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ASX ANNOUNCEMENT

Update on Year-to-Date Trading and Operational Activities

PhotonGroup.

Photon Group Limited (ASX:PGA) today provided an update on its year-to-date trading performance and operational activities.

Year-to-Date Trading

Based on unaudited management accounts for the ten months to 30 April 2011, year-to-date Net Revenue is 6% below Net Revenue and EBITDA is 18% below normalised EBITDA for the prior corresponding period.

A$ million	YTD 30 Apr 2011	YTD 30 Apr 2010
Net Revenue	289.4	307.4
EBITDA[1]	46.0	55.8

Note:

1. YTD2010 EBITDA normalised for extraordinary and abnormal losses. YTD 2011 EBITA is $39.5 million.
2. YTD2010 includes contribution from businesses sold in December 2010 for the first six months of 2010 only (i.e. like for like basis). In 1H2010 these businesses contributed $17.3 million of Net Revenue and $4.8 million of EBITDA. In 1H2011 these businesses contributed $16.2 million of Net Revenue and $3.9 million of EBITDA.
3. For this period, the impact of non-cash equity incentive expenses was positive due to the write-back and reduction of costs associated with unvested options that have expired. Net equity incentives in YTD April 2011 have had approximately $1.2 million positive impact, versus a $2.8 million expense in the same period last year.

- Net Revenue and EBITDA in the Australian Agencies division is 8% and 19% down respectively compared with the prior corresponding period. This has been largely driven by lower spending from a small number of large clients compared to the prior period and poor performance by a number of the smaller agencies where steps are being taken to improve performance including upgrading management and restructuring. In recent months, there have been a number of new business wins by the largest agencies in the division, BMF and BWM, which are not expected to contribute to the financial performance until FY2012;
- Net Revenue in the Field Marketing division is up 1% on the prior corresponding period, and EBITDA is in-line with the same period last year; and
- Net Revenue and EBITDA in the International division is 8% and 21% down respectively compared with the prior corresponding period. The main contributor of this variance was the lower results of Naked and The Leading Edge in 1H2011 versus the prior period, however the performance of both these agencies has improved since

earlier in the financial year and for the first four months in 2H2011, the EBITDA for the two agencies has been ahead of the same period last year.

The impact of the stronger Australian dollar during the period has had a $1.8 million negative impact on the EBITDA performance of the Group versus the same period last year.

Operational Restructure

The focus during FY11 has been to restructure the company to create a sustainable earnings base. This has required a dramatic transformation to orient the company around sustainable long-term returns, rather than a focus on short term results. This has involved a significant cultural change, as well as renegotiating and exiting uneconomic arrangements, and aligning incentives. While these changes have been difficult and continue to be challenging, they are essential for the company's long term viability.

As flagged in the half year results in February 2011, Photon undertook a strategic review of its search marketing businesses. The result of this was a decision not to invest the further capital in search arbitrage which would have been required to continue to adapt to changing dynamics in the industry. As a result a number of steps were taken, including the sale of a loss making business in the US in January 2011 and the closure of a loss making business in Australia in March 2011. Further, Photon's wholly owned subsidiary Dark Blue Sea has entered into agreements to outsource the operations of Dark Blue Sea's domain portfolio and platforms. The transition to these arrangements will be completed in 4Q2011. Photon continues to own 51% of a search marketing business located in the United States.

Year to date, the EBITDA contribution from these businesses is $0.4 million compared to normalised EBITDA in the same period last year of $4.6 million. In total, over the course of a number of years, Photon invested approximately $130 million in search arbitrage and related businesses all of which has now been written off.

Photon continues to review its operations to create long-term sustainable businesses, and maximise efficiencies and collaboration between the operating units.

Financial Position

Photon's bank debt balance at the end of April was $122 million with a further $31 million of capped cash deferred consideration payments due over the next four years, with up to $26 million of those payments expected to be due in the next six months. Further capped cash deferred consideration payments will become due upon Photon hitting certain EBITDA and leverage targets as outlined in Photon's prospectus of 17 August 2010. Based on the interest rate margins which became effective in January 2011, Photon expects its FY2011 interest expense to be approximately $15.4 million.

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