
In October 2008, the Company introduced an Executive Committee Option Scheme (**ECOS**), designed to incentivise the Company's Executive Directors and other senior Executives.

Each option granted had both a service condition and a non-market performance hurdle (determined at the Board's discretion). Options are only issued if both performance hurdles and service conditions are satisfied.

The fair value of options issued under ECOS is measured using the Black Scholes formula of the Binomial model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historical volatility), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

As at 30 June 2011, the performance hurdles required for the ECOS to vest had not been satisfied and therefore no ECOS options had been issued.

Share options granted prior to November 2002 are not required to be recognised and measured in accordance with AASB 2 *Share-Based Payments*. Details of options over unissued ordinary shares held by Executives of the Consolidated Entity are set out in the Remuneration report.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 20. Employee benefits (continued)

*Employee Share Option Scheme (**ESOS**), Executive Committee Option Scheme (**ECOS**), Senior Executive Option Plan (**SEOP**), CEO Long-term Incentive Plan (**CEO LTIP**) and Share Appreciation Rights (**SAR**).*

### Summary of options over unissued ordinary shares

| Grant date | Expiry date | Weighted average exercise price | Number of options outstanding at beginning of year | Options granted during year | Options exercised during year | Options expired during year | Options forfeited during year | Number of options at year end | | Proceeds received | Date issued | Number of shares issued | Expected life (years) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Outstanding | Vested | | | | |
| 2011 | | | | | | | | | | | | | |
| 29 Jul 2005 | 29 Jul 2010 | $2.64 | 1,380,868 | – | – | 1,380,868 | – | – | – | – | – | – | 2–5 |
| 30 Aug 2006 | 30 Aug 2011 | $3.82 | 892,000 | – | – | – | 147,000 | 745,000 | 745,000 | – | – | – | 2–5 |
| 17 Oct 2006 | 30 Sep 2011– 30 Sep 2012 | $3.64 | 750,000 | – | – | – | – | 750,000 | 750,000 | – | – | – | 3.5–6.5 |
| 1 Jul 2007 | 1 Jul 2012 | $4.85 | 1,124,500 | – | – | – | 500,000 | 624,500 | 416,333 | – | – | – | 3.5–4.5 |
| 27 Aug 2007 | 26 Aug 2012 | $5.17 | 100,000 | – | – | – | – | 100,000 | 66,667 | – | – | – | 3.5–4.5 |
| 20 Nov 2007 | 20 Dec 2012 | $4.91 | 1,000,000 | – | – | – | 1,000,000 | – | – | – | – | – | 3–4 |
| 20 Nov 2007[(i)] | 31 Mar 2011– 31 Mar 2012 | $6.00 | 5,100,000 | – | – | 1,700,000 | 2,800,000 | 600,000 | – | – | – | – | 2.8–3.8 |
| 5 Feb 2008 | 28 Feb 2013 | $4.49 | 250,000 | – | – | – | 10,000 | 240,000 | 160,000 | – | – | – | 2–5 |
| 1 Apr 2008 | 31 Mar 2013 | $3.12 | 55,000 | – | – | – | – | 55,000 | 36,667 | – | – | – | 2.4–3.4 |
| 1 Apr 2008[(i)] | 31 Mar 2011– 31 Mar 2012 | $6.00 | 450,000 | – | – | 50,000 | – | 400,000 | – | – | – | – | 2.4–3.4 |
| 1 Oct 2008 | 30 Sep 2013 | $1.84 | 1,395,000 | – | – | – | 571,000 | 824,000 | 274,667 | – | – | – | 2–5 |
| 17 Nov 2008 | 16 Nov 2013 | $0.91 | 50,000 | – | – | – | 50,000 | – | – | – | – | – | 2–5 |
| 11 Feb 2009 | 31 Jan 2014 | $0.91 | 255,000 | – | – | – | 5,000 | 250,000 | 83,333 | – | – | – | 2–5 |
| 30 Jun 2009 | 30 Jun 2014 | $0.62 | 400,000 | – | – | – | 250,000 | 150,000 | 50,000 | – | – | – | 2–5 |
| 26 Oct 2009 | 26 Oct 2014 | $1.11 | 920,000 | – | – | – | 330,000 | 590,000 | – | – | – | – | 2–5 |
| 8 Dec 2009 | 8 Dec 2014 | $1.06 | 400,000 | – | – | – | 400,000 | – | – | – | – | – | 1–5 |
| 12 Feb 2010 | 12 Feb 2015 | $1.06 | 200,000 | – | – | – | – | 200,000 | – | – | – | – | 2–5 |
| 5 Mar 2010 | 5 Mar 2015 | $1.06 | 100,000 | – | – | – | – | 100,000 | – | – | – | – | 2–5 |
| 20 Apr 2010[(ii)] | 30 Jun 2015 | $1.13 | 9,000,000 | – | – | – | – | 9,000,000 | – | – | – | – | 2–5 |
| 17 Sep 2010[(iii)] | 30 Jun 2015 | $0.10 | 64,946,415 | – | – | – | – | 64,946,415 | – | – | – | – | 2–5 |
| 18 Aug 2011[(iv)] | 30 Sep 2014 | $0.035 | – | 95,258,992 | – | – | – | 95,258,992 | – | – | – | – | 1.1–3.1 |
| | | | 88,768,783 | 95,258,992 | – | 3,130,868 | 6,063,000 | 174,833,907 | 2,582,667 | – | | – | |

(i) SEOP options were granted but are not issued until vesting conditions are met.

(ii) Relates to subscription to ordinary shares through a CEO LTIP which are accounted for as in-substance options.

(iii) Relates to subscription to ordinary shares through a CEO LTIP which are accounted for as in-substance options. The grant date is 17 September 2010, being the date of shareholder approval at a general meeting.

(iv) Relates to SAR which were issued after the balance sheet date, however the service period for the grant commenced on 31 May 2011, being the date the employees accepted the invitation to be granted rights.

*Employee Share Option Scheme (**ESOS**), Executive Committee Option Scheme (**ECOS**) and Senior Executive Option Plan (**SEOP**).*

### Summary of options over unissued ordinary shares

| Grant date | Expiry date | Weighted average exercise price | Number of options outstanding at beginning of year | Options granted during year | Options exercised during year | Options expired during year | Options forfeited during year | Number of options at year end: Outstanding | Number of options at year end: Vested | Proceeds received | Date issued | Number of shares issued | Expected life (years) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | | | | | | | | | | | | | |
| 31 May 2005 | 31 May 2010 | $2.52 | 666,667 | – | – | 666,667 | – | – | – | – | – | – | 5 |
| 29 Jul 2005 | 29 Jul 2010 | $2.64 | 1,380,868 | – | – | – | – | 1,380,868 | 1,380,868 | – | – | – | 2–5 |
| 30 Aug 2006 | 30 Aug 2011 | $4.56 | 997,000 | – | – | – | 105,000 | 892,000 | 594,667 | – | – | – | 2–5 |
| 17 Oct 2006 | 30 Sep 2011– 30 Sep 2012 | $4.39 | 1,000,000 | – | – | – | 250,000 | 750,000 | 500,000 | – | – | – | 3.5–6.5 |
| 1 Jul 2007 | 1 Jul 2012 | $5.59 | 1,141,500 | – | – | – | 17,000 | 1,124,500 | 374,833 | – | – | – | 3.5–4.5 |
| 27 Aug 2007 | 26 Aug 2012 | $5.90 | 100,000 | – | – | – | – | 100,000 | 33,333 | – | – | – | 3.5–4.5 |
| 20 Nov 2007 | 20 Dec 2012 | $5.65 | 1,000,000 | – | – | – | – | 1,000,000 | – | – | – | – | 3–4 |
| 20 Nov 2007[(iv)] | 31 Mar 2011– 31 Mar 2012 | $6.00 | 6,522,950 | – | – | – | 1,422,950 | 5,100,000 | – | – | – | – | 2.8–3.8 |
| 5 Feb 2008 | 28 Feb 2013 | $5.23 | 250,000 | – | – | – | – | 250,000 | 83,333 | – | – | – | 2–5 |
| 1 Apr 2008 | 31 Mar 2013 | $3.86 | 55,000 | – | – | – | – | 55,000 | 18,333 | – | – | – | 2.4–3.4 |
| 1 Apr 2008[(iv)] | 31 Mar 2011– 31 Mar 2012 | $6.00 | 450,000 | – | – | – | – | 450,000 | – | – | – | – | 2.4–3.4 |
| 2 Jun 2008 | 31 May 2013 | $3.13 | 100,000 | – | – | – | 100,000 | – | – | – | – | – | 4–5 |
| 2 Jun 2008[(iv)] | 31 Mar 2011– 31 Mar 2012 | $6.00 | 400,000 | – | – | – | 400,000 | – | – | – | – | – | 2.2–3.2 |
| 1 Oct 2008 | 30 Sep 2013 | $2.58 | 1,650,000 | – | – | – | 255,000 | 1,395,000 | – | – | – | – | 2–5 |
| 28 Oct 2008 | 31 Aug 2012 | $2.24 | 800,000 | – | – | – | 800,000 | – | – | – | – | – | 1–4 |
| 17 Nov 2008 | 16 Nov 2013 | $1.65 | 50,000 | – | – | – | – | 50,000 | – | – | – | – | 2–5 |
| 11 Feb 2009 | 31 Jan 2014 | $1.65 | 255,000 | – | – | – | – | 255,000 | – | – | – | – | 2–5 |
| 30 Jun 2009 | 30 Jun 2014 | $1.36 | 400,000 | – | – | – | – | 400,000 | – | – | – | – | 2–5 |
| 30 Jun 2009 | 31 Aug 2013 | $1.36 | 1,180,000 | – | – | – | 1,180,000 | – | – | – | – | – | 1–4 |
| 22 Oct 2009[(i)] | 31 Aug 2013 | $1.51 | – | 800,000 | – | – | 800,000 | – | – | – | – | – | 1–4 |
| 26 Oct 2009 | 26 Oct 2014 | $1.85 | – | 940,000 | – | – | 20,000 | 920,000 | – | – | – | – | 2–5 |
| 8 Dec 2009 | 8 Dec 2014 | $1.80 | – | 400,000 | – | – | – | 400,000 | 400,000 | – | – | – | 1–5 |
| 12 Feb 2010 | 12 Feb 2015 | $1.80 | – | 200,000 | – | – | – | 200,000 | – | – | – | – | 2–5 |
| 5 Mar 2010 | 5 Mar 2015 | $1.80 | – | 100,000 | – | – | – | 100,000 | – | – | – | – | 2–5 |
| 20 Apr 2010[(ii)] | 30 Jun 2015 | $1.13 | – | 9,000,000 | – | – | – | 9,000,000 | – | – | – | – | 2–5 |
| 17 Sep 2010[(iii)] | 30 Jun 2015 | $0.10 | – | 64,946,415 | – | – | – | 64,946,415 | – | – | – | – | 2–5 |
| | | | 18,398,985 | 76,386,415 | – | 666,667 | 5,349,950 | 88,768,783 | 3,385,367 | – | | – | |

(i) ECOS options were granted during the year ended 30 June 2010, however were cancelled as vesting conditions were not met.

