salmat

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BEYOND FACE VALUE

ANNUAL FINANCIAL REPORT 2010

CORPORATE GOVERNANCE

30 JUNE 2010

RESPONSIBILITIES AND FUNCTIONS OF THE BOARD

Salmat Limited is committed to achieving and demonstrating high standards of corporate governance. Salmat's framework is structured to facilitate compliance with the best practice principles and recommendations released by the ASX Corporate Governance Council as updated in August 2007. We have also noted the amendments released on 30 June 2010 and will be reviewing our practices in line with these updated principles and recommendations.

The board of directors is accountable to shareholders for the performance of Salmat Limited and its subsidiaries (the Salmat Group).

The board has delegated responsibility for the management of the Group through the chief executive officer to executive management. There is a clear division of responsibilities between those of the board and of management. The chief executive officer is accountable to the board for all authority delegated to executive management. The board has also delegated some of its responsibilities to committees of the board. These delegations are outlined in the board approved committee charters.

The composition of the board is subject to shareholder approval. The chairman must be an independent non-executive director. The board will be independent of management and all directors are required to bring independent judgement to bear in their board decision-making.

The board has a majority of independent non-executive directors. The board did not have a majority of independent non-executive directors for the six months to 1 January 2010 during the past financial year, due to the changes to the membership and composition of the board.

In October 2009, Peter Mattick and Philip Salter completed their contracts as Joint Managing Directors and took up non-executive directorships on the board. Grant Harrod was appointed as Managing Director at that time, having served as Chief Executive Officer and an Executive Director from April 2009.

Fiona Balfour was appointed as a new independent non-executive director on 1 January 2010. This restored the majority of independent directors, which had been temporarily unbalanced following Grant Harrod's board appointment. Fiona also chairs the new Technology and Innovation committee, incorporated in June 2010.

During the year, the board undertook its annual board performance review. This review considered the contribution made by individual directors and the board as a whole to the performance of the Company and sought to identify areas for improvement. The board considers that an appropriate mix of skills required is in evidence to maximise its effectiveness and contribution to the Company.

The chairman is responsible for leading the board, ensuring that board activities are organised and efficiently conducted and for ensuring directors are properly briefed for meetings. The chairman's tenure was reviewed and confirmed during the year.

The matters specifically identified and reserved for decision-making by the board include:

- adoption of the strategic plan of the Group;
- appointment of the chief executive officer and succession planning;
- approval of accounts, operating results, business plans and budgets;
- approval of financial policies and significant capital expenditure;
- monitoring business risk and strategies employed by management;
- monitoring financial performance including approval of the annual and half-year financial reports;
- ensuring there are effective management processes in place and approval of major corporate initiatives;
- ensuring there is an effective 'whistleblower' policy in operation; and
- reporting to shareholders.

The board has reviewed these responsibilities in conjunction with the latest board performance review and considers it has discharged these responsibilities. The annual review, led by an independent adviser or the chairman, also considers in conjunction with each director their responsibility to ensure they have sufficient time available to discharge their duties adequately.

The Company has a selection and induction process in place for new directors. This process is tailored for new directors dependent on their individual skills, background and experience. This program includes site visits, discussions with senior managers, review of strategic documents and presentations by business units. Ongoing participation in activities is tailored to the business needs and current activities of the Company from time to time. The board emphasised the acquisition of information technology specialist skills in the selection process which culminated in the appointment of Fiona Balfour as a non-executive director.

To ensure the knowledge of the individual board members remains up to date, a number of measures are taken. The board receives reports from the chief executive officer and his direct reports on their divisional activities and outcomes. Board meetings are held at various Salmat sites. The board regularly receives presentations on strategic and operational aspects of the businesses.

Details on the members of the board, their experience, expertise, qualifications, term of office and independence status are set out in the directors' report on page 7.

BOARD AND COMMITTEE MEMBERSHIP OF DIRECTORS

			Committee member		
Board member		Appointed director	Audit, risk and compliance committee	Remuneration and compensation committee	Technology and innovation committee
Richard Lee	Chairman, Independent non-executive Director	9/8/2002	•	•	
Fiona Balfour	Independent non-executive Director	1/1/2010	•	•	•
Ian Elliot	Independent non-executive Director	1/1/2005	•	•	
Grant Harrod	Chief Executive Officer and Managing Director	29/4/2009			•
Peter Mattick	Non-executive Director	14/3/1984			•
Philip Salter	Non-executive Director	14/3/1984			•
John Thorn	Independent non-executive Director	1/9/2003	•	•	

At the annual general meeting, Richard Lee will retire by rotation, and being eligible, will offer himself for re-election. Fiona Balfour, having been appointed since the last meeting, will also retire and offer herself for re-election.

The Company's policies regarding the terms and conditions of remuneration of board members are determined by the board after considering independent professional advice. No retirement benefits are paid to non-executive directors, nor are they eligible to participate in any Company incentive schemes.

The remuneration and terms and conditions of employment for the chief executive officer and other senior management are reviewed by the remuneration and compensation committee after seeking independent professional advice and approved by the board of directors. Details of remuneration and the processes undertaken by the Company are included in the remuneration report on page 8.

The executive management prepares strategic plans for each operating activity and the Group. These plans are presented to the board which then reviews and endorses strategies that are designed to ensure the continued profitable performance and growth of the Group. This process encompasses two formal reviews by the board of the strategic plan and progress against the plan each year. In addition, an overview of progress against specific strategic objectives and initiatives is reviewed at each board meeting. Annual operating plans and the budget are based on these approved strategies.

INDEPENDENCE OF BOARD MEMBERS

Our definition of an independent director is one who is independent of management and free from any business or other relationship that could materially interfere with the exercise of independent judgement. It is the board's view that each of its non-executive directors, except for Peter Mattick and Philip Salter, is independent and a resolution to this effect is made at the time of approving the annual accounts.

Materiality for these purposes is determined on both quantitative and qualitative bases.

ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

Guidelines are in place which provide for each director to have the right to seek independent professional advice at the Company's expense, subject to the prior approval of the chairman. Details of the policy are available on the Company's website: www.salmat.com.au.

CODE OF ETHICS

Salmat's approach to business continues to be founded on a culture of ethical behaviour. We stress honesty and integrity in everything we do, which flows through to our employees, our customers, our shareholders, the community and to other stakeholders.

The board has adopted a code of ethics, which imposes on all directors, employees and consultants the following duties:

- to act honestly, fairly and without prejudice with clients in all commercial dealings and to conduct business with professional courtesy and integrity;
- to promote a safe, healthy and efficient work environment;
- to comply with all laws, regulations and any applicable awards;
- not to knowingly make any misleading statements to any person or to be party to any improper practice in relation to dealings with or by the Company;
- to ensure that the Company's resources and property are used properly;
- not to disclose information or documents relating to the Company or its business, other than as required by law, not to make any improper public comment on the Company's affairs and not to misuse any information about the Company or its associates; and
- to ensure there is a clear communication process for material items of concern between employees and the board.

To ensure the code of ethics is embedded in the culture, Salmat has implemented the following mechanisms:

- Salmat's internal communication processes provide direct access to the CEO for staff at all levels;
- Salmat has a privacy email address accessed via its website where contact can be made directly with Salmat's privacy officer on a confidential basis; and
- Salmat's *Doing the Right Thing* policy provides an avenue for whistleblowers to report improper conduct. Any notifications received under this policy, along with details of the investigation undertaken and subsequent action taken, are reported to the audit, risk and compliance committee.

CORPORATE GOVERNANCE

30 JUNE 2010

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the audit, risk and compliance committee; the remuneration and compensation committee; and the technology and innovation committee. Membership of each of these committees was reviewed and confirmed during the year.

Due to the small number of directors on the board, it is considered that a separate nomination committee is not required. The functions of a nomination committee are carried out by the full board.

AUDIT, RISK AND COMPLIANCE COMMITTEE

The audit, risk and compliance committee is a committee of the board. The committee charter adopted by the board is displayed on the Salmat Limited website: www.salmat.com.au. The charter was reviewed by the board during the year. Its membership consists of the four independent non-executive directors of Salmat Limited.

The committee met four times during the 2009/10 year.

The chairman of the committee is Mr John Thorn. Mr Thorn's experience in the accounting profession along with his other professional commitments complements the financial and commercial experience of the other independent non-executive board members. This blend of experience and technical expertise enables this committee to critically review the financial management and risk profile of Salmat and further develop corporate governance within the Company.

The responsibility of the committee is as follows:

- assist the board of directors to discharge its responsibility to exercise due care, diligence and skill in relation to:
  - the entity's financial management and statutory compliance including liaison with the Salmat Group's auditor;
  - assessing whether external reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs;
  - assessing the management processes supporting external reporting;
  - recommending to the board the appointment, reappointment or replacement of the external auditor and approving appropriate fees;
  - evaluating the performance of the external auditor, including its independence, effectiveness and objectivity;
  - reviewing and assessing non-audit service provision by the external auditor and giving particular consideration to the potential for the provision of these services to impair the external auditor's judgement or independence in respect of the Salmat Group;
- provide a structured forum for communication between the board of directors and senior management; and
- provide a structured reporting line for the Group risk and assurance function.

The committee affirms it has complied with the requirements of its charter.

The committee receives formal completion certification from management as to the accuracy and completeness of the financial results of the Company with each set of results. The certification provides assurance to the board as to the financial report and condition of the Company as well as the operation of risk management in managing material business risks, compliance and the control elements which support the financial statements. The certification is attested to the board by the chief executive officer and chief financial officer.

The committee meets with the Salmat Group's external auditor without the presence of management on a regular basis to receive an independent view on the financial reports and other relevant matters.

The committee customarily invites the chief executive officer and chief financial officer to attend the majority of its meetings.

The committee uses a combination of internal and specialist external resources to undertake the risk assurance function.

REMUNERATION AND COMPENSATION COMMITTEE

The remuneration and compensation committee is a committee of the board. The committee charter adopted by the board is displayed on the Salmat Limited website: www.salmat.com.au. The charter was reviewed by the board during the year.

Its membership consists of the four independent non-executive directors of Salmat Limited.

The chairman of the committee is Mr Ian Elliot, who has undertaken those duties since his appointment on 1 January 2005.

The committee met four times during the 2009/10 year.

The responsibility of the committee is to:

- review overall remuneration policies and ensure they are in accord with current best practice;
- determine the remuneration arrangements for the chief executive officer and approve the chief executive officer's recommendations for the other senior executives nominated by the chief executive officer;
- set the performance targets for the chief executive officer and review performance against these targets. Review and approve the recommended performance targets for other senior executives;
- determine the long-term incentive strategy for the chief executive officer and approve recommendations for other senior staff;
- review succession planning of the chief executive officer and plans for senior executives; and
- oversee the Company's compliance with the occupational health and safety legislation in the relevant jurisdictions in which it operates.

The committee affirms it has complied with the requirements of its charter.

The committee has retained independent advisers who provide information on current best practice (including remuneration levels) for executive and non-executive remuneration. The committee reviews remuneration levels in the light of this advice and the individual's performance. The chief executive officer attends committee meetings to review remuneration levels for other staff.

TECHNOLOGY AND INNOVATION COMMITTEE

The technology and innovation committee is a committee of the board. The committee charter adopted by the board is displayed on the Salmat Limited website: www.salmat.com.au.

Its membership consists of three non-executive directors of Salmat Limited as well as the chief executive officer, the chief information officer and the chief technology officer.

The chairman of the committee is Mrs Fiona Balfour. Fiona's extensive experience in senior information technology roles in major Australian companies, combined with her operational and financial skills, complements the industry expertise of the other committee members.

The committee met four times during the 2009/10 year. Three of these meetings were prior to formal incorporation by the board.

The responsibility of the committee is to optimise the impact of technology and associated services on the Salmat operational businesses, specifically to:

- review and approve management's ICT strategy and architecture;
- oversee all IT projects over $1 million, including review of all post-implementation reviews performed;
- oversee acquisitions in developing operations and businesses;
- review ICT businesses, products, partnerships and relationships for opportunities from a customer communications perspective;
- review ICT operational performance;
- oversee Salmat's ICT services partnerships;
- maintain a watching brief on ICT and industry-specific developments and opportunities;
- oversee the ICT risk profile for Salmat, including disaster recovery and business continuity planning;
- oversee the company's innovation framework to ensure regular flow of innovation concepts and ideas; and
- review, incubate and endorse the development of innovative concepts into opportunities for investment.

The committee affirms it has processes in place to comply with the requirements of its charter.

