

ASX ANNOUNCEMENT

Photon makes significant progress on strategic priorities with sale of assets. Net proceeds to be used for debt repayment.

PhotonGroup.

Photon Group Limited (ASX:PGA) today announced the sale of five companies as part of its ongoing strategic plan. When finalised, the asset sales will cut the company's debt balance to approximately \$122 million.

Photon has entered an agreement to sell four Australian agencies – Be Interactive, C4 Communications, Returnity and MessageNet – to Salmat Limited, for total consideration of \$75.3 million, plus a potential capped performance hurdle of up to \$15.7 million.

Photon and Salmat have also entered into a strategic alliance to work together to use and promote each other's services.

Jeremy Philips, CEO of Photon Group said: "A major priority over the past few months has been to simplify Photon's structure, making it easier to execute our strategy, manage our operations, and make all aspects of our business more efficient. In our Annual Report, we noted that we aimed to reduce the number of stand-alone business units from 45 as at June 2010. Over the last few months we have made more progress on our strategic restructure than anticipated; following these transactions, Photon will consist of 28 stand-alone business units.

"As foreshadowed at Photon's annual general meeting, we will continue to invest in building deep digital expertise as part of the DNA of all of our businesses. This will allow us to better serve our clients who plainly expect strong capabilities across all forms of media."

Separately, Photon also announced that it will transfer full ownership of UK agency Sledge to the firm's principal management, in return for assumption of certain liabilities.

The five companies being divested contributed a total of \$29.7 million of net revenue and \$8.2 million of EBITDA in FY2010.

The net proceeds from the asset sales, including any further consideration received, will be applied to debt repayment. The divestments are expected to result in a total non-cash loss on sale to be recognised in the first half of FY2011 of approximately \$11.5 million.

The sales, which are subject to certain customary conditions, are scheduled for completion on or before 31 March, 2011. Following completion of the sales, Photon's debt facility limits will be reduced from \$230 million to \$150 million for the remainder of the facility term, ending on 30 September, 2013.

In a further advance for Photon, the company has agreed to new terms with ANZ which will significantly lower the margin on its debt facilities. The company's leverage covenants will also be adjusted from 3.50 times to 2.75 times to reflect the reduced debt position of the business.

The upfront proceeds of the asset sales are expected to lower Photon's debt balance to approximately \$122 million, with a further approximately \$40 million of capped cash deferred consideration payments expected to be due over the next four years.

In accordance with the terms of the deferred consideration restructure that Photon completed in September 2010, the EBITDA targets for further capped deferred consideration payments under Tranche 3A and 3B are reduced to adjust for the impact of divestments.

Accordingly, the EBITDA target for Tranche 3A payments are expected to be reduced from \$85 million to approximately \$76 million and the EBITDA target for Tranche 3B payments will be reduced from \$95 million to approximately \$86 million. The leverage target remains unchanged at 2.25 times.

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