(ii) Relates to subscription to ordinary shares through a CEO LTIP which are accounted for as in-substance options.

(iii) Relates to subscription to ordinary shares through a CEO LTIP which are accounted for as in-substance options. The grant date is 17 September 2010, being the date of shareholder approval at a general meeting.

(iv) SEOP options were granted but are not issued until vesting conditions are met.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 20. Employee benefits (continued)

The number and weighted average exercise price of share options is as follows:

| | Weighted average exercise price 2011 $ | Number of options 2011 | Weighted average exercise price 2010 $ | Number of options 2010 |
|---|---|---|---|---|
| Outstanding at 1 July | 0.93 | 88,768,783 | 4.50 | 18,398,985 |
| Forfeited during the period | 4.42 | (6,063,000) | 3.37 | (5,349,950) |
| Expired during the period | 4.43 | (3,130,868) | 2.52 | (666,667) |
| Exercised during the period | – | – | – | – |
| Granted during the period | 0.035 | 95,258,992 | 0.27 | 76,386,415 |
| Outstanding at 30 June | 0.224 | 174,833,907 | 0.93 | 88,768,783 |
| Exercisable at 30 June | 3.63 | 2,582,667 | 3.67 | 3,385,367 |

- The options outstanding at 30 June 2011 have an exercise price in the range of $0.035 to $6.00 (30 June 2010: $0.10 to $6.00) and a weighted average contractual life of 3.10 years (30 June 2010: 4.54 years).
- There were no options exercised during the year (2010: Nil).
- The fair value of services received in return from share options granted is based on the fair value of share options granted, measured using:
  - the Black Scholes model: options under ESOS, ECOS and SAR;
  - the Binomial model: options under ESOS and ECOS and CEO LTIP; and
  - the Monte Carlo model: options under SEOP.

The fair value of share options and associated assumptions are disclosed in the Remuneration report within the Directors' Report. The total net income recognised in the Consolidated Entity for the financial year 30 June 2011 for share-based payment transactions was $769,781 (2010: Expense of $2,267,090).

### 2011 – Inputs for measurement of grant date fair value

The following factors and assumptions were used in determining the fair value of the options on the grant date:

| Grant date | Expiry date | Value per option $ | Exercise price $ | Price of shares on grant date $ | Expected volatility % | Risk-free interest rate % | Dividend yield % | Expected life (years) |
|---|---|---|---|---|---|---|---|---|
| 17 Sep 2010 (i) | 30 Jun 2015 | 0.03–0.04 | 0.10 | 0.10 | 40 | 4.72 | 0.0 | 2–5 |
| 18 Aug 2011 (ii) | 30 Sep 2014 | 0.014–0.021 | 0.035 | 0.042 | 60 | 3.50–3.60 | 0.0 | 1.1–3.1 |

(i) Grant is in relation to a CEO LTIP provided to CEO for the sole purposed of subscribing for 64,946,415 ordinary shares in the Company. Dividends paid by the Company will be applied against interest on the loan. The grant date is 17 September 2010, being the date of shareholder approval at a general meeting.

(ii) Share Appreciation Rights are calculated at the date of grant using either the Black Scholes model or Binomial option pricing model. The fair value is allocated to each reporting period on a straight-line basis over the period from the grant date (or service commencement date) to the vesting date. The rights were issued on 18 August 2011. However as the service commenced on 31 May 2011, being the date the employees accepted invitations to be granted rights, the amounts included above represent the fair value allocated between service commencement date and the balance sheet date. The valuation factors and assumptions are an estimate as the valuation has not been finalised as at the date of this report.

## 2010 – Inputs for measurement of grant date fair value

The following factors and assumptions were used in determining the fair value of the options on the grant date:

| Grant date | Expiry date | Value per option $ | Exercise price $ | Price of shares on grant date $ | Expected volatility % | Risk-free interest rate % | Dividend yield % | Expected life (years) |
|---|---|---|---|---|---|---|---|---|
| 22 Oct 2009[(ii)(iii)] | 31 Aug 2013 | 0.448 | 1.51 | 1.89 | 35 | 5.53 | 6.5 | 1–4 |
| 27 Oct 2009[(i)] | 27 Oct 2014 | 0.381–0.435 | 1.85 | 1.92 | 35 | 5.54 | 6.5 | 2–5 |
| 8 Dec 2009[(i)] | 8 Dec 2014 | 0.381 | 1.80 | 1.67 | 35 | 5.54 | 6.5 | 1–5 |
| 12 Feb 2010[(i)] | 12 Feb 2015 | 0.178–0.305 | 1.80 | 1.20 | 35 | 6.00 | 6.5 | 2–5 |
| 5 Mar 2010[(i)] | 5 Mar 2015 | 0.139–0.253 | 1.80 | 1.11 | 35 | 6.00 | 6.5 | 2–5 |
| 20 Apr 2010[(iv)] | 30 Jun 2015 | 0.27–0.31 | 1.13 | 1.17 | 40 | 5.42 | 6.0 | 2–5 |

(i) As set out in the Company's ESOS, the exercise price of options granted after 25 March 2004 is calculated with reference to the volume weighted average price (**VWAP**) of the Company's ordinary shares for 30 business days prior to the issue date.

(ii) As set out in the Company's ECOS, the exercise price of options is calculated with reference to either the VWAP of the Company's ordinary shares for the previous financial year's AGM or the VWAP for 30 business days prior to the issue date.

(iii) Options granted under ECOS have not been issued as at 30 June 2010, and are not issued until certain performance hurdles are met.

(iv) Relates to subscription for ordinary shares through a limited recourse loan which are accounted for as in-substance options. The exercise price is calculated with reference to the 30 business day VWAP prior to the grant date.

## 21. Key management personnel and other related party disclosures

In addition to Executive and Non-Executive Directors, the following were key management personnel of the Consolidated Entity at any time during the reporting period.

| Name | Position |
|---|---|
| Jeremy Philips | Chief Executive Officer |
| Clare Battellino | Chief Financial Officer |
| Nigel Long | Head of International Agencies Division |
| Matthew Melhuish | Head of Australian Agencies Division |
| Craig Hart | Head of Field Marketing Division |
| Jon Wilkins | Head of Strategy & Development |
| Stewart Bailey[(i)] | Managing Director, Field Marketing Division |
| Adam Kilgour[(i)] | Managing Director Specialised Communications Division |

(i) Adam Kilgour and Stewart Bailey ceased to be employees and key management personnel on 30 July 2010 and 6 December 2010 respectively.

### Loans with key management personnel

No loans were outstanding at the reporting date to key management personnel and their related parties except for the limited recourse loan granted to Jeremy Philips, as described in section 2(c) of the Remuneration report.

### Other transactions with the Company or its controlled entities

A number of the key management personnel, or their related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

There were no transactions with the Company or its subsidiaries and key management personnel in the current reporting period. Where a transaction has existed in prior reporting periods, the terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis. Details of the transactions are as follows:

| Key management personnel | Transaction | Note | 2011 revenue/(expense) $'000 | 2010 revenue/(expense) $'000 |
|---|---|---|---|---|
| M Bailey | Rental of subsidiary premises | (i) | – | (237) |

(i) The Bailey Superannuation Fund provided rental property services to The Bailey Group Pty Limited (a subsidiary of the Company). Matthew Bailey resigned as a Director of the Company on 24 May 2010 and therefore had no transactions in the current reporting period.

### Director related party transactions

In the prior reporting period, project management, production services and public relations services were provided to RG Capital Pty Limited by Australian Business Theatre Pty Limited and Marching Ants Pty Limited in the amount of $179,000. S McIntosh is a Director or RG Capital Pty Limited and RG Capital Pty Limited and its related entities are a substantial shareholder in the Company and therefore have significant influence over the Company. There were no transactions in the current reporting period.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 21. Key management personnel and other related party disclosures (continued)

The key management personnel compensation (including all Directors) is as follows:

| In AUD | 2011 | 2010 |
|---|---|---|
| Short-term employee benefits | 6,602,027 | 4,929,951 |
| Other long-term benefits | 170,323 | 227,435 |
| Post-employee benefits | 263,667 | 300,757 |
| Termination benefits | 1,046,701 | 2,015,000 |
| Share-based payments – CEO LTIP | 1,506,466 | 152,710 |
| Share-based payments – Share Appreciation Rights | 22,810 | – |
| Share-based payments – Options granted under ESOS | 77,595 | 1,056,444 |
| Share-based payments – Options granted under ECOS | – | 16,310 |
| Share-based payments – Options granted under SEOP | 97,464 | 1,400,867 |
| Total share-based payments | 1,704,335 | 2,626,331 |
| Total key management personnel compensation | 9,787,053 | 10,099,474 |

The compensation received by Nigel Long, Matthew Melhuish, Craig Hart, Jon Wilkins, Stewart Bailey and Adam Kilgour was for services rendered in relation to the management of the Consolidated Entity on behalf of the Company.

