16.01.2012

ASX ANNOUNCEMENT

CEO Appointment, Update on Overhead Review Process and Year-to-Date Unaudited Results

PhotonGroup.

Photon Group Limited (ASX:PGA) today announced the appointment of Matthew Melhuish as chief executive officer, effective 16 January 2012. Mr Melhuish has over 25 years' experience in the advertising and marketing industry, including at the most senior levels and is currently Head of Australian Agencies at Photon. Mr Melhuish's appointment follows the resignation of Jeremy Philips as Photon's CEO in December.

Photon Group Chairman Brian Bickmore said Mr Melhuish had been the key executive overseeing the company's Australian Agencies business, which represents approximately half of Photon's revenue. Matthew is a respected and leading figure within the Australian Advertising industry. He is currently Chairman of the Effies Advertising Effectiveness Awards, a National Board member of The Communications Council, the peak industry body, and a former Chairman of the Advertising Federation of Australia.

"We are delighted to be able to announce the appointment of Matthew as CEO. Matthew's experience founding and running the successful BMF agency, and his leadership of the Australian Agencies group at Photon have ideally prepared him to lead Photon in the next stage of its development," Mr Bickmore said

"Matthew has overseen the operations of key agencies such as BMF and BWM for 18 months and his appointment will ensure continuity and a minimum of distractions for our businesses."

Mr Melhuish said: "I am very excited about the opportunity to lead Photon during the next phase. The challenging work over the last 18 months has put the company in a strong position with a more streamlined operating structure, solid balance sheet and effective management team. I look forward to focusing on the growth of our core strategic marketing functions and maximising the opportunities for collaboration."

Mr Melhuish will join the Board of Photon Group as an executive director.

Review of Corporate Overhead

The company also today announced it had finalised the review of its corporate overhead following the completion of the sale of its field marketing and retail agencies in November 2011. The company will reduce its cash overhead costs by $4.0 million to $5.0 million on an annualised basis, representing a 40% to 50% reduction from the FY2011 level of cash overheads.

The key areas of overhead reduction are lower expenses associated with the previously announced relocation of the head office, a reduction in the new CEO remuneration package reflecting the reduced financial and operational complexity of the company, and other targeted general opex reductions.

There will be limited impact of these savings in FY2012 however all of the savings will be recognised in full by the end of FY2013. It is estimated that one-off restructure costs of approximately $4.5 million will be incurred during financial year 2012 to achieve the overhead reductions.

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1H2012 Trading Update

Based on the unaudited management accounts for the six months ended 31 December 2011, pro forma Net Revenue is down 5% and pro forma EBITDA is down 7.5%. This is an improvement from the company's trading update at the end of the first quarter 2012 when Net Revenue and EBITDA were down 7% and 25% respectively on the same basis.

A$ million	1H2012	1H2011
Pro forma (excludes contribution of divested businesses)[1]		
Net Revenue	88.3	92.9
EBITDA[2]	7.5	8.1
Reported		
Net Revenue	139.4	188.1
EBITDA[3]	12.8	32.9

Notes:

1. Pro forma excludes the contribution of Field Marketing businesses sold in November 2011, Retail Insight's point-of-sale business sold in September 2011, five digital businesses sold in December 2010, the material Telstra contract lost by BWM in May 2011, the closure of Counterpoint and Yield Media during 2H0211 and the write-back of equity incentive expense in 1H2011 (see note 3).
2. 1H2012 EBITDA normalised for significant items impacting EBITDA of $4.7 million including a provision for $3.6 million of the total $4.5 million overhead restructure costs.
3. The non-cash impact of equity incentives was positive in 1H2011 due to the write-back and reduction of costs associated with unvested options that have expired. Net equity incentives in 1H2011 had approximately $2.0 million positive impact, versus a $1.1 million expense in 1H2012.

- Net Revenue and EBITDA in the Australian Agencies division is 6% and 38% down respectively compared with the prior corresponding period on a pro forma basis; and
- Net Revenue in the International division is down 4% and EBITDA is up 18% compared with the prior corresponding period on a pro forma basis.

Following completion of the Field Marketing & Retail Agencies sale, the company had intangible assets with a carrying value of $280 million. The company is completing a review of the carrying value of its intangible assets as part of its interim review process.

Photon expects to release its interim results for the six months ended 31 December 2011 on 15 February 2012.

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Summary of Key Terms of the Employment Agreement appointing Matthew Melhuish as Chief Executive Officer

Commencement Date	16 January 2012
Term	30 June 2015
Remuneration	Mr Melhuish's remuneration will consist of base salary and the short term and long term incentives described below.
Fixed remuneration	Salary $800,000 per annum plus statutory entitlement to superannuation.
Incentives	*Short Term Incentives* Mr Melhuish will be entitled to a maximum short term incentive (STI) payment of $200,000 per annum subject to achievement of targets for annual growth in earnings per share (EPS) of the Company and non-financial performance of the Group. *Long Term Incentive* Mr Melhuish will be issued, subject to shareholder approval, 16 million additional Share Rights under the Company's Share Appreciation Rights Plan. The Share Rights will vest in three tranches as follows: ▪ 3,555,556 Share Rights with a vesting date of 20 business days after the release to ASX of the Company's preliminary financial report for the financial year ended 30 June 2013 (First Vesting Date). ▪ 5,333,333 Share Rights with a vesting date of 20 business days after the release to ASX of the Company's preliminary financial report for the financial year ended 30 June 2014 (Second Vesting Date). ▪ 7,111,111 Share Rights with a vesting date of 20 business days after the release to ASX of the Company's preliminary financial report for the financial year ended 30 June 2015 (Third Vesting Date). Each Share Right when exercised and vested entitles the holder to receive a fraction of a Share based on the following formula: Share entitlement (E) = $\frac{A - B}{A}$ Where: A = Photon VWAP for the 20 trading days before the relevant Vesting Date. B = Photon VWAP for the 20 trading days before the Date of Issue of the Share Right. If A – B is less than or equal to zero, the Share Right will not vest and will immediately lapse on the applicable Vesting Date. No payment is required for any Share Rights or any Shares acquired pursuant to any exercised and vested Share Rights. The Plan Rules provide that, subject to the Board's discretion, unvested Share Rights will lapse upon termination of employment. .

Termination Provisions	*Resignation by Mr Melhuish* Mr Melhuish may terminate his employment at any time by giving Photon 6 months' written notice. *Termination without cause by Photon* Photon may terminate Mr Melhuish's employment at any time by giving Mr Melhuish 6 months' written notice. Upon a party providing the other with notice of termination, the Company may, at its option, pay an amount in lieu of notice or place Mr Melhuish on a period of "garden leave". If Mr Melhuish resigns or is terminated without cause, he is entitled to receive a pro-rated STI for that period of the year worked prior to the date of termination. *Termination by Photon for cause* Photon may terminate Mr Melhuish's employment with immediate effect for cause (e.g. breach of contract). *Termination by Mr Melhuish for cause* Mr Melhuish may terminate his employment with immediate effect for breach by the Company of contracts to which Mr Melhuish is a party. In which case the restrictive covenants shall not apply.
Restrictive Covenants	Mr Melhuish will be restrained from engaging in competition with Photon and its group companies for up to 12 months following termination of his employment. Mr Melhuish is also restrained from soliciting or encouraging clients and/or staff of Photon and/or its group companies to leave the business, or to cease or reduce their custom with Photon and/or its group companies for 12 months following termination of his employment.