The committee will invite external advisors and/or other Salmat executives to attend meetings at the committee's discretion, where their knowledge or expertise can make a material contribution.

RISK MANAGEMENT

The board has established a risk management policy for the oversight and management of risk and has delegated responsibility for reviewing risk, compliance and internal control to the audit, risk and compliance committee. Management is ultimately responsible to the board for the system of internal control and risk management within their business units. Salmat has established a management-led risk management committee (RMC), chaired by the Group COO. The purpose of the RMC is to direct the implementation and operation of an appropriate risk management framework and culture to ensure the current risk profile is within the Group risk appetite and tolerance levels, and to review changes to the business environment to ensure Salmat's risk strategies align accordingly.

Consistent with ASX Principle 7, Salmat is committed to the identification, monitoring and management of risks associated with its business activities. Management has reported and signed-off to the board on the effectiveness of the risk management and control system in managing material business risks.

Salmat faces a variety of material risks including (but not limited to) strategic, operational, financial and regulatory. The framework that is used to manage these risks is based on the internationally recognised ISO 31000 risk management standard. Risk profiles have been developed at Group, divisional and functional levels and are reviewed and updated regularly.

Other risk management controls in place include the following:

- policies and procedures for the management of financial risk and treasury operations including exposures to foreign currencies;
- guidelines and limits for the approval of capital expenditure and investments;
- a Group regulatory compliance program supported by approved guidelines and standards covering crisis management, the environment, occupational health and safety, privacy, trade practices, equal employment opportunity, anti-discrimination and sexual harassment;
- extensive certification programs throughout operations to the ISO9001:2000 and ISMS AS/NZ 7799 standards;
- a comprehensive insurance program including external risk management surveys;
- annual internal audit of all sites for occupational health, safety and environmental regulatory compliance; and
- annual budgeting and monthly reporting systems for all business units to enable the monitoring of key performance indicators.

Group Risk and Assurance (GRA) is an integral component of the overall risk management framework. GRA is independent to business units and has a direct reporting line to the audit, risk and compliance committee. An annual program of risk assurance reviews is completed by GRA, in conjunction with independent external advisors. GRA provides an annual report to the audit, risk and compliance committee on the effectiveness of the risk management and control systems.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

Salmat is committed to complying with the continuous disclosure obligations of the *Corporations Act 2001* (Cth) and the ASX Listing Rules. Salmat understands and respects the fact that timely disclosure of relevant information is central to the efficient operation of the securities market. The Company has a continuous disclosure policy, which also covers the conduct of investor and analyst briefings and communication with the media. The policy can be found on the Salmat Limited website: www.salmat.com.au.

Materiality and disclosure

The Company has a published disclosure policy for timely and accurate release of material events. The policy focuses on continuous disclosure of information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. As a general guideline, the board considers that any financial impact which affects Group revenue or profit by more than 10% will be considered material.

All price sensitive announcements made via the Australian Securities Exchange (ASX) are then immediately posted on the Company's website: www.salmat.com.au. Similarly, prior to any analyst briefing on aspects of the Group's operations, the material used in the presentation is released to the ASX and subsequently posted on the Company's website.

Restrictions on securities dealings

All employees, including our directors and other officers, are subject to the restrictions under the *Corporations Act 2001* in relation to Salmat shares.

Salmat has a published policy on share trading. The policy prohibits directors and key employees from dealing in Salmat securities for the period 15 days before the end of a reporting period to one day after those results are released to the market, being the embargo period. During non-embargo periods, via an internal notification process, all directors and key employees are required to advise the company secretary of any trade in Salmat securities, in which they have a beneficial interest.

Shareholder communication

Salmat places considerable importance on effective communication with shareholders.

The company secretary is nominated as the person responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules.

All shareholders can receive a copy of the Company's annual report. In addition, the Company has made available electronic communication of all price sensitive announcements for the convenience of all shareholders. All price sensitive Company announcements and financial reports since our public listing in December 2002 are available on the Company's website: www.salmat.com.au.

The Company's website includes key information on the following:

- Directors and Management — providing personal profiles about the current board of directors (Governance section) and the members of the senior management team (About Us section).
- Announcements — contains all price sensitive announcements and external presentations that the Company has made since the initial public offering in December 2002 (Investors section).
- Half-yearly/Annual Reports — contains a statement of the results as well as a copy of the audited accounts (Investors section).
- Key Dates — contains key dates pertaining to the release of the Company's annual results and other key events such as annual general meetings and dividend payments (Investors section).
- Share Registry — contains our share registry contact details as well as pertinent information relating to shareholder communications regarding receipt of annual and half-yearly reports and a link to our share registry's website (Investors section).
- Corporate Governance — key Salmat policies and information about how Salmat is managed (Governance section).

EXTERNAL AUDITOR'S APPOINTMENT

Our independent external auditor is Ernst & Young, appointed effective from 1 July 2005. To ensure that independence of the external auditor is maintained, there was a rotation of the Ernst & Young audit signing partner at the completion of Salmat's 2008 audit. It is the intention of the board that the external audit signing partner will rotate from the Company's audit at least every five years.

As a part of its review of the half-year and audit of the full-year results, Ernst & Young confirmed to the board that it has maintained its independence.

The auditor will attend the Company's annual general meeting and will be available to answer any shareholder questions.

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Salmat Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

DIRECTORS

The following persons were directors of Salmat Limited during the financial year and up to the date of this report:

- Richard Lee
- Fiona Balfour (Appointed 1 January 2010)
- Ian Elliot
- Grant Harrod
- Peter Mattick
- Philip Salter
- John Thorn

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of:

(a) Targeted Media Solutions delivers advertising catalogues to homes throughout Australia and New Zealand. Detailed demographic analysis enables us to target the consumers most likely to buy particular products, helping our customers to maximise their sales. Targeted Media Solutions also includes Salmat Interactive (Australia's leading provider of hosted mobile and interactive voice response solutions) and dynamic catalogue retail search engine Lasoo.com.au.

(b) Business Process Outsourcing processes and mails bank and credit card statements, accounts and other customised bulk mailings in Australia, Hong Kong, Taiwan and the Philippines. We receive customers' electronic data, process it using smart technology, and print and mail statements, providing significant cost savings.

(c) Customer Contact Solutions handles inbound and outbound telephone, fax, email and online communications on behalf of our customers, from facilities in Australia, New Zealand, Malaysia and the Philippines. Inbound services include technical support and customer care; while outbound services include telemarketing, direct sales and customer retention. We also facilitate business to business and business to consumer conversations in the UK, USA, New Zealand and Australia through a range of sales support services.

DIVIDENDS – SALMAT LIMITED

Dividends paid to members during the financial year were as follows:

	2010 $'000	2009 $'000
Final ordinary dividend for the year ended 30 June 2009 of 11.0 cents (2008 – 10.5 cents) per fully paid share paid on 25 September 2009	**17,467**	16,673
Interim ordinary dividend for the year ended 30 June 2010 of 11.0 cents (2009 – 9.0 cents) per fully paid share paid on 9 April 2010	**17,477**	14,292
	34,944	30,965

PERFORMANCE INDICATORS

Management and the board monitor the Group's overall performance, from its implementation of the strategic plan through to the performance of the Group against operating plans and financial budgets.

The board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Key management monitor KPIs on a regular basis. Directors receive reporting on the critical KPIs for review prior to each board meeting allowing all directors to actively monitor the Group's performance.

RISK MANAGEMENT

The Group takes a proactive approach to risk management. The board has established a risk management policy for the oversight and management of risk and has delegated responsibility for reviewing risk, compliance and internal control to the audit, risk and compliance committee. Management is ultimately responsible to the board for the system of internal control and risk management within the business units. Details of risk mechanisms in place are detailed in the Corporate Governance Statement, which accompanies this report.

ENVIRONMENTAL ISSUES

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

The Group is committed to minimising our impact on the environment by responsibly managing both our direct and indirect environmental impacts.

The Group has set down a rigorous approach to sourcing and working with suppliers that comply with our environmental criteria.

REVIEW OF OPERATIONS

A review of Group operations and the results for the year ended 30 June 2010 are set out in the Shareholder Review.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the nature of the Group's principal activities during the year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Dividends

Since the end of the financial year the directors have recommended the payment of a final ordinary dividend of $19,891,498 (12.5 cents per fully paid share) and a special dividend of $15,913,198 (10.0 cents per fully paid share) to be paid on 28 September 2010 out of retained profits at 30 June 2010.

Except for the matter discussed above, no other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Additional comments on expected results of certain operations of the Group are included in this Annual Report under the review of operations.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

INFORMATION ON DIRECTORS

Richard Lee

Non-executive Chairman (Independent)

Experience and expertise
Richard Lee is a non-executive director of Ridley Corporation Limited, CSR Limited, Newcrest Mining Limited and the Australian Rugby Union Limited. Richard is a Fellow and Chairman of the Australian Institute of Company Directors. He also holds degrees in chemical engineering and economics and is a Rhodes Scholar. Richard is also a former chief executive of the NM Rothschild Australia Group, and a former director of NM Rothschild and Sons Limited in London, Singapore and Hong Kong.

Special responsibilities
Chairman of the board;
Member of audit, risk and compliance committee; and
Member of remuneration and compensation committee.

Interests in shares and options
383,407 ordinary shares in Salmat Limited.

Fiona Balfour

Non-executive Director (Independent)

Experience and expertise
Fiona Balfour joined the board as non-executive director on 1 January 2010. Fiona is a former member of the Qantas executive committee with responsibilities for information technology and related areas for Qantas worldwide. Fiona was subsequently Chief Information Officer of Telstra and has advised Medibank Private and Link Market Services on IT strategy. Fiona is a Trustee of the National Breast Cancer Foundation, a member of the Information Technology Faculty Advisory Board of Monash University, a council member of Knox Grammar School and a Fellow of the Australian Institute of Company Directors.

Special responsibilities
Member of audit, risk and compliance committee;
Member of remuneration and compensation committee; and
Chairman of the technology and innovation committee.

Interests in shares and options
12,460 ordinary shares in Salmat Limited.

Ian Elliot

Non-executive Director (Independent)

Experience and expertise
Ian is a non-executive director of Hills Industries Limited, former chairman of Promentum Limited and is currently on the board of the National Australia Day Council and a Fellow of the Australian Institute of Company Directors. Ian is also a former chief executive officer of George Patterson Bates and a graduate of the advanced management program of the Harvard Business School.

Special responsibilities
Member of audit, risk and compliance committee; and
Chairman of remuneration and compensation committee.

Interests in shares and options
33,435 ordinary shares in Salmat Limited.

Grant Harrod

Chief Executive Officer and Managing Director

Experience and expertise
Grant Harrod is the Chief Executive Officer of Salmat, assuming this role in early April 2009. Prior to this, Grant spent 13 years with Corporate Express Australia Limited, a leading business supplies distributor, where he served as Managing Director and Chief Executive Officer for six years. Grant's previous roles at Corporate Express included General Manager of Sales and Marketing and General Manager of Operations. Grant has a Masters of Business Administration from Macquarie Graduate School of Management.

Special responsibilities
Member of the technology and innovation committee.

Interests in shares and options
191,660 ordinary shares in Salmat Limited.

Peter Mattick

Non-executive Director

Experience and expertise
Peter Mattick is a joint founder of Salmat. Peter joined in business with Phillip Salter, forming Salmat in 1979. Peter, who holds a degree in Commerce from the University of New South Wales, is a Fellow of the Australian Society of Certified Practising Accountants, a Fellow of the Australian Institute of Company Directors, a Governor of the Advisory Council for the Institute of Neuromuscular Research and a Board member of The Shepherd Centre.

Special responsibilities
Member of the technology and innovation committee.

Interests in shares and options
36,500,393 ordinary shares in Salmat Limited; and
165,000 options over ordinary shares in Salmat Limited.

Philip Salter

Non-executive Director

Experience and expertise
Philip Salter is a joint founder of Salmat. Philip entered the real estate business in 1977. In 1979, Philip and Peter formed Salmat, developing the business into one of Australasia's leading customer communications companies. Philip is a member of the Australian Institute of Company Directors. In October 2009, Phillip completed his contract as Joint Managing Director and took up non-executive directorship on the Board.

Special responsibilities
Member of the technology and innovation committee.

Interests in shares and options
36,112,077 ordinary shares in Salmat Limited; and
165,000 options over ordinary shares in Salmat Limited.