The prior year comparative totals include key management personnel in 2010 who were not key management personnel in 2011 and have therefore not been disclosed in the Remuneration report while being included in the total above in accordance with AASB 124 *Related Party Disclosures*.

### Options and rights over equity instruments granted as remuneration

The movement during the reporting period in the number of options over ordinary shares in Photon Group Limited held, directly, indirectly or beneficially, by each key management personnel, including their related entities, is as follows:

| | Granted held at 1 July 2010 | Granted as remuneration in year | Cancelled | Expired | Granted held at 30 June 2011 | Vested during the year | Vested and exercisable at 30 June 2011 |
|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | |
| Tim Hughes(i) | 5,900,000 | – | (3,900,000) | (2,000,000) | – | – | – |
| **Executives** | | | | | | | |
| Jeremy Philips | 9,000,000 | 64,946,415 | – | – | 73,946,415 | – | – |
| Clare Battellino(v) | 1,330,000 | 6,000,000 | (180,000) | (200,000) | 6,950,000 | 183,333 | 216,667 |
| Nigel Long | 880,000 | 6,000,000 | (180,000) | (50,000) | 6,650,000 | 83,333 | 133,333 |
| Matthew Melhuish | – | 6,000,000 | – | – | 6,000,000 | – | – |
| Craig Hart | – | 6,000,000 | – | – | 6,000,000 | – | – |
| Jon Wilkins | 330,000 | 6,000,000 | (180,000) | – | 6,150,000 | 50,000 | 50,000 |
| Stewart Bailey(ii) | 1,380,000 | – | (1,160,000) | (220,000) | – | – | – |
| Adam Kilgour(ii) | 1,383,334 | – | (1,180,000) | (203,334) | – | – | – |

| | Granted held at 1 July 2009 | Granted as remuneration in year | Cancelled | Expired | Granted held at 30 June 2010 | Vested during the year | Vested and exercisable at 30 June 2010 |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Tim Hughes(i) | 5,500,000 | 400,000 | – | – | 5,900,000 | – | 1,000,000 |
| Matthew Bailey(iii)(iv) | 2,200,000 | 400,000 | (1,850,000) | – | 750,000 | 250,000 | 500,000 |
| **Executives** | | | | | | | |
| Jeremy Philips | – | 9,000,000 | – | – | 9,000,000 | – | – |
| Stewart Bailey(iii) | 1,180,000 | 200,000 | – | – | 1,380,000 | 266,667 | 306,667 |
| Adam Kilgour | 1,183,334 | 200,000 | – | – | 1,383,334 | 268,333 | 303,333 |
| Nigel Long | 880,000 | – | – | – | 880,000 | – | – |
| Jon Wilkins(v) | 330,000 | – | – | – | 330,000 | – | – |

Refer to page 73 for footnote details.

(i) Tim Hughes resigned as a Director on 11 August 2010.

(ii) Adam Kilgour and Stewart Bailey ceased to be employees and key management personnel on 30 July 2010 and 6 December 2010 respectively.

(iii) Matthew Bailey and Stewart Bailey are related parties.

(iv) Matthew Bailey resigned as a Director of the Company on 24 May 2010. The above balance represents the options granted and exercisable at time of resignation.

(v) Opening balances represent options granted prior to becoming key management personnel.

(vi) Options over ordinary shares for this analysis include the CEO LTIP and SAR even though they do not provide options over ordinary shares. They are included because the CEO LTIP and SAR are accounted for as in-substance options.

(vii) No options exercised during the year.

No options held by key management personnel are vested but not exercisable at 30 June 2011.

No options were held by key management personnel related parties.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Photon Group Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2010 | Purchases | Issued as remuneration | Received on exercise of option | Sales | Held at 30 June 2011 |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| Tim Hughes[iii] | 7,005,355 | – | – | – | – | 7,005,355 |
| Brian Bickmore | 162,685 | 569,399 | – | – | – | 732,084 |
| Susan McIntosh | 488,890 | 1,711,116 | – | – | – | 2,200,006 |
| Roger Amos | – | 136,000 | – | – | – | 136,000 |
| Paul Gregory[vii] | 200,000 | – | – | – | – | 200,000 |
| Max Johnston | – | – | – | – | – | – |
| Executives | | | | | | |
| Jeremy Philips[viii] | – | 3,500,000 | – | – | – | 3,500,000 |
| Clare Battellino | – | – | – | – | – | – |
| Matthew Melhuish[iv] | 13,270,363 | – | – | – | – | 13,270,363 |
| Nigel Long | – | – | – | – | – | – |
| Craig Hart | – | – | – | – | – | – |
| Jon Wilkins | – | – | – | – | – | – |
| Adam Kilgour[v] | 1,891,455 | – | – | – | – | 1,891,455 |
| Stewart Bailey[i][vi] | 7,832,131 | 1,126,947 | 63,449 | – | (7,893,595) | 1,128,932 |

| | Held at 1 July 2009 | Purchases | Issued as remuneration | Received on exercise of option | Sales | Held at 30 June 2010 |
|---|---|---|---|---|---|---|
| Directors | | | | | | |
| Tim Hughes | 4,565,216 | 2,440,139 | – | – | – | 7,005,355 |
| Matthew Bailey[i][ii] | 11,907,269 | 5,953,634 | 8,237 | – | (10,037,009) | 7,832,131 |
| Susan McIntosh | 325,926 | 162,964 | – | – | – | 488,890 |
| Brian Bickmore | 227,901 | 24,117 | – | – | (89,333) | 162,685 |
| Paul Gregory | 160,000 | 40,000 | – | – | – | 200,000 |
| Executives | | | | | | |
| Adam Kilgour | 1,771,455 | 120,000 | – | – | – | 1,891,455 |
| Stewart Bailey[i] | 11,907,269 | 5,953,634 | 8,237 | – | (10,037,009) | 7,832,131 |
| Mark Dalgleish | 127,155 | – | – | – | (127,155) | – |

(i) Matthew Bailey's and Stewart Bailey's shareholdings are inclusive of their related party shareholdings.

(ii) Matthew Bailey resigned as a Director on 24 May 2010. The above balance represents shares held at the time of resignation.

(iii) Tim Hughes resigned as a Director on 11 August 2010. The above balance represents shares held at the time of resignation.

(iv) Matthew Melhuish became key management personnel on 1 October 2010. The above balance represents shares held at that time.

(v) Adam Kilgour ceased to be employed on 30 July 2010. The above balance represents shares held at that time.

(vi) Stewart Bailey ceased to be employed on 6 December 2010. The above balance represents shares held at that time.

(vii) Paul Gregory resigned as a Director on 23 November 2010. The above balance represents shares held at that time.

(viii) Jeremy Philips holds 73,946,415 shares issued to the CEO under a limited recourse loan. These are treated as in-substance options and are not included in this table.

Notes to the consolidated financial statements
for the year ended 30 June 2011

**22. Provisions**

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Current | | |
| Lease make good | 655 | 771 |
| Lease incentive | 803 | 756 |
| Rent straight-line | 172 | 122 |
| Restructure provision | 1,234 | 6,227 |
| | 2,864 | 7,876 |
| Non-current | | |
| Lease make good | 1,190 | 1,471 |
| Lease incentive | 65 | 456 |
| Rent straight-line | 248 | 789 |
| Restructure provision | 348 | – |
| | 1,851 | 2,716 |
| Total provisions current and non-current | 4,715 | 10,592 |
| Reconciliations | | |
| Reconciliations of the carrying amounts of each class of provision, except for employee benefits, are set out below: | | |
| *Lease make good* | | |
| Carrying amount at beginning of year | 2,242 | 2,311 |
| Increase due to new provision | 522 | 189 |
| Increase through business combination | – | 60 |
| Disposal of subsidiaries | (141) | – |
| Effect of movement in exchange rates | (93) | (113) |
| Released during the year | (685) | (205) |
| Carrying amount at end of year | 1,845 | 2,242 |
| *Lease incentive* | | |
| Carrying amount at beginning of year | 1,212 | 1,739 |
| Increase due to new incentive | 290 | 280 |
| Effect of movement in exchange rates | (11) | (41) |
| Used during the year | (623) | (766) |
| Carrying amount at end of year | 868 | 1,212 |
| *Rent straight-line* | | |
| Carrying amount at beginning of year | 911 | 1,379 |
| Net rental benefit recognised in period | (493) | (471) |
| Increase due to new provision | 2 | 3 |
| Carrying amount at end of year | 420 | 911 |
| *Restructure provision* | | |
| Carrying amount at beginning of year | 6,227 | – |
| Increase due to new provision | – | 6,227 |
| Provision used during the year | (4,645) | – |
| Carrying amount at end of year | 1,582 | 6,227 |
| Total provisions current and non-current | 4,715 | 10,592 |

## 23. Capital and reserves

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| **Share capital** | | |
| 1,540,886,866 (2010: 187,440,645) ordinary shares, fully paid | 477,284 | 369,268 |

The Company does not have authorised capital or par value in respect of its shares.
All issued shares are fully paid.

### Ordinary shares

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings.

| Ordinary shares | | |
|---|---|---|
| *Movements during the year* | | |
| Balance at beginning of year 187,440,645 (2010: 102,840,415) shares | 369,268 | 255,500 |
| *2011 shares issued:* | | |
| – 400,000,000 shares issued pursuant to placement for $0.10 per share | 40,000 | – |
| – 624,542,233 shares issued pursuant to the rights issue for $0.10 per share | 62,454 | – |
| – 124,352,969 shares issued pursuant to acquisition of subsidiaries for $0.10 per share[(i)] | 12,436 | – |
| – 824,240 shares issued pursuant to equity settled employee bonuses | 75 | – |
| – 64,946,415 ordinary shares issued in connection with CEO LTIP | – | – |
| *2010 shares issued:* | | |
| – 14,439,268 shares issued pursuant to placement for $1.85 per share | – | 26,713 |
| – 58,639,842 shares issued pursuant to the rights issue for $1.50 per share | – | 87,960 |
| – 2,471,608 shares issued pursuant to acquisition of Found for $1.51 per share | – | 3,732 |
| – 49,512 shares issued pursuant to equity settled employee bonuses | – | 76 |
| – 9,000,000 ordinary shares issued in connection with CEO LTIP | – | – |
| *Share issue costs:* | | |
| Share issue costs | (9,927) | (5,728) |
| Tax effect of share issue costs | 2,978 | 1,015 |
| Balance at end of year | 477,284 | 369,268 |

(i) A total of 263,133,333 shares were issued to deferred consideration beneficiaries pursuant to the deferred consideration element of the recapitalisation completed in September 2010. A total of 124,352,969 issued under such agreements are free of escrow conditions as individual earn out periods have been completed. These shares have been recognised as share capital. The remaining 138,780,364 shares remain in escrow and are not recognised as share capital until they are released from escrow.

### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

### Options reserve

The options reserve comprises the cumulative expense relating to the fair value of options on issue to key management personnel and employees.

### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

| Dividends | Cents per share | Total amount $'000 | Date of payment | Franked/unfranked |
|---|---|---|---|---|
| **2011** | | | | |
| No dividend was declared during the year ended on 30 June 2011 or after the balance sheet date but before the date of this report. | | | | |
| **2010** | | | | |
| Final 2009 – ordinary shares | 6.5c | 7,622 | 11 September 2009 | Franked |
| Interim 2010 – ordinary shares | 3.0c | 5,354 | 30 March 2010 | Franked |
| | | 12,976 | | |

Franked dividends declared or paid during year ended 30 June 2010 were franked at the tax rate of 30%.

Notes to the consolidated financial statements
for the year ended 30 June 2011

### 23. Capital and reserves (continued)

| Dividend franking account<br>In thousands of AUD | Company<br>2011 | 2010 |
|---|---|---|
| 30% franking credits available to shareholders of Photon Group Limited for subsequent financial years | 26,942 | 27,644 |

The above amounts represent the balance of the franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liability;
- franking debits that will arise from the payment of dividends recognised as a liability at year end;
- franking credits that will arise from the receipt of dividends recognised as receivables at year end; and
- franking credits that may be prevented from being distributed in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends and any restrictions to paying dividends.

There is no impact on the dividend franking account as no dividends have been proposed after the reporting date.

### 24. Financial risk management/financial instruments

The Consolidated Entity has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Consolidated Entity's principal financial instruments comprise cash, receivables, payables, interest bearing liabilities, other financial liabilities and derivative financial instruments.

The Consolidated Entity exposure to key financial risks is managed as part of the Consolidated Entity's risk management policy. The policy covers the key financial risks, such as interest rate, foreign exchange, counterparty credit and liquidity.

The Consolidated Entity's risk management policies seek to identify and analyse the risks faced by the Consolidated Entity, and to set appropriate risk limits and controls to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Entity's activities.

The Consolidated Entity uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates, foreign exchange, liquidity and credit risk. The Consolidated Entity enters into derivative financial instruments, principally interest rate swaps and forward rate agreements, to manage interest rate and foreign currency risks. The Consolidated Entity seeks to deal only with creditworthy counterparties and these assessments are regularly reviewed. Liquidity risk is monitored through the use of rolling cash flow forecasts.

The Consolidated Entity considers that there are no changes to the objectives, policies and process to managing risk and the exposure to risks from the prior reporting period.

#### Credit risk

*Exposure to credit risk*

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from a Consolidated Entity's receivables from customers. Each subsidiary is responsible for its analysis of the creditworthiness of new customers and for determining whether the subsidiary's standard payment terms and conditions are offered. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

During the year ended 30 June 2011, the Consolidated Entity entered into transactions with more than 1,500 unique customers. The 10 largest customers accounted for 23.5% of net revenue for the year ended 30 June 2011, with no one customer accounting for more than 5.6% of net revenue. There are no material credit exposures relating to single or groups of receivables.

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit exposure to credit risk at the reporting date was:

| In thousands of AUD | Note | Carrying amount<br>2011 | 2010 |
|---|---|---|---|
| Trade and other receivables | 9 | 72,520 | 93,471 |
| Cash and cash equivalents | 8 | 18,564 | 22,762 |
| Deposits | 10 | 515 | 587 |
| Deposits – interest bearing | 11 | 50 | 565 |
| | | 91,649 | 117,385 |

The Consolidated Entity's maximum exposure to trade receivables credit risk at the reporting date was:

| In thousands of AUD | Note | Carrying amount<br>2011 | 2010 |
|---|---|---|---|
| Trade and other receivables | 9 | 71,089 | 89,358 |

The Consolidated Entity's credit risk exposure is consistent across the geographic and business segments in which the Consolidated Entity operates.

### Impairment losses

The ageing of the Consolidated Entity's trade receivables at the reporting date was:

| In thousands of AUD | Gross 2011 | Impairment 2011 | Gross 2010 | Impairment 2010 |
|---|---|---|---|---|
| Not past due | 54,082 | – | 65,884 | – |
| Past due and less than 90 days | 13,423 | – | 19,237 | – |
| Past due and more than 90 days | 3,584 | – | 4,237 | – |
| Past due, more than 90 days and impaired | 838 | 838 | 3,257 | 3,257 |
| | 71,927 | 838 | 92,615 | 3,257 |

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Balance at 1 July | 3,257 | 1,213 |
| Impairment loss recognised in income statement | 701 | 6,945 |
| Included in net assets of divested entities | (1,529) | – |
| Provision used during year | (1,591) | (4,901) |
| Balance at 30 June | 838 | 3,257 |

Based on historic trading terms, the Consolidated Entity believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 90 days, which represents 93.9% (2010: 91.9%) of the trade receivables balance. For trade receivables which are past due and over 90 days, the Consolidated Entity individually assesses each trade receivable and determines its recoverability. For those trade receivables which are assessed as non-recoverable, an impairment allowance is made, which represents 1.1% (2010: 3.5%) of the total trade receivables balance.

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Consolidated Entity is satisfied that no recovery of the amount owing is possible; at that point, the amount is considered irrecoverable and is written off against the financial asset directly.

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Consolidated Entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return on risk.

The Consolidated Entity enters into derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Consolidated Entity's treasury risk management policy.

### Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they become due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Consolidated Entity manages liquidity risk by monitoring forecast operating cash flows, committed un-utilised borrowing facilities, and re-estimating the value of deferred consideration liabilities semi-annually.

During the year, the Consolidated Entity completed a capital raising of $102,454,223 through a placement and rights issue and sold subsidiaries to Salmat Group Limited for a total consideration of $75,300,000. The capital raising and sale proceeds were used to pay down debt and meet deferred consideration liabilities throughout the financial year ended 30 June 2011.

At 30 June 2011, the Consolidated Entity had $32,423,000 (2010: $5,716,000) of committed unutilised borrowing capacity under its $150,000,000 cash advance facilities (2010: $280,000,000). The Consolidated Entity also has $3,302,755 (2010: $4,284,000) of overdraft facilities available to it which were undrawn at 30 June 2011.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Notes to the consolidated financial statements
for the year ended 30 June 2011

### 24. Financial risk management/financial instruments (continued)

| 30 June 2011<br>In thousands of AUD | Carrying amount | Contractual cash flows | Less than 1 year | 1–5 years | Over 5 years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Finance lease/hire purchase liabilities | 2,636 | 2,853 | 1,690 | 1,163 | – |
| Secured bank loans | 114,443 | 130,948 | 5,961 | 124,987 | – |
| Trade and other payables (excluding unearned revenue) | 42,841 | 42,841 | 42,808 | 33 | – |
| Deferred consideration | 89,954 | 105,245 | 40,823 | 64,422 | – |
| Other loans payable | 16 | 16 | – | 16 | – |
| Derivative financial instruments | | | | | |
| Interest rate swaps used for hedging | 866 | 866 | 476 | 390 | – |
| | 250,756 | 282,769 | 91,758 | 191,011 | – |

| 30 June 2010<br>In thousands of AUD | Carrying amount | Contractual cash flows | Less than 1 year | 1–5 years | Over 5 years |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Finance lease/hire purchase liabilities | 5,619 | 6,150 | 2,550 | 3,600 | – |
| Secured bank loans | 273,866 | 303,624 | 54,619 | 249,005 | – |
| Trade and other payables (excluding unearned revenue) | 59,700 | 59,700 | 59,674 | 26 | – |
| Deferred consideration | 169,538 | 183,769 | 81,156 | 102,613 | – |
| Loan notes payable | 3,892 | 3,892 | 3,892 | – | |
| Other loans payable | 703 | 703 | – | 703 | – |
| Derivative financial instruments | | | | | |
| Interest rate swaps used for hedging | 2,950 | 2,950 | 484 | 2,466 | – |
| | 516,268 | 560,788 | 202,375 | 358,413 | – |

The periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and expected to impact the profit or loss are consistent with the contractual maturities disclosed in the above table.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

*Liquidity risk in relation to deferred consideration liabilities*
There are critical accounting estimates and judgments in relation to deferred consideration liabilities as noted in Note 1(u)(iv). The estimates and judgments impact the amount of deferred consideration payable such that the final amount payable under acquisition agreements can be different from the estimated contractual cash flow amounts payable at the year end reporting date. During the year, the Consolidated Entity restructured its future deferred consideration liabilities.