John Thorn

Non-executive Director (Independent)

Experience and expertise
John Thorn has been a non-executive director of Salmat Limited since September 2003. John has had over 37 years professional experience with PricewaterhouseCoopers (PwC), with over 20 years as a partner responsible for significant international and Australian clients. John was the Australian National Managing Partner of PwC and a member of the Global Audit Management Group until 2003. John is also currently a non-executive director of National Australia Bank Limited (since October 2003), Caltex Australia Limited (since June 2004) and Amcor Limited (since December 2004).

Special responsibilities
Chairman of audit, risk and compliance committee; and Member of remuneration and compensation committee.

Interests in shares and options
131,101 ordinary shares in Salmat Limited.

COMPANY SECRETARY

The company secretary is Mr Stephen Bardwell. Mr Bardwell has been company secretary since October 2002. He has had over 25 years in senior commercial roles, and joined the Company as group financial controller in 1989, actively participating in the expansion and development of Salmat in both Australia and Asia.

Prior to listing of the Company, he had over ten years experience as secretary of Salmat Group Companies.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees: Audit, Risk and Compliance		Remuneration and Compensation		Technology and Innovation	
	A	B	A	B	A	B	A	B
Richard Lee	10	10	4	4	4	4	**	**
Fiona Balfour (appointed 1 January 2010)	4	4	2	2	2	2	4	4
Ian Elliot	10	10	4	4	4	4	**	**
Grant Harrod	10	10	**	**	**	**	4	4
Peter Mattick	10	10	**	**	**	**	4	4
Philip Salter	10	10	**	**	**	**	4	4
John Thorn	10	10	4	4	4	4	**	**

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

** = Not a member of the relevant committee

REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration;

B Details of remuneration;

C Service agreements; and

D Share-based compensation.

The information provided under headings A-D outlines the director and executive remuneration of the Group in accordance with the requirements of *Corporations Act 2001* and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 Related Party Disclosures, which have been transferred to the Remuneration Report in accordance with Corporations Regulations 2M.6.04. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Group receiving the highest remuneration.

A Principles used to determine the nature and amount of remuneration

Remuneration policy

The Company policy is to remunerate staff in accordance with market rates in alignment with the individual's duties, responsibilities and performance. The process also accesses comparative market information. At Salmat, we have a team of executives, staff and associates with considerable experience and expertise across our businesses. Our achievements are in no small measure due to their hard work and diligence. As we continue to grow, we create opportunities for current staff as well as employment opportunities for new staff.

The remuneration strategy is administered by the board through the remuneration and compensation committee. The committee consults with external advisers on best practice and appropriate market benchmarks, covering the level of remuneration, split between fixed and variable components and both short and long term incentives.

Remuneration and compensation committee

The remuneration and compensation committee is a committee of the board. The charter adopted by the board is displayed on the Salmat Limited website www.salmat.com.au.

Committee membership consists of the four independent non-executive directors of Salmat Limited. The chairman of the committee is Mr Ian Elliot.

A Principles used to determine the nature and amount of remuneration (continued)

The responsibilities of the committee are as follows:

- Review overall remuneration policies and ensure they are in accordance with current best practice.
- Determine the remuneration arrangements for the chief executive officer, including his short and long term incentives. Review and approve the chief executive officer's recommendations for the other senior executives.
- Set and review the performance targets for the chief executive officer. Review and approve the recommended performance targets for other senior executives.

The committee has retained independent advisers to provide information on current best practice (including remuneration levels) for director and executive remuneration. The committee reviews this external remuneration advice in the light of the various individuals' performance. The chief executive officer attends committee meetings to review and recommend remuneration levels for other senior staff.

Non-executive director remuneration

The remuneration policy for non-executive directors is designed to remunerate them at market levels for their time, commitment and responsibilities. The Company is cognisant that it needs to attract and retain well qualified and experienced directors. In the light of the increased time and legal liability imposed upon directors arising from developments in corporate governance, corporate law and the expectations of shareholders generally, the remuneration and compensation committee uses external advice to set an appropriate level of external director fees.

Non-executive directors are paid a director's fee and prior to the legislative changes around share based payments introduced in July 2009 participated in a deferred share scheme benefit which vested after serving at least five years as a non-executive director of the company. The non-executive directors do not receive any retirement or performance related benefits.

Non-executive directors' fees are reviewed annually in June.

The remuneration details of the board are as follows:

- The Chairman received $200,000 per annum.
- The five other non-executive directors received $120,000 per annum.
- All directors' fees are inclusive of superannuation entitlements.

The deferred share scheme entitlement was a once only purchase. This entitlement vested only after serving five years as a director of the Company. The deferred share purchase was made following receipt of shareholders approval. No purchases have been made since 2005.

In 2009, the shareholders resolved that the aggregate maximum amount payable to non-executive directors would be $1.2 million per annum.

Senior executive remuneration

The remuneration packages of the chief executive officer and executives are constructed to deliver performance and commitment to the company whilst being in line with market for the relevant positions.

Each of these packages include the following:

- A fixed component, which may be allocated to cash, benefits (on a fully absorbed cost to company basis) or superannuation.
- An amount is also allocated to short term incentives (STIs) based on key performance indicators (KPIs) set for the financial year. The KPIs comprise various measurable goals. The percentage allocated to this component varies according to the relevant position. In the case of the chief executive officer, in the current year, approximately 38% of his remuneration package is allocated to STI's. STI's are generally linked to financial and strategic outcomes aligned with shareholder returns. These are agreed between the executive and their manager to ensure they are in line with the business targets and goals for the period under review.
- A long term incentive (LTI) component via on-market acquisition of deferred shares is another element considered on an annual basis. The LTI grant is to encourage company growth along with retention of key executives.

The terms of the LTI are as follows:

- All LTI shares do not vest for three years from issue;
- 50% of the shares are subject to achieving a total shareholder return in excess of the small ordinaries index for a three year period; and
- 50% of the shares are subject to achieving an EPS target set by the board.

The three year targets align the interest of the chief executive officer and executives with returns for shareholders.

The remuneration packages are based on advice from external remuneration consultants and take into account both short and long term incentives set to achieve the outcomes required by the board. To this end the board aims to set short term incentive payments up to a third of base salary.

Other benefits

The fixed component of the executive directors' and senior executives' salary may be split between base salary, superannuation or motor vehicle on a fully absorbed cost to company basis including fringe benefits tax, interest cost, amortisation and running costs. Additional annual leave may be granted. There are no other benefits offered at the expense of the company.

A Principles used to determine the nature and amount of remuneration (continued)

Salmat Employee Option Plan

The Salmat Employee Option Plan was initially established following shareholder approval in October 2002. The continuance of this plan was approved by the shareholders at the November 2005 annual general meeting and again at the October 2008 annual general meeting. The Company's use of the option plan is to offer participation to secure the employment and retention of key employees whilst aligning their goals with those sought by shareholders. This plan has not been utilised for the purposes of long term incentives since 1 July 2008.

The Board administers the plan in accordance with the plan rules. The terms and conditions of the specific grants to participants are detailed in the plan; refer to part D of this remuneration report.

Salmat Deferred Employee Share Plan

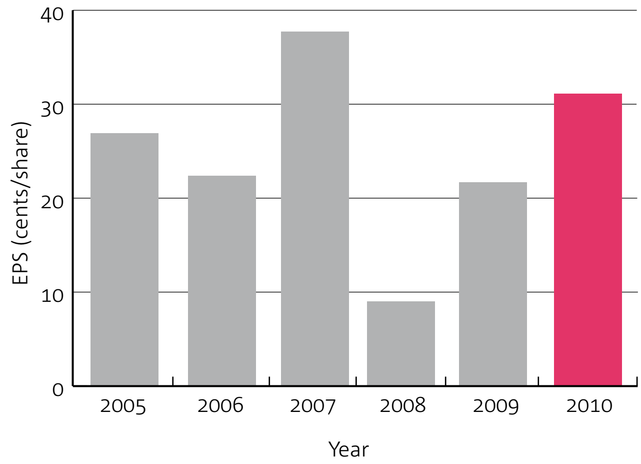
The Salmat Deferred Employee Share Plan was initially established following shareholder approval in October 2002. The continuance of this plan was approved by the shareholders at the November 2005 annual general meeting and again at the October 2008 annual general meeting. In the year ended 30 June 2009, the board decided that long term incentives should be by way of acquisition of shares under Salmat's Deferred Employee Share Plan.

The board administers the plan in accordance with the plan rules. The terms and conditions of the specific grants to participants are detailed in the plan; refer to part D of this remuneration report.

The graph below shows the performance of the Group as measured by the Group's Total Shareholder Return (TSR) and the comparison of the Group's TSR (SLM) to the median of the TSR for the small ordinaries on the ASX (XSO) for the past five years, including the current period.

Five year share price chart

Earnings per share chart



B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and specified executives of Salmat Limited are set out in the following tables.

The key management personnel of Salmat Limited includes the directors as per pages 7 to 8 above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- Peter Anson – Chief Operating Officer
- Chad Barton – Chief Financial Officer (appointed 3 August 2009)
- David Hackshall – Chief Information Officer (appointed 2 November 2009)
- David Besson – Head of Targeted Media Solutions
- Nick Debenham – Head of Business Process Outsourcing (appointed 10 June 2010)
- Andrew Hume – Head of Customer Contact Solutions
- Gary Smith – Head of Strategic Solutions
- Geoffrey Court – Head of People and Culture
- Colin Wright – Chief Financial Officer (retired 27 November 2009)
- Peter Boyle – Head of Targeted Media Solutions (retired 1 July 2009)
- Peter Hartley – Head of Business Process Outsourcing (resigned 9 June 2010).

Key management personnel of the Group

2010	Short-term employee benefits			Post employment benefits	Share-based payments		
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Shares $	Options $	Total $
Non-executive directors							
Richard Lee	185,154	–	–	14,461	–	–	199,615
Peter Mattick^	76,217	–	–	6,860	–	–	83,077
Philip Salter^	76,217	–	–	6,860	–	–	83,077
John Thorn	109,721	–	–	9,875	–	–	119,596
Ian Elliot	109,721	–	–	9,875	9,332	–	128,928
Fiona Balfour	29,081	–	–	26,765	–	–	55,846
Sub-total non-executive directors	**586,111**	**–**	**–**	**74,696**	**9,332**	**–**	**670,139**
Executive directors							
Peter Mattick#	630,269	–	–	31,179	–	(104,975)	556,473
Philip Salter#	624,995	–	–	31,179	–	(104,975)	551,199
Grant Harrod	757,209	629,375	–	42,824	207,280	–	1,636,688
Other key management personnel (Group)							
Peter Anson#	284,451	174,386	94,718	20,822	54,111	(13,202)	615,286
Chad Barton	341,054	132,500	–	12,793	11,390	–	497,737
David Hackshall	212,938	61,667	–	9,006	11,390	–	295,001
David Besson#	375,557	168,566	–	24,461	28,811	(13,202)	584,193
Colin Wright**	106,250	43,519	13,750	50,000	16,852	6,036	236,407
Andrew Hume#	435,538	110,072	–	14,461	45,093	(9,902)	595,262
Gary Smith#	344,538	125,822	–	30,461	45,093	(6,601)	539,313
Peter Hartley***	305,693	77,634	33,565	14,461	(35,388)	4,204	400,169
Geoffrey Court	201,054	30,076	–	49,561	16,234	(3,301)	293,624
Nick Debenham	18,027	–	–	818	–	–	18,845
Total key management personnel compensation (Group)	**5,223,684**	**1,553,617**	**142,033**	**406,722**	**410,198**	**(245,918)**	**7,490,336**

^ In October 2009 retired as a joint managing director to become non-executive director.
# Share-based expense previously recognised under AASB2 in respect of options has been reversed due to not meeting non-market vesting condition.
** Ceased employment during year.
*** Ceased employment during year, forfeiting their deferred shares. Any share-based payment expense previously recognised under AASB2 in respect of the deferred shares has been reversed.