The significance of the restructure of deferred consideration to liquidity risk of the Consolidated Entity is that:

- the total amount payable for substantially all deferred consideration liabilities was capped at a comparable amount to the estimated liability at 30 June 2010;
- the payments of deferred consideration cannot be made earlier than the contractual payment dates in the original acquisition agreements;
- there is a reduction in the total cash element of deferred consideration payables through satisfying elements of deferred consideration through the issue of Photon Group Limited shares; and
- approximately 50% of the aggregate capped payments are subject to the Consolidated Entity meeting certain hurdles in relation to financial performance and leverage ratio levels, ensuring sufficient liquidity before deferred consideration payments are made.

The Consolidated Entity has estimated the liability for future deferred consideration liabilities based on the achievement of the forecast targets by the relevant subsidiaries and also the Consolidated Entity. There is uncertainty around the actual payments that will be made in respect of the performance of the relevant subsidiaries and the Consolidated Entity forecast versus the targets. The aggregate gross capped deferred consideration liability at 30 June 2011 is $120,858,000 of which $105,245,000 has been estimated as a future liability (which equates to a present value of expected future payments of $89,954,000).

Approximately 50% of the aggregate capped liability will only be made if the Consolidated Entity reaches certain financial performance and leverage ratio targets. Actual future payments may be below the capped amounts however, they may exceed the estimated liability.

There are no other significant uncertainties in the timing or amount of contractual liabilities.

## Interest rate risk

Interest rate risk refers to the risk that the fair value of the future cash flows of financial instruments will fluctuate because of changes in market interest rates.

The Consolidated Entity has no significant interest-bearing assets. The Consolidated Entity's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Consolidated Entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the Consolidated Entity to fair value interest rate risk. The Consolidated Entity's policy is to ensure that between 25% and 50% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. This is achieved by entering into interest rate swaps.

Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the interest rate swaps, the Consolidated Entity agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to Note 19 for details on the interest rate swap facility.

The impact of a change in interest rates by –/+ 1% from the year end rates applicable to the loans and borrowings is set out in the cash flow sensitivity analysis for variable rate instruments.

## Profile

At the reporting date, the interest rate profile of the Company's and the Consolidated Entity's interest-bearing financial instruments with interest rate risk was:

| | Carrying amount | |
|---|---|---|
| In thousands of AUD | 2011 | 2010 |
| Variable rate instruments | | |
| Secured bank loans | 114,443 | 273,866 |
| Cash and cash equivalents | 18,262 | 22,607 |
| Deposits | 302 | 155 |

## Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

| | Profit or loss | | Equity | |
|---|---|---|---|---|
| Effect in thousands of AUD | +100bp | -100bp | +100bp | -100bp |
| 30 June 2011 | | | | |
| Variable rate instruments | (1,179) | 1,179 | – | – |
| Interest rate swap | 274 | (274) | (351) | (1,381) |
| Cash flow sensitivity (net) | (905) | 905 | (351) | (1,381) |
| 30 June 2010 | | | | |
| Variable rate instruments | (2,642) | 2,642 | – | – |
| Interest rate swap | 702 | (702) | (2,248) | (3,652) |
| Cash flow sensitivity (net) | (1,940) | 1,940 | (2,248) | (3,652) |

## Fair values

*Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

| Consolidated | 30 June 2011 | | 30 June 2010 | |
|---|---|---|---|---|
| In thousands of AUD | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash and cash equivalents | 18,262 | 18,262 | 22,607 | 22,607 |
| Bank short-term deposits | 302 | 302 | 155 | 155 |
| Trade receivables | 71,089 | 71,089 | 89,358 | 89,358 |
| Derivative financial liabilities | (866) | (866) | (2,950) | (2,950) |
| Interest-bearing deposits | 50 | 50 | 565 | 565 |
| Trade and other payables | (42,841) | (42,841) | (59,700) | (59,700) |
| Secured bank loan | (114,443) | (114,443) | (273,866) | (273,866) |
| Finance lease liabilities | (951) | (951) | (2,216) | (2,216) |
| Hire purchase lease liabilities | (1,685) | (1,685) | (3,403) | (3,403) |
| Loan notes payable | – | – | (3,892) | (3,892) |
| Other loans payable | (16) | (16) | (703) | (703) |
| | (71,099) | (71,099) | (234,045) | (234,045) |

The basis for determining the fair value is disclosed in Note 1(t).

# Notes to the consolidated financial statements
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## 24. Financial risk management/financial instruments (continued)

### Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method.

The different levels have been defined as follows:

- **Level 1**: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2**: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- **Level 3**: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| In thousands of AUD | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| 30 June 2011 | | | | |
| Derivative financial liabilities | – | (866) | – | (866) |
| | – | (866) | – | (866) |
| 30 June 2010 | | | | |
| Derivative financial liabilities | – | (2,950) | – | (2,950) |
| | – | (2,950) | – | (2,950) |

### Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The source and nature of this risk arise from operations and translation risks.

The Consolidated Entity generated approximately 29% of its net revenue in FY2011 from outside Australia. The Consolidated Entity's reporting currency is Australian dollars, however the international operations give rise to an exposure to changes in foreign exchange rates, as the majority of its revenues from outside Australia are denominated in currencies other than Australian dollars, most significantly pounds sterling and US dollars. In addition, the Consolidated Entity has a significant portion of its long-term borrowings and deferred consideration liabilities denominated in pounds sterling and US dollars. Therefore, changes in exchange rates impact the Consolidated Entity's financial indebtedness, quantum of deferred consideration liabilities, and earnings as reported in Australian dollars.

The Consolidated Entity partially hedges the exposure to foreign currency assets on the balance sheet through obtaining borrowings in foreign currencies to minimise the exposure for the Consolidated Entity. Interest on these borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the consolidated entities, primarily US dollars and pounds sterling. This provides an economic hedge. The Consolidated Entity will from time to time enter into forward rate agreements to hedge its net investment in foreign operations. Such forward rate agreements have the economic effect of fixing the Australian dollar value of foreign operations.

The Consolidated Entity has minimal exposure to profit and loss translation risk as the majority of transactions denominated in foreign currency are transacted by entities within the group with the same functional currency of the relevant transaction.

### Capital management

The Consolidated Entity's key sources of capital are available committed facilities under the Cash Advance Facility and share capital. The Board seeks to maintain a balance between higher returns that might be possible with higher levels of gearing and the advantages afforded by a prudent capital position.

Under the terms of its Cash Advance Facility, the Consolidated Entity is required to maintain certain maximum capitalisation (book), maximum leverage and minimum interest cover ratios. At 30 June 2011, the Consolidated Entity is in compliance with these requirements.

The Consolidated Entity is subject to restrictions on the payment of future dividends such that no dividends can be paid until after 30 September 2012, and then, paid only if certain leverage and deferred consideration payments have been met.

## 25. Commitments

Operating leases

*Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

| In thousands of AUD | 2011 | 2010 |
|---|---|---|
| Less than one year | 12,996 | 13,948 |
| Between one and five years | 13,786 | 20,525 |
| More than five years | – | 891 |
| | 26,782 | 35,364 |

The Consolidated Entity leases property under non-cancellable operating leases generally expiring in two to ten years. Leases generally provide the Consolidated Entity with a right of renewal, at which time terms are renegotiated. Some lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals typically are based on movements in the consumer price index.

Generally operating leases are subject to standard two to five year renewal terms, with no purchase option or escalation clauses included.

During the year ended 30 June 2011, $13,239,836 was recognised as an expense in the income statement in respect of operating leases (2010: $16,578,015).

## 26. Contingencies

Contingent liabilities

*Indemnities*

Indemnities have been provided to Directors and certain Executive Officers of the Company in respect to third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit has been applied to these agreements and there are no known obligations outstanding at 30 June 2011.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 27. Controlled entities
Particulars in relation to controlled entities:

| Name | Consolidated Entity interest 2011 % | 2010 % |
|---|---|---|
| **Parent entity** | | |
| Photon Group Limited | | |
| **Controlled entities** | | |
| AdPartners Group Pty Limited | 100 | 100 |
| – AdPartners Media Pty Limited | 100 | 100 |
| SC Division Pty Ltd | 100 | 100 |
| – Australian Business Theatre Pty Limited | 100 | 100 |
| – Australian Business Theatre (Hong Kong) Limited(ii) | 100 | 100 |
| – ABT Creative Consulting Co Limited(xiv) | 100 | 100 |
| Brass Tacks Pty Limited | 100 | 100 |
| – Kaleidoscope Marketing Communications Pty Limited | 100 | 100 |
| CPR Communications and Public Relations Pty Limited | 100 | 100 |
| – Capital Policy and Trade Pty Limited | 100 | 100 |
| C4 Live Pty Limited | – | 100 |
| The Precinct Group Pty Limited | 100 | 100 |
| – Vox Holdings Pty Limited | 100 | 100 |
| – Ross Barr & Associates Pty Ltd | 100 | 100 |
| ImageBox Group Pty Limited | 51 | 51 |
| Love Pty Limited | 100 | 100 |
| IDEAssociates Pty Limited | 100 | 100 |
| Returnity Pty Limited | – | 100 |
| The Bailey Group NZ Ltd(i) | 100 | 100 |
| Photon Group NZ Ltd(i) | 100 | 100 |
| Barimos Pty Limited | 100 | 100 |
| – The Bailey Group Pty Limited | 100 | 100 |
| – Powerforce Total Merchandising Pty Limited | 100 | 100 |
| – Retail*Facts Pty Limited | 100 | 100 |
| – REL Field Marketing Australia Pty Limited | 100 | 100 |
| The Leading Edge Market Research Consultants Pty Limited | 100 | 100 |
| – The Leading Edge Market Research Consultants Limited(iii) | 100 | 100 |
| – Photon Group Singapore Pte Limited(vi) | 100 | 100 |
| ONAT Holdings Pty Limited | 100 | 100 |
| – Orchard National Pty Limited | 100 | 100 |
| – Brand Impact Pty Limited | 100 | 100 |
| – Retail Insight Australia Pty Limited | 100 | 100 |
| Be Interactive Holdings Pty Limited | – | 100 |
| – MessageNet Pty Limited | – | 100 |
| – Be Retail Pty Ltd | – | 100 |
| – Blue Sky Frog Pty Limited | – | 100 |
| – Legion Interactive (NZ) Limited(i) | – | 100 |
| – Be Interactive Pty Ltd | – | 100 |
| Media Zoo Pty Limited | 99.1 | 99.1 |
| Hotwire Australia Pty Limited | 100 | 100 |
| Counterpoint Marketing & Sales Pty Limited | 100 | 100 |
| Belong Pty Limited | 100 | 100 |
| – SEE Life Differently Holdings Pty Limited | 100 | 100 |
| – SEE Life Differently Pty Limited | 100 | 100 |
| Creo Limited(i) | 100 | 100 |
| Demonstration Plus Pty Limited | 100 | 100 |
| – 4Exposure Pty Limited | 100 | 100 |