B Details of remuneration (continued)

Amounts of remuneration (continued)

Key management personnel of the Group

2009	Short-term employee benefits			Post employment benefits	Share-based payments		
Name	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Shares $**	**Options $**	**Total $**
Non-executive directors							
Richard Lee	105,385	–	36,923	42,692	–	–	185,000
John Thorn	96,330	–	–	8,670	10,961	–	115,961
Ian Elliot	96,330	–	–	8,670	18,326	–	123,326
Sub-total non-executive directors	**298,045**	**–**	**36,923**	**60,032**	**29,287**	**–**	**424,287**
Executive directors							
Peter Mattick	599,399	450,000	–	100,616	–	–	1,150,015
Philip Salter	599,399	450,000	–	100,616	–	–	1,150,015
Grant Harrod	150,199	156,000	3,808	11,416	45,431	–	366,854
Other key management personnel (Group)							
Peter Anson	284,066	200,000	80,414	20,106	40,000	19,247	643,833
David Besson	376,846	220,000	–	14,514	16,667	(2,786)	625,241
Peter Boyle	279,129	220,000	31,759	79,127	–	–	610,015
Colin Wright	256,421	125,000	30,065	100,000	16,667	6,035	534,188
Andrew Hume	435,255	225,000	–	13,744	33,333	16,975	724,307
Gary Smith	361,255	150,000	–	13,744	33,333	4,116	562,448
Peter Hartley	267,423	140,000	39,897	13,745	35,000	2,101	498,166
Terry Daly	987,701	179,440	37,024	619,565	–	16,095	1,839,825
Geoffrey Court	150,420	50,000	–	100,194	12,000	7,566	320,180
Total key management personnel compensation (Group)	**5,045,558**	**2,565,440**	**259,890**	**1,247,419**	**261,718**	**69,349**	**9,449,374**

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	**2010 %**	**2009 %**	**2010 %**	**2009 %**	**2010 %**	**2009 %**
Executive directors of Salmat Limited						
Peter Mattick	**100**	61	**–**	39	**–**	–
Philip Salter	**100**	61	**–**	39	**–**	–
Grant Harrod	**49**	45	**38**	43	**13**	12
Other key management personnel of Salmat (Group)						
Peter Anson	**65**	60	**28**	31	**7**	9
Chad Barton	**71**	–	**27**	–	**2**	–
David Hackshall	**75**	–	**21**	–	**4**	–
David Besson	**68**	63	**29**	35	**3**	2
Peter Boyle	**–**	75	**–**	25	**–**	–
Colin Wright	**80**	72	**20**	24	**–**	4
Andrew Hume	**76**	62	**18**	31	**6**	7
Gary Smith	**70**	67	**23**	26	**7**	7
Peter Hartley	**82**	64	**18**	28	**–**	8
Terry Daly	**–**	89	**–**	10	**–**	1
Geoffrey Court	**85**	78	**10**	16	**5**	6
Nick Debenham	**100**	–	**–**	–	**–**	–

C Service agreements

Chief executive officer

The chief executive officer's contract is evergreen with tenure subject to six months notice for both parties. The Company can choose to make payment in lieu of notice, which would not exceed the average base salary plus STIs paid in the 12 months before termination.

Other key management personnel

Remuneration and other terms of employment for other key management personnel are formalised in service agreements. Each of these agreements provides for the provision of performance related cash bonuses.

All contracts with executives may be terminated early by either party with between one and three months notice. The key management personnel are not entitled to receive any additional retirement benefits.

D Share-based compensation

Options

The Salmat Employee Option Plan was approved by shareholders at a general meeting in October 2002. The continuance of this plan was approved by the shareholders at the November 2005 annual general meeting and again at the October 2008 annual general meeting. The company had a strategy of offering participation in the option plan to aid in the attraction and retention of key employees whilst aligning their goals with that of outcomes in line with that of shareholders. Since the year ended 30 June 2009 the strategy has been to issue deferred shares for the same purpose.

The board oversees the administration of the plan in accordance with the plan rules. The terms and conditions of the specific grants to participants are detailed in the plan.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods follows:

Options granted to senior employees in April 2005

Cumulative earnings per share for the three years ended 30 June 2008 must equal or exceed 84.8 cents, before adjustment, for the performance conditions to be met.

Options granted to senior employees in November 2006

Non-Market Vesting Conditions

Options will vest dependent on Salmat Limited achieving a compound 10% per annum increase in earnings per share for the three fiscal years before the first exercise date, in total 81.6 cents per share, where earnings per share is determined as basic earnings per share (after tax).

For the former joint managing directors at the time this related to 100% of options granted. For all others it relates to 50% of options granted.

Market Vesting Conditions

The options will vest dependant on Salmat Limited achieving a Total Shareholder Return (TSR) in excess of the S&P/ASX Small Ordinaries Index for the three fiscal years ended 30 June 2009.

In the case of all recipients with the exception of the joint managing directors, this performance condition relates to 50% of the options granted.

Options granted to senior employees in December 2006

Vesting conditions are identical to the conditions placed on the November 2006 grant with 50% of the options dependent on the Non-Market Condition and 50% of the options dependent on the Market Condition.

Options granted to senior employees in November 2007

For options issued to the former joint managing directors at an exercise price of $4.20 cumulative earnings per share (EPS) for the three years ended 30 June 2010 must equal or exceed 85.31 cents. This represents a compound annual growth rate in earnings per share of 10% p.a.

The zero priced option grants made to other executives had the following performance conditions:

Non-Market Vesting Conditions

Earnings per share (EPS) for the three years ended 30 June 2010 must equal or exceed 85.31 cents. This represents a compound annual growth rate in earnings per share of 10% p.a. This performance condition relates to 50% of the options granted.

Market Vesting Conditions

Salmat Limited achieving a Total Shareholder Return (TSR) in excess of the S&P/ASX Small Ordinaries Index for the three fiscal years ended 30 June 2010. This performance condition relates to 50% of the options granted.

D Share-based compensation (continued)

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date
April 2005	December 2008	December 2010	$4.83	$0.96
November 2005	November 2008	November 2011	$4.00	$0.64
November 2006	November 2009	November 2011	$3.41	$0.96
November 2006	November 2009	November 2011	$3.41	$0.93
November 2006	November 2009	November 2011	$3.41	$0.96
December 2006	December 2009	December 2011	$3.80	$1.00
December 2006	December 2009	December 2011	$3.80	$0.96
November 2007	November 2010	November 2011	$4.20	$0.62
November 2007	November 2010	November 2011	$-	$3.12
November 2007	November 2010	November 2011	$-	$1.65

Options granted under the plan carry no dividend or voting rights.

Details of options over ordinary shares in the Company provided as remuneration to each director of Salmat Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Salmat Limited. Further information on the options is set out in note 43.

	Number of options granted during the year		Number of options vested during the year	
Name	**2010**	**2009**	**2010**	**2009**
Other key management personnel of the Salmat Group				
Peter Anson	–	–	**40,000**	–
David Besson	–	–	**40,000**	–
Peter Boyle	–	–	**40,000**	–
Andrew Hume	–	–	**30,000**	65,000
Gary Smith	–	–	**20,000**	–
Peter Hartley	–	–	**2,500**	–
Geoffrey Court	–	–	**10,000**	–

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	
Name		**2010**	**2009**
Other key management personnel of the Salmat Group			
David Besson	March 2010	**40,000**	–
Peter Boyle	January 2010	**40,000**	–
Andrew Hume	March 2010	**30,000**	–
Gary Smith	March 2010	**20,000**	–

D Share-based compensation (continued)

Share-based compensation: Options and deferred employee shares

Further details relating to options and deferred employee shares.

Name	A Share-based remuneration %	B Value at grant date $	C Value at exercise date $	D Value at lapse date $
Directors of Salmat Limited				
Peter Mattick	-%	–	–	84,150
Philip Salter	-%	–	–	84,150
Other key management personnel of the Salmat Group				
Peter Anson	7.0%	111,309	–	20,400
Chad Barton	2.0%	92,760	–	–
David Hackshall	4.0%	92,760	–	–
David Besson	3.0%	97,399	41,200	20,400
Peter Boyle	-%	–	33,600	–
Andrew Hume	6.0%	92,760	30,900	15,300
Gary Smith	7.0%	92,760	17,600	10,200
Peter Hartley	-%	97,399	–	179,028
Geoffrey Court	5.0%	33,393	–	5,100

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The fair value at grant date calculated in accordance with AASB 2 *Share-based Payments* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

Shares under option

Unissued ordinary shares of Salmat Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
April 2005	December 2010	$4.83	65,000
November 2006	November 2011	$3.41	127,500
December 2006	December 2011	$3.80	20,000
November 2007	November 2012	$4.40	280,000
November 2007	November 2012	$4.40	330,000
			822,500

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of options

The following ordinary shares of Salmat Limited were issued during the year ended 30 June 2010 on the exercise of options granted under the Salmat Limited Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
November 2006	$3.41	265,000
December 2006	$3.80	75,000
		340,000

D Share-based compensation (continued)

Salmat Limited shares issued under Salmat's Deferred Employee Share Plan

Long term incentives to the chief executive officer and senior managers are made by way grants of deferred shares subject to service and performance conditions under Salmat's Deferred Employee Share Plan. The Salmat Deferred Employee Share Plan acquired 285,342 shares (2009: 569,924 shares) in Salmat Limited at a cost of $1,213,018 (2009: $1,902,440) which will vest to senior management upon satisfying the service and employment conditions. Should the hurdles not be met the shares are forfeited.

Grant date	Date vested and exercisable	Expiry date	Fair value per share at grant date
February 2009	September 2011	September 2011	$3.31
February 2009	June 2011	June 2011	$2.78
April 2009	October 2012	October 2012	$3.79
April 2009	October 2012	October 2012	$3.70
March 2010	September 2012	September 2012	$4.24
March 2010	September 2012	September 2012	$2.80

Details of shares in the Company provided as remuneration to key management personnel of the parent entity and the Group are set out below.

	Number of shares granted during the year		Number of shares vested during the year	
Name	**2010**	**2009**	**2010**	**2009**
Director of Salmat Limited				
Grant Harrod	**–**	191,660	**–**	–
Other key management personnel of the Salmat Group				
Peter Anson	**31,629**	41,725	**–**	–
David Besson	**27,676**	17,385	**–**	–
Chad Barton	**26,358**	–	**–**	–
David Hackshall	**26,358**	–	**–**	–
Colin Wright	**–**	17,385	**–**	–
Andrew Hume	**26,358**	34,770	**–**	–
Gary Smith	**26,358**	34,770	**–**	–
Peter Hartley	**27,676**	36,509	**–**	–
Geoffrey Court	**9,489**	12,517	**–**	–

The assessed fair value at grant date of deferred shares granted to individuals is allocated evenly over the period from grant date to vesting date and the amount is included in the remuneration tables. Fair values at grant date are independently determined using a Binomial Approximation Valuation option pricing model and a Monte-Carlo simulation model that takes into account share price at grant date and expected price volatility of the underlying share, exercise price, the expected dividend yield and the risk-free interest for the term of the deferred share.

The model inputs for deferred shares issued during the year ended 30 June 2010 included:

a) Share price at date of grant: $4.34

b) Deferred shares issued have no exercise price

c) Risk free interest rate: 5.13%

d) Expected price volatility of the Company's shares: 31.18%

e) Expected dividend yield: 5.53%.

D Share-based compensation (continued)

The terms and conditions of each grant of shares affecting the remuneration in the previous, this or future reporting periods is as follows:

Shares granted to senior employees in February 2009

Performance condition – No 1

50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves the Earnings per Share (EPS) hurdle of 66 cents cumulatively for the financial years ended 30 June 2009, 2010 and 2011.

This means that 50% of the deferred shares will vest if Salmat's cumulative EPS for the three years ending 30 June 2011 equals or exceeds 66 cents. However, a scaled approach is being introduced for part achievement if:

75% of the targeted compound EPS increase is achieved (49.5 cents) = 50% of 50% vest.

80% of the targeted compound EPS increase is achieved (52.8 cents) = 60% of 50% vest.

85% of the targeted compound EPS increase is achieved (56.1 cents) = 70% of 50% vest.

90% of the targeted compound EPS increase is achieved (59.4 cents) = 80% of 50% vest.

95% of the targeted compound EPS increase is achieved (62.7 cents) = 90% of 50% vest.

100% of the targeted compound EPS increase is achieved (66 cents) = 100% of 50% vest.

Performance condition – No 2

50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the S&P/ASX small ordinaries accumulation index for the three fiscal years ending 30 June 2011.

Service condition

The executive must still be employed by Salmat Group at the Performance Condition testing dates for the shares to vest, subject to meeting the Performance Conditions set down.

Shares granted to senior employees in April 2009

Performance condition – No 1

50% of the Shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves the Earnings per Share (EPS) hurdle of 79 cents cumulatively for the financial years ended 30 June 2010, 2011 and 2012.

75% of the targeted compound EPS increase is achieved (59.25 cents) = 50% of 50% vest.

80% of the targeted compound EPS increase is achieved (63.20 cents) = 60% of 50% vest.

85% of the targeted compound EPS increase is achieved (67.15 cents) = 70% of 50% vest.

90% of the targeted compound EPS increase is achieved (71.10 cents) = 80% of 50% vest.

95% of the targeted compound EPS increase is achieved (75.05 cents) = 90% of 50% vest.

100% of the targeted compound EPS increase is achieved (79.00 cents) = 100% of 50% vest.

Performance condition – No 2

50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the S&P/ASX small ordinaries accumulation index for the three fiscal years ending 30 June 2012.

Service condition

The executive must still be employed by Salmat Group at the Performance Condition testing dates for the shares to vest, subject to meeting the Performance Conditions set down.

Shares granted to senior employees in March 2010

Performance condition – No 1

50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves the Earnings per Share (EPS) hurdle of 79 cents cumulatively for the financial years ended 30 June 2010, 2011 and 2012.

75% of the targeted compound EPS increase is achieved (59.25 cents) = 50% of 50% vest.

80% of the targeted compound EPS increase is achieved (63.20 cents) = 60% of 50% vest.

85% of the targeted compound EPS increase is achieved (67.15 cents) = 70% of 50% vest.

90% of the targeted compound EPS increase is achieved (71.10 cents) = 80% of 50% vest.

95% of the targeted compound EPS increase is achieved (75.05 cents) = 90% of 50% vest.

100% of the targeted compound EPS increase is achieved (79.00 cents) = 100% of 50% vest.

Performance condition – No 2

50% of the shares granted under the deferred employee Share Plan will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the S&P/ASX small ordinaries accumulation index for the three fiscal years ending 30 June 2012.

Service condition

The executive must still be employed by Salmat Group at the Performance Condition testing dates for the shares to vest, subject to meeting the Performance Conditions set down.

INSURANCE OF OFFICERS

Insurance has been undertaken for the financial year end 30 June 2010 in respect of work performed by current or past principals, partners, directors and employees.

No indemnification insurance has been undertaken for the auditors of the Company.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Salmat Limited support and have adhered to the principles of corporate governance (as described in this Report). The Company's Corporate Governance Statement is published on the Salmat Limited website www.salmat.com.au.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Salmat Group are important.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.

Grant Harrod
Chief Executive Officer

Richard Lee
Chairman

Sydney
27 August 2010

AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
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www.ey.com/au

Auditor's Independence Declaration to the Directors of Salmat Limited

In relation to our audit of the financial report of Salmat Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Rob Lewis

Rob Lewis
Partner
27 August 2010

Liability limited by a scheme approved under Professional Standards Legislation

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Consolidated 2010 $'000	Consolidated 2009 $'000
Revenue from continuing operations	3	**880,245**	892,285
Employee benefits expense		**(432,202)**	(426,751)
Depreciation and amortisation expense	4	**(32,375)**	(35,481)
Freight and distribution		**(127,206)**	(128,039)
Materials usage		**(61,984)**	(73,584)
Property related expenses		**(38,137)**	(44,127)
Equipment related costs		**(57,331)**	(71,969)
Other expenses from ordinary activities		**(46,758)**	(40,370)
Finance costs	4	**(14,355)**	(19,501)
Share of net profit/(loss) of associates and joint venture partnership accounted for using the equity method		**244**	(298)
Profit before income tax		**70,141**	52,165
Income tax expense	5	**(21,042)**	(17,716)
Profit for the year		**49,099**	34,449

		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent entity:			
Basic earnings per share	42	**31.1**	21.7
Diluted earnings per share	42	**30.9**	21.6

The above income statement should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Consolidated 2010 $'000	2009 $'000
Profit for the year		**49,099**	34,449
Other comprehensive income			
Cash flow hedges gains/(losses)	30(a)	**2,916**	(4,732)
Actuarial losses on retirement benefit obligation	27(e)	**(218)**	(1,175)
Exchange losses on translation of foreign operations	30(a)	**(528)**	(459)
Income tax relating to components of other comprehensive income	5(c)	**(875)**	1,420
Other comprehensive income/(loss) for the year, net of tax		**1,295**	(4,946)
Total comprehensive income for the year		**50,394**	29,503

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Notes	Consolidated 2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	7	**59,333**	44,214
Trade and other receivables	8	**114,966**	117,046
Inventories	9	**7,722**	7,921
Other current assets	10	**5,793**	5,165
Total current assets		**187,814**	174,346
Non-current assets			
Receivables	11	**3,401**	3,672
Investments accounted for using the equity method	12	**1,130**	1,269
Property, plant and equipment	13	**47,820**	50,021
Deferred tax assets	14	**19,758**	20,484
Intangible assets	15	**396,622**	406,559
Other non-current assets	16	**731**	750
Total non-current assets		**469,462**	482,755
Total assets		**657,276**	657,101
Current liabilities			
Trade and other payables	17	**95,063**	94,182
Borrowings	18	**443**	424
Derivative financial instruments	19	**1,074**	4,732
Current tax liabilities	20	**16,282**	6,900
Provisions	21	**31,621**	28,552
Other current liabilities	22	**2,074**	2,395
Total current liabilities		**146,557**	137,185
Non-current liabilities			
Borrowings	24	**193,202**	211,278
Deferred tax liabilities	25	**8,778**	11,107
Provisions	26	**9,011**	10,996
Retirement benefit obligations	27	**1,638**	1,407
Derivative financial instruments	19	**741**	–
Payables	23	**250**	861
Other non-current liabilities	28	**698**	3,099
Total non-current liabilities		**214,318**	238,748
Total liabilities		**360,875**	375,933
Net assets		**296,401**	281,168
Equity			
Contributed equity	29	**205,616**	205,640
Reserves	30(a)	**570**	(750)
Retained earnings	30(b)	**90,215**	76,278
Total equity		**296,401**	281,168

The above statement of financial position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

Consolidated	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2008		**207,542**	**2,173**	**73,969**	**283,684**
Profit for the year		**–**	**–**	**34,449**	**34,449**
Other comprehensive income		–	(3,771)	(1,175)	(4,946)
Total comprehensive income for the year		–	(3,771)	33,274	29,503
Transactions with owners in their capacity as owners:					
Dividends paid	30	–	–	(30,965)	(30,965)
Cost of share-based payments	30	–	848	–	848
Treasury shares		(1,902)	–	–	(1,902)
		(1,902)	848	(30,965)	(32,019)
Balance at 30 June 2009		**205,640**	**(750)**	**76,278**	**281,168**
Profit for the year		–	–	49,099	49,099
Other comprehensive income		–	1,513	(218)	1,295
Total comprehensive income for the year		**–**	**1,513**	**48,881**	**50,394**
Transactions with owners in their capacity as owners:					
Dividends paid	30	–	–	(34,944)	(34,944)
Cost of share-based payments	30	–	(193)	–	(193)
Exercise of options under the Salmat Executive Performance Option Plan	29	1,189	–	–	1,189
Treasury shares	29	(1,213)	–	–	(1,213)
		(24)	(193)	(34,944)	(35,161)
Balance at 30 June 2010		**205,616**	**570**	**90,215**	**296,401**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	Consolidated 2010 $'000	2009 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**1,096,214**	1,122,762
Payments to suppliers and employees (inclusive of goods and services tax)		**(984,002)**	(1,012,117)
		112,212	110,645
Interest received		**1,454**	1,506
Interest paid		**(14,601)**	(19,028)
Income taxes paid		**(14,139)**	(12,257)
Net cash inflow from operating activities	41	**84,926**	80,866
Cash flows from investing activities			
Payment for purchase of business		**(29)**	–
Payment of deferred purchase price (prior acquisition)		**(400)**	–
Payments for property, plant and equipment		**(12,856)**	(18,043)
Proceeds from sale of property, plant and equipment		**123**	24,037
Payments for investment in associate		**-**	(306)
Proceeds from loans to joint venture		**495**	265
Dividends received from associate		**52**	–
Net cash (outflow) inflow from investing activities		**(12,615)**	5,953
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**1,189**	–
Proceeds from borrowings		**185,000**	106,321
Repayment of borrowings		**(208,000)**	(153,359)
Finance lease payments		**(423)**	(171)
Redeemable deposits		**(14)**	(102)
Dividends paid to company's shareholders	31	**(34,944)**	(30,965)
Net cash outflow from financing activities		**(57,192)**	(78,276)
Net increase in cash and cash equivalents		**15,119**	8,543
Cash and cash equivalents at the beginning of the financial year		**44,214**	35,671
Cash and cash equivalents at end of year	7	**59,333**	44,214

The above statement of cash flows should be read in conjunction with the accompanying notes.

CONTENTS – NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2010

CORPORATE INFORMATION

The financial report of Salmat Limited and the entities it controlled for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 27 August 2010.

Salmat Limited (the ultimate parent) is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

Registered Office
Level 17, 100 Arthur Street
North Sydney NSW 2060

The nature of the operations and principal activities of the Group are described in the directors' report.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Salmat Limited and its controlled entities.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report has been prepared on a historical costs basis except for derivative financial instruments which are held at fair value.

Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 46.

Changes in accounting policies

The following amending Standards have been adopted from 1 July 2009. Adoption of these standards did not have any effect on the financial position or performance of the Group. The amended operating segment standard has not resulted in any changes to classification of operating segments, nor line items disclosed.

AASB 8 Operating Segments.

AASB 101 Revised Presentation of Financial Statements.

AASB 3 Business Combinations (revised 2008).

AASB 123 Borrowing costs.

AASB 127 Consolidated and Separate Financial Statements.

AASB 7 Financial Instruments: Disclosures.

AASB 2009-5 Further Amendments to Australian accounting standards arising from the Annual Improvements Project.

There were no changes to the prior year's results, the only impact being in presentation of the financial statements.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of Salmat Limited (the Company) and its subsidiaries (the Salmat Group also referred to as the Group). The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

A controlled entity is any entity controlled by Salmat Limited. Control exists where Salmat Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Salmat Limited to achieve the objectives of Salmat Limited.

All intercompany balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation (refer to note 1(h)).

Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Investments are held at the lower of cost and recoverable amount.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

All payments to purchase a business recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. Transaction costs that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's share of its associates' and joint ventures' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the Group's entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

(d) Foreign currency translation

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rates. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when the fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the income statement.

As at the reporting date the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of Salmat Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised in other comprehensive income; and
- on consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue from the rendering of a service is recognised by reference to the stage of completion of a contract or contracts in progress at balance date or upon the delivery of the service to the customer.

When rendering services under contract and both the contract outcome and control of the right to be compensated for the services and the stage of completion can be reliably measured, revenue is recognised on a progressive basis as the costs to complete the service contract are performed.

For significant development contracts, sales revenue is recognised on the percentage of completion in instances where the development solution is sold. In instances where the developed solution is retained and licensed by the Company for a fixed term, revenue is recognised on an accruals basis in accordance with the terms of the relevant agreement (usually on a fee per transaction basis).

Where payment terms extend beyond 12 months, revenue is discounted to its fair value using the future discounted cashflows. Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is only recognised to the extent of costs incurred.

Stage of completion is measured by reference to an assessment of costs incurred to date as a percentage of estimated total costs for each contract. Costs for this purpose, represent costs that are reflective of services performed to date, or services to be performed.

The Group incurs postage on behalf of its customers, which is on-charged to its customers. Salmat Limited has offset all postage costs incurred against postage revenue in the income statement. This method of disclosure does not result in any effect on profit. For cashflow purposes, the amounts are shown as gross receipts and gross payments.

Dividend revenue is recognised when the right to receive a dividend has been established.

Government grant revenue is recognised when the relevant criteria have been met and there is reasonable assurance that the income will be received. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal instalments.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(f) Income tax

The charge for income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

Deferred tax is recognised in the income statement except where it relates to items that may be recognised directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax liabilities are recognised for all taxable permanent differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax consolidation legislation

Salmat Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Salmat Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Salmat Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 5.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group are classified as operating leases (note 35). Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Sale and lease back of properties

Where properties are disposed and leased back, accounting standard AASB 117 Leases applies. Such sale and lease back transactions may require profit on sale to be deferred where the lease back cost is not at market value.

(h) Business combinations

Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Acquisition related costs are expenses as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(q)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of non financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of non financial assets other than goodwill (continued)

inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts where a right of offset exists; and
- investments in money market instruments with less than 14 days to maturity.

(k) Trade receivables

Trade receivables are non-interest bearing, generally have 7-45 day terms and are recognised and carried at amortised cost amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(l) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of fixed and variable overhead expenses.

(m) Investments in associates and joint ventures

The Groups' investment in its associates and joint ventures is accounted for in the financial statements by applying the equity method of accounting. When Salmat has significant influence over an entity that is not jointly controlled, it is deemed an associate.