| Name | Consolidated Entity interest 2011 % | 2010 % |
|---|---|---|
| Demonstration Plus(NZ) Pty Limited(i) | 100 | 100 |
| iMega Pty Ltd | 100 | 100 |
| — USA Online Pty Limited | 100 | 100 |
| — iMarketing Pty Limited | 100 | 100 |
| — Web Agency Pty Limited | 100 | 100 |
| — Freegroove Pty Limited | 100 | 100 |
| — Zearch Pty Limited | 100 | 100 |
| — ICM Division Pty Ltd | 100 | 100 |
| Ausrep Pty Ltd | 100 | 100 |
| Jigsaw Strategic Research Pty Limited | 100 | 100 |
| Belgiovane Williams Mackay Pty Ltd(xvii) | 100 | 100 |
| — Paterson Partners Adcafe Pty Limited | 100 | 100 |
| — Cox Inall Communications Pty Limited | 100 | 100 |
| — Pixel Dust Pty Limited | 100 | 100 |
| — I-Group BWM Pty Limited | 100 | 100 |
| DVL Smith Group Pty Ltd | 100 | 100 |
| — DVL Smith Group Limited(iii) | 100 | 100 |
| — DVL Smith Consulting Limited(v) | 100 | 100 |
| — DVL Smith Training Limited(v) | 100 | 100 |
| C4 Communications Pty Limited | – | 100 |
| City Public Relations Pty Limited | 100 | 100 |
| The Artel Group Pty Limited | 100 | 100 |
| — SI Division Pty Ltd | 100 | 100 |
| — FM Division Pty Ltd | 100 | 100 |
| — ICD Division Pty Ltd | 100 | 100 |
| Found Agency Pty Limited | 100 | 100 |
| — Yield Media Pty Limited | 100 | 100 |
| Wardell R C Advertising Pty Ltd | 100 | 100 |
| Eastern Media Marketing Pty Ltd | 100 | 100 |
| Element Media Marketing Pty Ltd | 100 | 100 |
| Bellamy Hayden Pty Limited | 100 | 100 |
| — Bellamy Hayden SE Asia Pty Limited | 100 | 100 |
| Auspoll Pty Limited | 100 | 100 |
| Domain Active Holdco Pty Limited | 100 | 100 |
| — Domain Active Pty Limited | 100 | 100 |
| Club Food Brokerage Pty Limited | 100 | 100 |
| Club Sales & Merchandising Pty Limited | 100 | 100 |
| Future House Pty Limited | 100 | 100 |
| — Geeksville Pty Limited | 100 | 100 |
| Crystal Storm Pty Limited | 51 | 51 |
| Marching Ants Pty Limited | 100 | 100 |
| ISS Marketing Pty Limited | 100 | 100 |
| — ISS Marketing NZ Limited(i) | 100 | 100 |
| BMF Holdco Pty Limited | 100 | 100 |
| BMF Advertising Pty Limited | 100 | 100 |
| The Population Pty Limited | – | 100 |
| Frank PR Australia Pty Limited | 100 | 100 |
| Photon (Hong Kong) Limited(ii) | 100 | 100 |
| Naked Communications Australia Pty Limited | 100 | 100 |
| — Naked Breakfast Pty Limited | 100 | 100 |
| — Naked NZ Limited(i) | 100 | 100 |
| Dark Blue Sea Pty Limited | 100 | 100 |
| — Dark Blue Sea Enterprises Pty Limited | 100 | 100 |
| – Fabulous Parking Pty Limited | 100 | 100 |
| – DarkBlue.com Pty Limited | 100 | 100 |
| – DBS Administration Pty Limited | 100 | 100 |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

**27. Controlled entities (continued)**

| Name | Consolidated Entity interest 2011 % | 2010 % |
|---|---|---|
| – Fabulous.com Pty Limited | 100 | 100 |
| – Pageseeker.com Pty Limited | 100 | 100 |
| – Protopixel Pty Limited | 100 | 100 |
| – Roar.com Pty Limited | 100 | 100 |
| – Fabulous.com.au Pty Limited | 100 | 100 |
| – Yexa.com Pty Limited | 100 | 100 |
| – Whois Privacy Services Pty Limited | 100 | 100 |
| – Drop.com.au Pty Limited | 100 | 100 |
| – Yexa.com.au Pty Limited | 100 | 100 |
| – Domain Active Europe Limited(iii) | 100 | 100 |
| Resource Experience Limited(iii) | 100 | 100 |
| – RELSC Franco Limited(iii) | 51 | 51 |
| – REL Sales Consulting Limited(iii) | 100 | 100 |
| Lorica Group Limited(iii) | 100 | 100 |
| – Corporate Edge Group Limited(iii) | 100 | 100 |
| – Likemind Limited(iii) | 100 | 100 |
| – CLK MPL Limited(v) | 100 | 100 |
| – Lorica Group Trustees Limited(v) | 100 | 100 |
| North By Northwest Group Limited(iii) | 100 | 100 |
| Hotwire Public Relations GmbH(vii) | 100 | 100 |
| – Hotwire Public Relations SARL(viii) | 100 | 100 |
| – Hotwire Public Relations SL(ix) | 100 | 100 |
| – Hotwire Public Relations SRL(x) | 100 | 100 |
| – Hotwire Public Relations Limited(iii) | 100 | 100 |
| – Skywrite Communications Limited(iii) | 100 | 100 |
| – 33 Digital Limited(iii) | 100 | 100 |
| Naked Communications Limited(iii) | 100 | 100 |
| – Naked Ventures Limited(iii) | 100 | 100 |
| – Hyper Happen Limited(iii) | 100 | 100 |
| – Lunch Communications Limited(iii) | 100 | 100 |
| – Ne Kid SAS(viii) | 100 | 100 |
| – Naked Communications BV(xi) | 100 | 100 |
| – Naked Communications AS(xii) | 100 | 100 |
| – Naked Communications Sweden AB(xv) | 100 | 65 |
| – Naked Communications ApS(xvi) | 92.5 | 92.5 |
| – Naked Communications Holdings Inc(iv) | 100 | 100 |
| – Naked New York LLC(iv) | 100 | 100 |
| – Naked Communications Inc(xiii) | 100 | 100 |
| Photon Group UK Holdings Pty Limited | 100 | 100 |
| Photon Group UK Limited(iii) | 100 | 100 |
| Sledge Limited(iii) | – | 100 |
| Frank PR Limited(iii) | 100 | 100 |
| The Bailey Group UK Limited(iii) | 100 | 100 |
| Retail Insight Limited(iii) | 100 | 100 |
| Photon Group (US) Pty Limited | 100 | 100 |
| Photon Group (US) Inc(iv) | 100 | 100 |
| OB Media LLC(iv) | 51 | 51 |
| The Leading Edge Research & Strategy Consultants LLC(iv) | 100 | 100 |
| Hotwire Public Relations Group LLC(iv) | 100 | – |
| Findology Interactive Media Inc(iv) | – | 100 |

(i) Companies incorporated and carrying on a business in New Zealand.

(ii) Companies incorporated and carrying on a business in Hong Kong.

(iii) Companies incorporated and carrying on a business in the United Kingdom.

(iv) Companies incorporated and carrying on a business in the United States of America.

(v) Companies incorporated in the United Kingdom and dormant.

(vi) Photon Group Singapore Pte Limited was incorporated and carries on a business in Singapore.

(vii) Hotwire Public Relations GmbH was incorporated and carries on a business in Germany.

(viii) Companies incorporated and carrying on a business in France.

(ix) Hotwire Public Relations SL was incorporated and carries on a business in Spain.

(x) Hotwire Public Relations SRL was incorporated and carries on a business in Italy.

(xi) Naked Communications BV was incorporated and carries on a business in the Netherlands.

(xii) Naked Communications AS was incorporated and carries on a business in Norway.

(xiii) Naked Communications Inc. was incorporated and carries on a business in Japan.

(xiv) ABT Creative Consulting Co Limited was incorporated and carries on a business in China.

(xv) Naked Communications Sweden AB was incorporated and carries on a business in Sweden.

(xvi) Naked Communications ApS was incorporated and carries on a business in Denmark.

(xvii) Although only 51% of the issued capital was acquired by the Company, the option tied to the remaining 49% non-controlling interest requires 100% of the earnings and statement of financial position to be included in the Consolidated Entity's statement of financial position and income statement.

## 28. Acquisitions of subsidiaries and non-controlling interests

The Consolidated Entity has adopted revised AASB 3 *Business Combinations* (2008) and amended AASB 127 *Consolidated and Separate Financial Statements* (2008) for business combinations occurring in the financial year commencing 1 July 2009.

There were no acquisitions during the year ended 30 June 2011.

In the prior period, the following entities were acquired:

On 7 December 2009, the Company acquired a controlling interest in Dark Blue Sea Limited, as a result of acceptances under the takeover offer which commenced on 1 October 2009. After gaining acceptances in excess of 90% of the share capital, the Company compulsorily acquired the remaining share capital in Dark Blue Sea Limited and therefore owns 100% of the share capital post the compulsory acquisition period. Prior to the takeover bid, the Company had a 29.79% interest in Dark Blue Sea Limited. The purchase price for the remaining 70.21% interest in Dark Blue Sea acquired during the year ended 30 June 2010 was $19,826,000.