A joint venture entity is one which Salmat jointly controls with one other party in equal proportion.

The investment in the associate and joint venture is carried in the consolidated balance sheet at cost plus post acquisition changes in Salmat's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects Salmat's share of the results of the operations of the associate.

The associate's and joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

(n) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges);
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 19. Movements in the hedging reserve in shareholders' equity are shown in note 30. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within other income or other expense.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

(o) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, *Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(p) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Depreciation

The depreciation amount of all fixed assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

- Buildings 2.5%
- Plant and Equipment 14.0% to 33.0%
- Leasehold improvements Over term of lease

The assets' residual values, useful lives and amortisation are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell, and value in use.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised.

From the date of acquisition the Group has up to one year to ascertain the fair value of assets acquired and to amend the goodwill initially recorded.

As at the acquisition date, any goodwill acquired is allocated to each of the cash generating units or group of cash generating units that are expected to benefit from the combination synergies.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

Goodwill is tested at least annually for impairment (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired) and is carried at cost less accumulated impairment losses. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Goodwill (continued)

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Intangibles

Intangible assets acquired are capitalised at cost, unless acquired as part of a business combination in which case they are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less provision for impairment.

Other intangible assets include both customer contracts and relationships and costs of acquiring and developing business systems.

Useful lives have been established for all non-goodwill intangible assets. Amortisation charges are expensed in the income statement on a straight-line basis over those useful lives. Estimated useful lives are reviewed annually.

The expected useful lives of intangible assets are generally:

- Customer contracts and relationships 5 – 8 years.
- Business systems 3 – 5 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from three to seven years.

(r) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables and other payables are non interest bearing and are normally settled on supplier agreed terms.

(s) Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, 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.

Make-good provision

Salmat Limited has recognised a make-good provision on leased premises when it can be reliably estimated and measured.

Surplus lease space

Where premises have been leased on long term contracts and there are no plans to utilise the premises over the remaining life of the lease, the discounted present value of the obligation is provided in the period the property first becomes surplus.

(u) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Once an employee reaches five years of service with the Group, an entitlement for long service leave is recognised. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit obligations

The Group operates three defined benefit pension schemes, which require contributions to be made to separately administered funds.

The cost of providing benefits under the plans is determined separately for each plan by independent actuarial valuations.

Actuarial gains and losses are recognised immediately in retained earnings.

Employee option plan

Information in relation to these schemes is set out in note 43.

Employee deferred share plan

Information in relation to these schemes is set out in note 43.

(v) Contributed equity

Ordinary shares are classified as equity (refer to note 29).

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Treasury shares

Shares in the Group held by the Salmat Employee Deferred Share Plan are classified and disclosed as treasury shares and deducted from equity.

(w) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted EPS is calculated as net profit attributable to ordinary equity holders of the parent entity divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

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

(y) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(z) New accounting standards and interpretations on issue but not yet effective

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 2010, but have not been applied in preparing this financial report. Other new standards and interpretations have been issued but are not considered to have an impact on the consolidated Group's financial statements.

(i) AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The amendment is not expected to impact on the Group's or the parent entity's financial statements.

(ii) AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (effective 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 Financial Instruments: Presentation which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. The Group will apply the amended standard from 1 July 2009. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

(iii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 addresses the classification and measurement of financials assets. The standard is not applicable until 1 January 2013 and is not expected to have a significant impact on the Group's financial statements. Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) New accounting standards and interpretations on issue but not yet effective (continued)

However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group recognised $15,000 of such gains in other comprehensive income. The Group has not yet decided whether to early adopt AASB 9.

(iv) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. The amendments are not expected to have any impact on the financial statements of the Group.

(v) AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 (effective 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

(vi) AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group does not make any such prepayments. The amendment is therefore not expected to have any impact on the Group's financial statements. The Group intends to apply the amendment from 1 July 2011.

(vii) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2010/1 January 2011)

Limits the scope of the measurement choices of non-controlling interest at proportionate share of net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e. split between consideration and post combination expenses.

The amendment is not expected to have any impact on the Group's financial statements. The Group intends to apply the amendment from 1 July 2011.

(viii) AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]

Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.

The amendment is not expected to have any impact on the Group's financial statements. The Group intends to apply the amendment from 1 July 2011.

(aa) Parent entity financial information

The financial information for the parent entity, Salmat Limited, disclosed in note 45 has been prepared on the same basis as the consolidated financial statements.

2 SEGMENT INFORMATION

(a) Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The chief executive officer has identified three reportable segments which are as follows:

Targeted Media Solutions

Targeted Media Solutions (TMS) delivers more than 4.5 billion unaddressed items to homes across Australia every year. The division uses up to date lifestyle and geo-demographic data to maximise the effectiveness of each campaign, and employs the latest technology to provide clients with real time campaign reporting and auditing. Furthermore, TMS undertakes promotional mobile and interactive voice response campaigns throughout Australia through its digital communication operation.

Within TMS, Salmat launched Lasoo.com.au in 2007 which is now the premier online pre-shop service for Australia's retailers. Lasoo provides a strong online presence for promoted items and catalogues, while consumers have a single means of assessing the best price and closest location for their desired purchases. Further growth in this developing sector is coming from Dynamic Catalogue software, which creates searchable catalogues on the retailers' own websites.

Business Process Outsourcing

Business Process Outsourcing (BPO) manages outsourced business services for large corporate clients, using high end technology to engage consumers through bulk 'essential' and direct marketing communication, via mail, email or online, both outbound and inbound. The segment, which seeks to streamline and improve delivery of these regular services, also uses its data management capability to record, store and cross reference large amounts of archive information for clients in Australia, Hong Kong, Taiwan and the Philippines.

Customer Contact Solutions

Customer Contact Solutions (CCS) engages in more than 100 million conversations per year for its clients through its contact centres. This division applies world class technology and a highly trained staff to handle inbound and outbound phone, fax, email and online communication. It also provides face-to-face sales teams on behalf of clients in Australia, New Zealand and more recently in Asia. Tailored voice recognition applications and accredited learning and development training is fuelling further growth.

Corporate Costs

Corporate costs are those costs which are managed on a group basis and not allocated to business segments. They include costs of strategic planning decisions, compliance costs and treasury related activities.

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint venture revenue and expenses where a reasonable basis of allocation exists.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the Group at arm's length. These transfers are eliminated on consolidation. As intersegment revenues are considered immaterial no disclosure of these is made in 2(b) Segment information provided to the chief operating decision maker.

2 SEGMENT INFORMATION (CONTINUED)

(b) Segment information provided to the chief operating decision maker

2010	Targeted Media Solutions $'000	Customer Contact Solutions $'000	Business Process Outsourcing $'000	Corporate Costs $'000	Total $'000
Segment revenue					
Sales to external customers	**230,598**	**304,837**	**343,356**		**878,791**
Interest revenue					**1,454**
Total revenue					**880,245**
Segment EBITA before significant items	**40,266**	**20,003**	**44,188**		**104,457**
Reconciliation of segment EBITA to income statement					
Corporate costs				**(13,292)**	**(13,292)**
EBITA					**91,165**
Amortisation expense					**(10,518)**
Net finance costs					**(12,901)**
Significant items – refer note 4					**2,395**
Profit before income tax					**70,141**
Income tax expense					**(21,042)**
Profit attributable to members of Salmat Limited					**49,099**
2009					
Segment revenue					
Sales to external customers	225,747	294,237	370,795		890,779
Interest revenue					1,506
Total revenue					892,285
Segment EBITA before significant items	27,905	21,776	41,272		90,953
Reconciliation of segment EBITA to income statement					
Corporate costs				(13,241)	(13,241)
EBITA					77,712
Amortisation expense					(11,812)
Net finance costs					(17,995)
Significant items – refer note 4					4,260
Profit before income tax					52,165
Income tax expense					(17,716)
Profit attributable to members of Salmat Limited					34,449

	Segment revenues from sales to external customers		Segment assets	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**
Australia	**822,200**	838,523	**602,805**	603,616
New Zealand	**26,377**	21,756	**6,647**	6,595
Asia	**28,406**	27,344	**25,092**	24,439
Other	**1,808**	3,156	**3,582**	1,967
	878,791	890,779	**638,126**	636,617
Deferred tax asset			**19,150**	20,484
Total assets			**657,276**	657,101

Segment revenues are allocated based on the country in which the work is performed. Segment assets and capital expenditure are allocated based on where the assets are located.

(c) Other segment information

(i) Segment revenue

Revenues of approximately $92,090,861 (2009: $87,448,134) in CCS, $43,126,151 (2009: $40,352,570) in BPO and $4,425,060 (2009:$4,252,612) in TMS are derived from a single external customer. Each segment contracts with the customer individually as the work between the segments is treated as a separate assignment within the customer's business. In addition, within each segment, there are separate statements of work depending on individual assignments.

3 REVENUE

	Consolidated	
	2010 $'000	**2009 $'000**
From continuing operations		
Sales revenue		
Services	**878,791**	890,779
Other		
Interest	**1,454**	1,506
	880,245	892,285

4 EXPENSES

	Consolidated	
	2010 $'000	**2009 $'000**
Depreciation		
Buildings	**–**	119
Plant and equipment	**21,857**	23,550
Total depreciation	**21,857**	23,669
Amortisation		
Customer Intangibles	**8,519**	8,594
Other intangibles	**1,999**	3,218
Total amortisation	**10,518**	11,812
Finance costs		
Interest and finance charges paid/payable	**14,355**	19,501
Net loss on disposal of property, plant and equipment	**4**	366
Rental expense relating to operating leases		
Minimum lease payments	**24,407**	30,266
Foreign exchange gains and losses		
Net foreign exchange (gains)/losses	**79**	(92)
Defined contribution superannuation expense	**24,192**	23,285
Research and development	**165**	202
Significant items		
Net property profit	**(2,395)**	(4,260)
Income tax expense	**719**	2,790
	(1,676)	(1,470)

These significant items are relevant in explaining the financial performance:

Net property profit – during the year ended 30 June 2009 the Group sold and leased back premises in Sydney and Brisbane generating a profit of $7,260,000 (tax expense $2,790,000). For the year ended 30 June 2010 there was $2,395,000 (tax expense $719,000) of profit recognised. This was offset by one-off property costs associated with relocation of the Group's Hong Kong operations that resulted in an expense of $3,000,000 (nil tax benefit) recognised this year. There is approximately $2.1m deferred profit (before tax) in respect of sale and lease back of land and buildings to be recognised in future periods.

5 INCOME TAX EXPENSE

	Consolidated 2010 $'000	Consolidated 2009 $'000
(a) Income tax expense		
Current tax	**23,586**	19,897
Deferred tax	**(2,478)**	(2,181)
Adjustments for current tax of prior periods	**(66)**	–
	21,042	17,716
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**70,141**	52,165
Tax at the Australian tax rate of 30% (2009 – 30%)	**21,042**	15,650
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other non allowable items	**150**	480
Over provision for income tax in prior year	**(66)**	–
Assessable capital gains	**–**	156
Difference in overseas tax rates	**(11)**	(83)
Tax losses not recognised	**–**	1,424
Share of joint ventures (profits)/losses not assessable	**(73)**	89
Total income tax expense	**21,042**	17,716
(c) Tax expense (income) relating to items of other comprehensive income		
Cash flow hedges (note 30(a))	**(875)**	1,420
(d) Tax losses		
Gross unused tax losses for which no deferred tax asset has been recognised	**14,523**	16,639
All unused tax losses were incurred by entities in Hong Kong that are not part of the tax consolidated group		
(e) Unrecognised temporary differences		
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised		
Undistributed earnings	**–**	–

A deferred tax liability has not been recognised in respect of temporary differences arising as a result of the translation of the financial statements of the Group's foreign subsidiaries. The deferred tax liability will only arise in the event of disposal of the subsidiary, and no such disposal is expected in the foreseeable future.

(f) Tax consolidation legislation

Salmat Limited and its wholly owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement, which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Salmat Limited.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Salmat Limited for any current tax payable assumed and are compensated by Salmat Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Salmat Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

6 NET TANGIBLE ASSET BACKING

	Consolidated 2010 Cents	2009 Cents
Net tangible asset backing per ordinary share	**(63.0)**	(78.2)

7 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

Cash at bank	**59,306**	44,186
Cash on hand	**27**	28
	59,333	44,214

(a) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 44.