From 7 December 2009, as a result of acquiring a controlling interest, the equity accounting method no longer applies and Dark Blue Sea forms part of the consolidated financial statements of the Consolidated Entity.

The purchase price for the other acquisition during the period, which is not individually significant, is contingent upon future earnings of the business acquired.

### Effect of acquisitions for the year ended 30 June 2010

The acquisitions had the following effect on the Consolidated Entity's assets and liabilities.

### Acquiree's identifiable assets and liabilities assumed at the acquisition date

| In thousands of AUD | Recognised values | Fair value adjustments | Carrying amounts |
|---|---|---|---|
| Plant and equipment | 256 | – | 256 |
| Intangible assets | 2,632 | 6,580 | 9,212 |
| Trade and other receivables | 1,173 | – | 1,173 |
| Cash and cash equivalents | 2,978 | – | 2,978 |
| Deferred tax asset | 195 | – | 195 |
| Other assets | 1,702 | – | 1,702 |
| Trade and other payables | (1,942) | – | (1,942) |
| Deferred tax liability | – | (306) | (306) |
| Provisions | (577) | – | (577) |
| Tax asset | 11 | – | 11 |
| Other liabilities | (1,706) | – | (1,706) |
| | 4,722 | 6,274 | 10,996 |

| Consideration transferred | |
|---|---|
| Cash | 19,826 |
| Transfer from equity accounted investee | 8,379 |
| Contingent consideration | 1,460 |
| | 29,665 |

| Goodwill | |
|---|---|
| Total consideration transferred | 29,665 |
| Incidentals on prior acquisitions | 348 |
| Less fair value on identifiable net assets | (10,996) |
| | 19,017 |

Notes to the consolidated financial statements
for the year ended 30 June 2011

**28. Acquisitions of subsidiaries and non-controlling interests (continued)**
The above acquisitions cumulatively contributed $3,067,629 of net revenues to the total net revenue and $3,373,884 of net losses to the total loss after tax and of the Consolidated Entity for the year ended 30 June 2010.

The full year net revenue effect, if the above acquisitions had been acquired on 1 July 2009, would have been to increase net revenue by $4,511,132.

The full year net loss after tax effect, if the above acquisitions were acquired on 1 July 2009, would have been to reduce the loss after tax by $468,356.

Goodwill has arisen on the acquisition of entities during the year as some intangibles, such as key management and technical employee relationships, and certain customer relationships did not meet the criteria for recognition as an intangible asset at the date of acquisition. Considering the characteristics of marketing and communication services companies, acquisitions do not usually have significant amounts of tangible assets, as the principal asset typically acquired is creative talent and know-how of people. As a result, a substantial proportion of the purchase price is allocated to goodwill. Assets and liabilities of the acquired entities have been included in the financial statements based on fair values.

Fair value adjustments represent identifiable intangible assets, net of deferred tax liabilities, acquired in connection with the business combination.

*Contingent/deferred consideration:*
Contingent/deferred consideration is based on the achievement of specific targets of both the subsidiary acquired and the Consolidated Entity. The fair value of the deferred consideration at acquisition was calculated by estimating future earnings and estimating whether such targets will be achieved.

Any changes to the contingent/deferred consideration during the year are recognised in the income statement as a fair value adjustment to deferred consideration.

The consolidated entity has estimated the liability for future deferred consideration liabilities based on the achievement of the forecast targets by the relevant subsidiaries and also the Consolidated Entity. There is uncertainty around the actual payments that will be made in respect of the performance of the relevant subsidiaries and the Consolidated Entity subsequent to the reporting date versus the forecast targets. Approximately 50% of the aggregate capped liability will only be made if the Consolidated Entity reaches certain financial performance and leverage ratio targets. Actual future payments may be below the capped amounts however they may exceed the estimated liability.

## 29. Disposal of subsidiaries

On 22 December 2010, the Consolidated Entity entered into a sale agreement to dispose of the businesses Be Interactive, C4 Communications, Returnity and Messagenet for a consideration of $75,300,000 plus a deferred consideration arrangement that expired on 30 June 2011. On 22 December 2010, the Consolidated Entity's control over these businesses passed to the acquirer. The proceeds from the disposal of these businesses was received on 12 January 2011. The Consolidated Entity recognised a loss on sale of $4,272,238 in the income statement for the year ended 30 June 2011.

On 22 December 2010 the Consolidated Entity also resolved to dispose of the Sledge and Findology businesses for nominal consideration. The transactions were considered to be arm's length. During the year, an impairment charge of $17,195,280 was recognised in the income statement in relation to these assets. The sales were completed on 13 January 2011 and 14 January 2011 respectively and at such time the Consolidated Entity recognised a further loss on sale of $2,530,342 primarily in relation to the respective amounts held in the foreign currency translation reserve at the date of sale.

An income tax benefit of $3,379,623 was recognised in the income statement in relation to the above disposals of subsidiaries.

### Assets and liabilities and cash flow of disposed entities

The major classes of assets and liabilities of the disposed group are as follows:

| In thousands of AUD | Carrying amounts |
|---|---|
| **Assets** | |
| Cash and cash equivalents | 2,068 |
| Trade and other receivables | 6,563 |
| Other assets | 924 |
| Plant and equipment | 2,046 |
| Intangible assets | 75,014 |
| Deferred tax assets | 906 |
| **Total assets disposed** | **87,521** |
| | |
| Trade and other payables | 4,885 |
| Interest bearing loans and borrowings | 657 |
| Provisions | 141 |
| Employee benefits | 571 |
| Deferred tax liabilities | 1,199 |
| **Total liabilities disposed** | 7,453 |
| Net assets attributable to disposed entities | 80,068 |

### Loss on disposal

| In thousands of AUD | |
|---|---|
| Consideration received or receivable | 75,723 |
| Less net assets disposed of | (80,068) |
| Less foreign currency translation reserve recognised in income statement | (2,458) |
| Loss on disposal before income tax | (6,803) |
| Income tax benefit | 3,380 |
| Loss on disposal after income tax | (3,423) |

### Net cash inflow on disposal

| In thousands of AUD | |
|---|---|
| Total consideration | 75,723 |
| Less cash and cash equivalents balance disposed of | (2,068) |
| Less settlement of liability with subsidiary on disposal | (484) |
| Reflected in the consolidated statement of cash flows | 73,171 |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 30. Reconciliation of cash flows from operating activities

| In thousands of AUD | Note | 2011 | 2010 |
|---|---|---|---|
| (i) Reconciliation of cash | | | |
| For the purpose of the statements of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows: | | | |
| Cash assets | 8 | 18,564 | 22,762 |
| (ii) Reconciliation of loss after income tax to net cash provided by operating activities | | | |
| Loss after income tax | | (59,738) | (88,107) |
| Profit on sale of non-current assets | | (314) | (337) |
| Share-based payments expense/(benefit) | | (770) | 2,267 |
| Add/(less) non-cash items: | | | |
| Depreciation and amortisation | | 8,180 | 7,942 |
| Release of lease incentive/rent straight-line | | (836) | (995) |
| Lease make good amortization | | 504 | 331 |
| Release of lease make good provision | | (685) | (205) |
| Equity settled bonus | | 75 | 76 |
| Share of (profits)/losses of associated entities | | – | 117 |
| Present value interest charges on deferred consideration of acquisitions | | 9,106 | 5,480 |
| Amortisation of identifiable intangibles | | 7,116 | 13,154 |
| Loss on disposal of subsidiaries | | 6,803 | – |
| Impairment loss | | 87,481 | 88,930 |
| Fair value (gain)/loss on deferred consideration liability | | (29,739) | 52 |
| Increase/(decrease) in income taxes payable | | 1,813 | (13,208) |
| (Increase)/decrease in deferred tax assets and liabilities | | 3,568 | (3,961) |
| Net cash provided by operating activities before change in assets and liabilities | | 32,564 | 11,536 |
| Changes in assets and liabilities adjusted for the effects of purchase and disposal of controlled entities during the financial year: | | | |
| (Increase)/decrease in receivables | | 12,526 | 18,297 |
| (Increase)/decrease in work in progress | | (1,004) | 6,470 |
| (Increase)/decrease in prepayments | | 740 | 625 |
| (Increase)/decrease in other assets | | 1,064 | 2,205 |
| Increase/(decrease) in payables | | (12,695) | (11,757) |
| Increase/(decrease) in unearned revenue | | (1,260) | 2,296 |
| Increase/(decrease) in provisions | | (5,790) | 6,060 |
| Net cash from operating activities | | 26,145 | 35,732 |

## 31. Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2011, the parent Company of the Consolidated Entity was Photon Group Limited.

| | The Company | |
|---|---|---|
| In thousands of AUD | 2011 | 2010 |
| **Result of the parent entity** | | |
| Loss for the period | (76,293) | (5,752) |
| Other comprehensive income | 1,459 | 6 |
| Total comprehensive income for the period | (74,834) | (5,746) |
| **Financial position of the parent entity at year end** | | |
| Current assets | 17,982 | 18,770 |
| Total assets | 523,017 | 647,098 |
| Current liabilities | 30,962 | 79,075 |
| Total liabilities | 116,115 | 273,490 |
| Total equity of the parent entity comprising of: | | |
| Share capital | 477,284 | 369,268 |
| Option reserve | 11,039 | 11,809 |
| Hedging reserve | (606) | (2,950) |
| Retained earnings | (80,815) | (4,519) |
| Total equity | 406,902 | 373,608 |

### Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee, and the subsidiaries subject to the deed, are disclosed in Note 33 Deed of Cross Guarantee.

### Contingent liabilities

*Indemnities*

Indemnities have been provided to Directors and certain Executive Officers of the Company in respect to third parties arising from their positions, except where the liability arises out of conduct involving lack of good faith. No monetary limit applied to these agreements and there are no known obligations outstanding at 30 June 2011.

## 32. Subsequent events

Since the balance date, the Company has entered into agreements with the vendors of Belgiovane, Williams and Mackay Pty Limited (BWM) regarding the terms of the put option they hold over 49% of the shares in BWM. The put option could be exercised at the election of the vendors at the end of FY2011 or FY2012 and was subject to amendment as part of the restructure of deferred consideration payments in September 2010, with payments for the 49% of shares capped and to be paid in accordance with the overall terms of the deferred consideration restructure. Subject to the further agreements entered into in August 2011, the put option will now be exercised in July 2012. Following that, the BWM vendors will retain an equity stake in the business subject to certain conditions.

The Consolidated Entity is in the process of finalising agreements regarding the sale of certain operating assets based in the UK. Completion of the sale is expected to be finalised shortly after these financial statements are authorised.

The financial effects of the above transactions have not been brought to account in the financial statements for the year ended 30 June 2011.

Other than the matters discussed above, there has not arisen, in the interval between the end of the financial year 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 years.

## 33. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of financial statements, and a Directors' Report.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The Leading Edge Market Research Consultants Pty Limited, The Bailey Group Pty Ltd, Barimos Pty Ltd, BMF Holdco Pty Limited and Belong Pty Limited became party to the Deed on 25 June 2008. Counterpoint Marketing and Sales Pty Ltd and Demonstration Plus Pty Limited became party to the Deed on 29 June 2010.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 33. Deed of Cross Guarantee (continued)

A consolidated income statement and consolidated statement of financial position, comprising the Company and controlled entities which are party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2011 is set out as follows:

### Summarised income statement and retained profits

| In AUD | 2011 | 2010 |
|---|---|---|
| Loss before tax | (73,631,799) | (2,098,546) |
| Income tax benefit/(expense) | (627,418) | 3,356,803 |
| Profit/(loss) after tax | (74,259,217) | 1,258,257 |
| Retained earnings at beginning of year | 159,207 | 11,876,630 |
| Dividends recognised during the year | – | (12,975,680) |
| Retained profits at end of year | (74,100,010) | 159,207 |
| Attributable to: | | |
| Equity holders of the Company | (74,100,010) | 159,207 |
| Profit for the period | (74,100,010) | 159,207 |

### Statement of financial position

| In AUD | 2011 | 2010 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | 4,303,989 | 4,297,534 |
| Trade and other receivables | 24,255,716 | 27,319,609 |
| Income tax receivable | 6,394,306 | 8,875,509 |
| Other assets | 1,993,190 | 611,290 |
| Total current assets | 36,947,201 | 41,103,942 |
| Receivables | 170,885,413 | 107,352,038 |
| Other financial assets | 156,124,243 | 333,623,500 |
| Deferred tax assets | 2,933,065 | 4,968,620 |
| Plant and equipment | 4,824,585 | 5,062,966 |
| Other assets | 98,480 | 30,989 |
| Intangible assets | 177,461,409 | 177,931,115 |
| Total non-current assets | 512,327,195 | 628,969,228 |
| Total assets | 549,274,396 | 670,073,170 |
| Liabilities | | |
| Trade and other payables | 16,301,108 | 19,659,754 |
| Interest bearing loans and borrowings | 1,256,853 | 14,072,371 |
| Employee benefits | 3,006,103 | 3,430,465 |
| Provision | 905,010 | 847,762 |
| Deferred consideration | 34,866,605 | 56,639,647 |
| Total current liabilities | 56,335,679 | 94,649,999 |
| Interest bearing loans and borrowings | 49,564,894 | 141,172,275 |
| Employee benefits | 681,796 | 1,042,231 |
| Provisions | 605,565 | 1,169,738 |
| Deferred consideration | 28,469,049 | 53,752,489 |
| Total non-current liabilities | 79,321,304 | 197,136,733 |
| Total liabilities | 135,656,983 | 291,780,732 |
| Net assets | 413,617,413 | 378,286,438 |
| Equity | | |
| Issued capital | 477,284,242 | 369,268,473 |
| Reserves | 10,433,181 | 8,858,758 |
| Retained earnings | (74,100,010) | 159,207 |
| Total equity | 413,617,413 | 378,286,438 |

## Directors' Declaration

1. In the opinion of the Directors of Photon Group Limited (**the Company**):
   (a) the consolidated financial statements and notes, set out on pages 31 to 90 and the Remuneration report in the Directors' Report, set out on pages 19 to 30, are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe the Company and entities identified in Note 33 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 between the Company and those entities pursuant to ASIC Class Order 98/1418.
3. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2011 pursuant to section 295A of the *Corporations Act 2001*.
4. The Directors draw attention to Note 1(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 2nd day of September 2011.

Signed in accordance with a resolution of the Directors:

**Brian Bickmore** Chairman

# Independent Auditor's Report

## Independent auditor's report to the members of Photon Group Limited

### Report on the financial report

We have audited the accompanying financial report of Photon Group Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*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 is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group 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. These Auditing 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.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2011and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

**Report on the remuneration report**

We have audited the Remuneration Report included in pages 19 to 30 of the directors' report for the year ended 30 June 2011. 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 auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Photon Group Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Kevin Leighton
*Partner*

Sydney

2 September 2011

## Lead Auditor's independence declaration
under section 307 of the Corporations Act 2001

***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of Photon Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Kevin Leighton
*Partner*

Sydney

2 September 2011

# ASX additional information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The shareholder information set out below was applicable at 16 August 2011.

**Substantial shareholders**

The number of ordinary shares held by substantial shareholders and their associates is set out below:

| Shareholder | Number |
|---|---|
| RG Capital Multimedia Limited | 372,343,812 |
| Intelligent Investor Funds Pty Limited | 80,832,814 |

**Unquoted equity securities**

As at 16 August 2011, there were 4,628,500 options granted over unissued ordinary shares in the Company. Details of holders of 20% or more of those options are set out in the Directors' Report.

**Voting rights**

Ordinary shares – refer to Note 23 Capital and reserves.

Options – refer to Note 20 Employee benefits and the Remuneration Report included in the Directors' Report.

Distribution of equity security holders

| | Number of equity security holders | |
|---|---|---|
| Range | Ordinary shares | Options |
| 1–1,000 | 424 | – |
| 1,001–5,000 | 734 | 34 |
| 5,001–10,000 | 358 | 30 |
| 10,001–100,000 | 908 | 46 |
| 100,001 and over | 534 | 10 |

The number of shareholders holding less than a marketable parcel of ordinary shares is 1,605.

**Twenty largest shareholders**

| Rank | Name | Units | % of issued capital |
|---|---|---|---|
| 1 | Equitas Nominees Pty Limited <2946694 A/C> | 121,662,365 | 7.90 |
| 2 | Bell Potter Nominees Pty Limited | 119,667,711 | 7.77 |
| 3 | National Nominees Limited | 104,247,131 | 6.77 |
| 4 | RG Capital Multimedia Limited | 81,215,001 | 5.27 |
| 5 | J P Morgan Nominees Australia Limited | 73,987,263 | 4.80 |
| 6 | Mr Jeremy Philips | 73,946,415 | 4.80 |
| 7 | Equitas Nominees Pty Limited <821471 A/C> | 66,658,889 | 4.33 |
| 8 | Bond St Custodians Limited <Officium Special Situat A/C> | 47,762,563 | 3.10 |
| 9 | UBS Wealth Management Australia Nominees Pty Limited | 32,883,207 | 2.13 |
| 10 | GAT Family A/C | 29,376,000 | 1.91 |
| 11 | ANZ Banking Group Limited ANZ Lending Services | 26,971,930 | 1.75 |
| 12 | Wyllie Group Pty Limited | 22,258,179 | 1.44 |
| 13 | Chris Howarth | 20,994,852 | 1.36 |
| 14 | Fitel Nominees Limited | 20,000,000 | 1.30 |
| 15 | UBS Nominees Pty Limited | 19,774,009 | 1.28 |
| 16 | HSBC Custody Nominees (Australia) Limited | 19,675,522 | 1.28 |
| 17 | Citicorp Nominees Pty Limited | 18,627,523 | 1.21 |
| 18 | Mr Graham Goodkind | 18,049,738 | 1.17 |
| 19 | Asia Union Investments Pty Limited | 17,500,000 | 1.14 |
| 20 | The Belgiovane Family A/C | 15,000,000 | 0.97 |
| **Total** | | **950,258,298** | **61.67** |

## ASX additional information

### Equity securities in escrow

| Date escrow period ends | Number of equity securities in escrow |
|---|---|
| 19 August 2011 | 45,000,000 |
| 30 August 2011 | 31,775,470 |
| 30 September 2011 | 36,858,000 |
| 31 March 2012 | 9,054,985 |
| 30 June 2012 | 16,432,537 |
| 30 September 2012 | 6,345,000 |
| 31 March 2013 | 9,371,909 |
| 30 June 2013 | 24,648,805 |
| 30 September 2013 | 375,000 |
| 30 June 2014 | 32,865,073 |
| **Total** | **212,726,779** |

All equity securities in escrow are ordinary shares.

## Corporate Directory

**Company Secretary**
Eleni North

**Principal Registered Office**
Photon Group Limited
Level 9, 155 George Street
Sydney NSW 2000 Australia
Telephone: +61 2 8213 8000
Facsimile: +61 2 8213 3030

**Share Registry**
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000 Australia
Telephone: 1300 855 080
Outside Australia: +61 3 9415 4000
Facsimile: +61 2 8234 5050

**Securities Exchange**
The Company is listed on the Australian Securities Exchange (PGA).

The home exchange is Sydney.

**Other Information**
Photon Group Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

**Solicitors**
Gilbert + Tobin
2 Park Street
Sydney NSW 2000 Australia

**Auditors**
KPMG
10 Shelley St
Sydney NSW 2000 Australia