8 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

Trade receivables	**107,476**	109,250
Allowance for doubtful receivables (note (a))	**(569)**	(814)
	106,907	108,436
Other receivables	**8,059**	8,610
	114,966	117,046

(a) Impaired trade receivables

As at 30 June 2010 current trade receivables of the Group with a nominal value of $569,000 (2009: $814,000) were impaired. The individually impaired receivables mainly relate to customers, which are in an unexpectedly difficult economic situation. It was assessed that a portion of the receivables is expected to be recovered.

Movements in the allowance for impairment of receivables are as follows:

At 1 July	**814**	1,443
Allowance for impairment recognised during the year	**7**	526
Receivables written off during the year as uncollectible	**(252)**	(1,721)
Bad debts recovered	**–**	566
	569	814

The creation and release of the allowance for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

8 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Past due but not impaired

As of 30 June 2010, trade receivables of $16,791,000 (2009: $12,675,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
1-30 days	**13,132**	9,317
31-60 days	**2,410**	3,124
greater than 60 days	**1,249**	234
	16,791	12,675

There are no trade receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

Based on the credit history of trade receivables not past due or past due and not impaired, the Group believes that these amounts will be received when due.

The other classes within trade and other receivables do not contain impaired assets and the Group believes that these amounts will be fully recovered.

Related party transactions have been made on normal commercial terms and conditions and at market rates. The average interest rate on loans during the year was 10% (2009: 10%).

Outstanding balances are unsecured and are repayable in cash.

(c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in note 44.

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 44 for more information on the risk management policy of the Salmat Group and the credit quality of the entity's trade receivables.

9 CURRENT ASSETS – INVENTORIES

Raw materials		
At cost	**5,260**	5,988
Provision for obsolescence	**(929)**	(802)
	4,331	5,186
Work in progress		
At cost	**3,391**	2,735
	7,722	7,921

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2010 amounted to $61,983,889 (2009: $73,584,000) and are included in 'materials usage' in the income statement.

10 CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated 2010 $'000	Consolidated 2009 $'000
Prepayments	**5,596**	5,001
Recoverable deposits	**197**	164
	5,793	5,165

11 NON-CURRENT ASSETS – RECEIVABLES

Related party receivable – joint venture	**3,401**	3,672

(a) Fair values

The fair values and carrying values of non-current receivables are as follows:

Group	2010 Carrying amount $'000	2010 Fair value $'000	2009 Carrying amount $'000	2009 Fair value $'000
Loans to joint venture	**3,401**	**3,401**	3,672	3,672

The loans to joint venture are contractually due for repayment in November 2010, however, are classified as a non-current receivable as Salmat does not intend to recall the loan within the next 12 months.

(b) Risk exposure

Information about the Salmat Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 44.

12 NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated 2010 $'000	Consolidated 2009 $'000
Shares in joint venture and associate (note 39)	**1,130**	1,269

(a) Shares in joint venture and associate

Investment in joint venture and associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Group.

13 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Freehold land $'000	Freehold buildings $'000	Plant and equipment $'000	Total $'000
At 1 July 2008				
Cost	4,350	7,576	164,984	176,910
Accumulated depreciation	–	(2,393)	(110,667)	(113,060)
Net book amount	4,350	5,183	54,317	63,850
Year 30 June 2009				
Opening net book amount	4,350	5,183	54,317	63,850
Additions	–	–	22,025	22,025
Disposals	(4,350)	(5,064)	(3,260)	(12,674)
Depreciation charge	–	(119)	(23,550)	(23,669)
Net exchange difference on translation of financial reports of foreign operations	–	–	489	489
Closing net book amount	–	–	50,021	50,021
At 30 June 2009				
Cost	–	–	158,144	158,144
Accumulated depreciation	–	–	(108,123)	(108,123)
Net book amount	–	–	50,021	50,021
Year 30 June 2010				
Opening net book amount	**–**	**–**	**50,021**	**50,021**
Additions	**–**	**–**	**21,263**	**21,263**
Disposals	**–**	**–**	**(521)**	**(521)**
Depreciation charge	**–**	**–**	**(21,857)**	**(21,857)**
Net exchange difference on translation of financial reports of foreign operations	**–**	**–**	**(1,086)**	**(1,086)**
Closing net book amount	**–**	**–**	**47,820**	**47,820**
At 30 June 2010				
Cost	**–**	**–**	**175,332**	**175,332**
Accumulated depreciation	**–**	**–**	**(127,512)**	**(127,512)**
Net book amount	**–**	**–**	**47,820**	**47,820**

14 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated	
	2010 $'000	**2009 $'000**
The balance comprises temporary differences attributable to:		
Doubtful debts	**156**	215
Employee benefits	**9,996**	9,339
Property, plant & equipment	**-**	96
Deferred capital profit	**622**	1,341
Cash flow hedges	**545**	1,420
Amortisation of intangibles	**144**	601
Accruals	**6,925**	5,701
Other provisions	**1,370**	1,413
Tax losses	**–**	358
	19,758	20,484
Movements:		
Opening balance at 1 July	**20,484**	20,201
Credited/(charged) to the income statement (note 5)	**149**	(1,137)
(Credited)/charged to equity	**(875)**	1,420
Closing balance at 30 June	**19,758**	20,484

15 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Goodwill $'000	Other intangible assets $'000	Customer intangible $'000	Total $'000
At 1 July 2008				
Cost	366,354	8,759	55,761	430,874
Accumulated amortisation and impairment	–	(2,392)	(10,105)	(12,497)
Net book amount	366,354	6,367	45,656	418,377
Year 30 June 2009				
Opening net book amount	366,354	6,367	45,656	418,377
Additions	–	1,310	–	1,310
Writeback of deferred purchase consideration of prior acquisitions	(1,317)	–	–	(1,317)
Amortisation charge	–	(3,218)	(8,593)	(11,811)
Closing net book amount	365,037	4,459	37,063	406,559
At 30 June 2009				
Cost	365,037	10,069	55,761	430,867
Accumulated amortisation and impairment	-	(5,610)	(18,698)	(24,308)
Net book amount	365,037	4,459	37,063	406,559
Year 30 June 2010				
Opening net book amount	**365,037**	**4,459**	**37,063**	**406,559**
Additions	**–**	**551**	**–**	**551**
Acquisition of business**	**29**	**–**	**–**	**29**
Amortisation charge	**–**	**(1,998)**	**(8,519)**	**(10,517)**
Closing net book amount	**365,066**	**3,012**	**28,544**	**396,622**
At 30 June 2010				
Cost	**365,066**	**8,540**	**55,761**	**429,367**
Accumulated amortisation and impairment	**–**	**(5,528)**	**(27,217)**	**(32,745)**
Net book amount	**365,066**	**3,012**	**28,544**	**396,622**

** Represents the cash consideration for the acquisition of a letterbox distribution network

15 NON-CURRENT ASSETS – INTANGIBLE ASSETS (CONTINUED)

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to business segment.

A segment level summary of the goodwill allocation is presented below.

	Business Process Outsourcing $'000	Targeted Media Solutions $'000	Customer Contact Solutions $'000	Total $'000
2010				
Goodwill	**272,944**	**12,248**	**79,874**	**365,066**
2009				
Goodwill	272,944	12,219	79,874	365,037

The recoverable amount of a CGU is determined based on value-in-use using discounted cash flow calculations. These calculations use cash flow projections based on financial budgets approved by the board covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates.

(b) Key assumptions

In performing the value-in-use calculations for each CGU, the Group has applied the following assumptions:

- The rate used to discount the forecast future attributable pre-tax cash flows is 15.2% (2009: 16.6%). The equivalent post-tax discount rate is 10.8% for 2010 (2009: 12%).
- The growth rate used to extrapolate cash flows beyond the five year period is 3% (2009: 3%).
- Gross margins are based on the following year's budget, which is approved by the board. These are determined by reference to average gross margins achieved in the year immediately before the budgeted year, then adjusted for expected movements.

The calculations of value-in-use are sensitive to the discount rates and losses of major customers.

Discount rates reflect management's estimate of time value of money and the risks specific to each business unit that are not already reflected in the cash flows. In determining appropriate discount rates for each business unit, regard has been given to the weighted average cost of capital of the Group and specific cash generating business risk specific to that business segment. The same discount rate for all business units is considered appropriate. All business segments are based on an outsourcing model providing support services to similar customers, hence similar level of market risk.

Management recognises that the actual time value of money may vary to what they have estimated. Management notes that the discount rate would have to increase to 13.5% (post tax) for the recoverable amount of the Business Process Outsourcing unit valuation to fall below its carrying amount. The other segments continue to have valuations in excess of the carrying value with these changes.

The assumption around the loss of a major customer is important because as well as using historical trends, management expects the Group's market share of each business segment to be stable over future periods. The loss of a significant customer in any business segment will severely impact on the ability of that segment to maintain expected earnings and cash flow. Each major customer would have a different impact on earnings and profits, so it is not appropriate to discuss sensitivity on loss of a major customer.

16 NON-CURRENT ASSETS – OTHER NON-CURRENT ASSETS

	Consolidated	
	2010 $'000	2009 $'000
Recoverable deposits	**731**	750

17 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2010 $'000	2009 $'000
Trade payables	**22,555**	25,665
Accrued expenses	**60,316**	53,271
Other payables	**12,192**	15,246
	95,063	94,182

Terms and conditions relating to trade payables, accrued expenses and other payables are referred to in note 1(r) of the accounts.

Outstanding balances at year end are unsecured and interest free.

(a) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 44.

18 CURRENT LIABILITIES – BORROWINGS

Lease liabilities (note 35)	**443**	424

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 24.

(b) Risk exposure

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 44.

19 DERIVATIVE FINANCIAL INSTRUMENTS

Current liabilities		
Interest rate swap cash flow hedge	**1,074**	4,732
Total current derivative financial instrument liabilities	**1,074**	4,732
Non-current liabilities		
Interest rate swap cash flow hedge	**741**	–
Total non-current derivative financial instrument liabilities	**741**	–
Total derivative financial instrument liabilities	**1,815**	4,732

19 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Instruments used by the Salmat Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 44).

(i) Interest rate swap contracts – cash flow hedges

Bank loans of the Group currently bear an average variable interest rate of 6.05%. It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates

The fixed interest rates range between 3.39% and 8.02%.

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. In the year ended 30 June 2010 a loss of $3,943,000 was reclassified into profit or loss (2009 – loss of $5,003,000) and included in finance costs. There was no hedge ineffectiveness in the current or prior year.

(ii) Forward exchange contracts – held for trading

The Group has further entered into forward exchange contracts which are economic hedges but do not satisfy the requirements for hedge accounting. These contracts are subject to the same risk management policies as all other derivative contracts, see note 44 for details. However, they are accounted for as held for trading.

20 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	Consolidated	
	2010 $'000	**2009 $'000**
Income tax	**16,282**	6,900

21 CURRENT LIABILITIES – PROVISIONS

Employee benefits – long service leave	**11,226**	11,465
Provision for surplus lease space	**2,999**	–
Employee benefits – annual leave	**17,396**	17,087
	31,621	28,552

For movement in the provision for surplus lease space refer to note 26.

22 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

Deferred profit	**2,074**	2,395

Deferred profit relates to profit on sale of the Group's premises in Sydney and Brisbane.

23 NON-CURRENT LIABILITIES – PAYABLES

	Consolidated 2010 $'000	Consolidated 2009 $'000
Deferred purchase price	**250**	861

The deferred purchase price is carried at amortised cost and represents liabilities for acquisitions with deferred settlement arrangements.

24 NON-CURRENT LIABILITIES – BORROWINGS

	2010 $'000	2009 $'000
Secured		
Bank loans	188,824	208,932
Lease liabilities (note 35)	**4,378**	2,346
Total secured non-current borrowings	**193,202**	211,278

(a) Bank loans and bank overdraft

In December 2009 Salmat entered into a new bilateral agreement provided by three Australian banks for $210 million. These borrowings are split into two tranches with $105 million being due 23 December 2011 and $105 million being due 23 December 2012.

In February 2010, the existing syndicated facility of $200 million was repaid and cancelled and total debt facilities of $250m were replaced by the new $210m long term bilateral facility. Salmat drew down $180 million of the new facility.

In June 2009 Salmat Asia Limited entered into a banking facility for a two year term loan facility.

The bank loans are secured by deed of negative pledge and guarantee over the assets of certain group companies.

The loans have been classified as either current or non-current based on the expiry date of the loan facility agreements.

The carrying amounts of assets pledged as security for current and non-current borrowings are the full value of the assets held by certain members of the consolidated group.

(b) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date.

	2010 $'000	2009 $'000
Available		
Bank overdraft	**10,000**	13,932
Loan facilities	**221,548**	250,000
Lease facilities	**20,000**	10,000
Guarantee facility	**40,000**	42,465
	291,548	316,397
Used at balance date		
Bank overdrafts	**–**	5,932
Loan facilities	**189,432**	203,000
Lease facilities	**4,821**	2,770
Guarantee facility	**24,738**	41,840
	218,991	253,542
Unused at balance date		
Bank overdrafts	**10,000**	8,000
Loan facilities	**32,116**	47,000
Lease facilities	**15,179**	7,230
Guarantee facility	**15,262**	625
	72,557	62,855

The bank overdraft facilities may be drawn at any time.

Non-current interest bearing liabilities recorded in consolidated statement of financial position includes borrowing costs.

The current interest rates on loan facilities are 6.02% to 6.38% (2009: 3.56% to 3.59%), on lease facilities 8.05% (2009: 8.05%).

24 NON-CURRENT LIABILITIES – BORROWINGS (CONTINUED)

(c) Fair value

The carrying amounts and fair values of borrowings at balance date are:

	At 30 June 2010		At 30 June 2009	
Group	**Carrying amount $'000**	**Fair value $'000**	**Carrying amount $'000**	**Fair value $'000**
Bank loans	**188,824**	**191,907**	208,932	215,682
Lease liabilities	**4,821**	**2,346**	2,770	2,770
	193,645	**194,253**	211,702	218,452

(d) Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 44.

25 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated	
	2010 $'000	**2009 $'000**
The balance comprises temporary differences attributable to:		
Unearned income	**240**	103
Intangible assets	**8,538**	11,004
Total deferred tax liabilities	**8,778**	11,107
Movements:		
Opening balance at 1 July	**11,107**	14,425
Charged/(credited) to the income statement (note 5)	**(2,329)**	(3,318)
Closing balance at 30 June	**8,778**	11,107

26 NON-CURRENT LIABILITIES – PROVISIONS

Employee benefits – long service leave	**3,713**	3,387
Provision for surplus lease space	**–**	4,520
Other provisions – lease makegood	**5,298**	3,089
	9,011	10,996

(a) Provision for surplus lease space

The Group has a liability in respect of rental properties which they no longer occupy. A provision has been recognised as the best estimate of the expenditure to settle the required obligation at balance date.

(b) Lease make good provision

The Group has leased properties in various locations across Australia, Asia and New Zealand. In most instances, Salmat is required to make good the premises to the original state they were in when Salmat signed the lease. Salmat is required to record a provision if it can be reliably estimated and measured.

26 NON-CURRENT LIABILITIES – PROVISIONS (CONTINUED)

(c) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below

	Consolidated	
	2010 $'000	**2009 $'000**
Provision for surplus lease space		
Carrying amount at start of year	**4,520**	618
Additional provision recognised	**1,200**	3,902
Payments	**(2,721)**	–
Carrying amount at end of year	**2,999**	4,520
Current	**2,999**	–
Non-current	**–**	4,520
	2,999	4,520
Other provisions – lease makegood		
Carrying amount at start of year	**3,089**	2,117
Additional provision recognised	**2,734**	1,288
Unwinding of discount	**(525)**	(316)
Carrying amount at end of year	**5,298**	3,089

27 NON-CURRENT LIABILITIES – RETIREMENT BENEFIT OBLIGATIONS

(a) Superannuation plan

Group companies contribute to a number of retirement benefit schemes of a defined benefit type.

Taiwan – the Company currently maintains a retirement plan covering regular employees. The plan has a defined benefit format and is financed solely by the Company. The plan provides lump sum benefits upon retirement, disability and voluntary separation after completion of at least five years of service. The benefits are based on the employee's final monthly covered salary and service with the Company. The plan is closed to new employees.

Philippines – the Company currently maintains a retirement plan covering regular employees hired prior to 1 January 2006. The plan has a defined benefit format and is financed solely by the Company. The plan provides lump sum benefits upon retirement, death, total and permanent disability, involuntary separation (except for cause) or voluntary separation after completion of at least five years of service. The benefits are based on the employee's final monthly covered salary and service with the Company. The plan is closed to new employees.

Government Printing Service – the Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes. These schemes are all defined benefit schemes - at least a component of the final benefit is derived from a multiple of member salary and years of membership. All the Schemes are closed to new members.

There are no defined benefit superannuation plans attributable to the parent entity.

(b) Statement of financial position

Present value of the defined benefit obligation	**5,048**	4,559
Fair value of defined benefit plan assets	**(3,415)**	(3,203)
	1,633	1,356
Unrecognised actuarial gains	**5**	51
Net liability in the statement of financial position	**1,638**	1,407

The Group has no legal obligation to settle this liability with an immediate contribution or additional one-off contributions.

The Group intends to continue to contribute to the defined benefit plans in line with the actuary's latest recommendations.

Actuarial gains and losses recognised in the year in the statement of comprehensive income is a loss of $218,000 (2009: loss $1,175,000).

Cumulative actuarial gains and losses recognised in the statement of comprehensive income is a loss of $1,082,000 (2009: loss $864,000).

27 NON-CURRENT LIABILITIES – RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(c) Categories of plan assets

The major categories of plan assets are as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
Cash	**386**	324
Equity instruments	**1,881**	1,754
Debt instruments	**460**	454
Property	**294**	291
Other assets	**394**	380
	3,415	3,203

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Reconciliation of the present value of the defined benefit obligation, which is partly funded:		
Balance at the beginning of the year	**4,559**	4,193
Current service cost	**120**	137
Interest cost	**234**	256
Contributions by plan participants	**17**	24
Actuarial (gains) and losses	**250**	396
Foreign currency exchange rate changes	**(24)**	62
Benefits paid	**(108)**	(509)
Balance at the end of the year	**5,048**	4,559

Reconciliation of the fair value of plan assets:		
Balance at the beginning of the year	**3,203**	4,059
Expected return on plan assets	**254**	317
Actuarial gains and (losses)	**30**	(857)
Foreign currency exchange rate changes	**(9)**	24
Contributions by Group companies	**26**	29
Contributions by plan participants	**17**	24
Benefits paid	**(105)**	(393)
Balance at the end of the year	**3,416**	3,203

(d) Amounts recognised in consolidated income statement

The amounts recognised in the income statement are as follows:

Current service cost	**123**	141
Interest cost	**234**	255
Expected return on plan assets	**(254)**	(315)
Net actuarial losses (gains) recognised in year	**(2)**	78
Total included in employee benefits expense	**101**	159
Actual return on plan assets	**268**	(380)

27 NON-CURRENT LIABILITIES – RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

(e) Amounts recognised in other comprehensive income

	Consolidated	
	2010	**2009**
Actuarial loss recognised in the year	**218**	1,175

(f) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

Australia		
Discount rate	**5.2%**	5.6%
Expected return on plan assets	**8.6%**	8.1%
Future salary increases	**3.5%**	3.5%
Taiwan		
Discount rate	**2.0%**	2.4%
Expected return on plan assets	**1.5%**	1.5%
Future salary increases	**2.5%**	2.5%
Philippines		
Discount rate	**10.3%**	9.1%
Expected return on plan assets	**7.0%**	7.0%
Future salary increases	**5.0%**	5.0%

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals, and the last such assessment was made as at 30 June 2009.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution, which is expected to be a constant percentage of members' salaries over their working lifetimes.

Using the funding method described above and the abovementioned actuarial assumptions as to the plan's future experience, the plan's actuary has not recommended that additional contributions beyond the current contribution level be made.

	2010 $'000	**2009 $'000**	**2008 $'000**	**2007 $'000**	**2006 $'000**
Defined benefit plan obligation	**(5,048)**	(4,559)	(4,193)	(4,678)	(4,888)
Plan assets	**3,415**	3,203	4,059	4,883	4,217
Surplus/(deficit)	**(1,633)**	(1,356)	(134)	205	(671)

28 NON-CURRENT LIABILITIES – OTHER NON-CURRENT LIABILITIES

	Consolidated	
	2010 $'000	**2009 $'000**
Deferred profit	**698**	3,099

The deferred profit relates to profit on sale of a subsidiary's business to an associated entity Reach Media NZ Limited $698,000 (2009:$1,025,000) and profit on sale of Group's premises in Sydney and Brisbane $nil (2009: $2,074,000).

29 CONTRIBUTED EQUITY

(a) Share capital

	Notes	Consolidated 2010 Shares '000	Consolidated 2009 Shares '000	Consolidated 2010 $'000	Consolidated 2009 $'000
Ordinary shares parent entity	(b)(c)				
Fully paid		**159,132**	158,792	**208,731**	207,542
Treasury shares	(d)	**(855)**	(570)	**(3,115)**	(1,902)
Total contributed capital consolidated		**158,277**	158,222	**205,616**	205,640

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares '000	$'000
1 July 2008	Opening balance		158,792	207,542
	Exercise of options under the Salmat Executive Performance Option Plan		–	–
30 June 2009	Balance		158,792	207,542
1 July 2009	Opening balance		158,792	207,542
	Exercise of options under the Salmat Executive Performance Option Plan	(f)	340	1,189
30 June 2010	Balance		159,132	208,731

(c) Ordinary shares

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's residual assets.

(d) Treasury shares

Treasury shares are shares in Salmat Limited that are held by the Salmat Executive Performance Option Plan and are deducted from equity (see note 43 for further information).

Date	Details	Number of shares $'000	$'000
1 July 2008	Opening balance	–	–
	Acquisition of shares by the Trust	570	1,902
30 June 2009	Balance	570	1,902
1 July 2009	Opening balance	570	1,902
	Acquisition of shares by the Trust	285	1,213
30 June 2010	Balance	855	3,115

(e) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 43.

(f) Options

Information relating to the Salmat Executive Performance Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 43.

29 CONTRIBUTED EQUITY (CONTINUED)

(g) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group and the parent entity monitor capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The gearing ratios at 30 June 2010 and 30 June 2009 were as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
Total borrowings	**193,645**	211,702
Less: cash and cash equivalents (note 7)	**(59,333)**	(44,214)
Net debt	**134,312**	167,488
Total equity	**296,401**	281,168
Total capital (Net debt plus Total equity)	**430,713**	448,656
Gearing ratio (Net debt divided by Total capital)	**31.2%**	37.3%

The reduction in gearing ratio during 2010 resulted from improved working capital management and lower borrowings due to continuing strong cash flow.

30 RESERVES AND RETAINED EARNINGS

(a) Reserves

Hedging reserve – cash flow hedges	**(1,271)**	(3,312)
Share-based payments reserve	**3,825**	4,018
Foreign currency translation reserve	**(1,984)**	(1,456)
	570	(750)
Movements:		
Hedging reserve – cash flow hedges		
Balance 1 July	**(3,312)**	–
Revaluation – gross	**2,916**	(4,732)
Deferred tax (notes 5 and 14)	**(875)**	1,420
Balance 30 June	**(1,271)**	(3,312)
Movements:		
Share-based payments reserve		
Balance 1 July	**4,018**	3,170
Shares and options expense/(credit)	**(193)**	848
Balance 30 June	**3,825**	4,018
Movements:		
Foreign currency translation reserve		
Balance 1 July	**(1,456)**	(997)
Currency translation differences arising during the year	**(528)**	(459)
Balance 30 June	**(1,984)**	(1,456)

30 RESERVES AND RETAINED EARNINGS (CONTINUED)

(b) Retained earnings

Movements in retained earnings were as follows:

	Consolidated 2010 $'000	Consolidated 2009 $'000
Balance 1 July	**76,278**	73,969
Net profit for the year	**49,099**	34,449
Actuarial gains/(losses) on defined benefit plans recognised directly in retained earnings (note 27(e))	**(218)**	(1,175)
Dividends	**(34,944)**	(30,965)
Balance 30 June	**90,215**	76,278

(c) Nature and purpose of reserves

(i) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1(n). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(ii) Share-based payments reserve

The share-based payments reserve is used to recognise the amortised portion of the fair value of options issued but not exercised.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d). The reserve is recognised in the income statement after disposal of the net investment.

31 DIVIDENDS

(a) Ordinary shares

	2010 $'000	2009 $'000
Final ordinary dividend for the year ended 30 June 2009 of 11.0 cents (2008: 10.5 cents) per share, fully franked, was paid on 25 September 2009.	**17,467**	16,673
Interim ordinary dividend for the year ended 30 June 2010 of 11.0 cents (2009: 9.0 cents) per share, fully franked, was paid on 9 April 2010.	**17,477**	14,292
	34,944	30,965
Paid in cash	**34,944**	30,965

(b) Dividends not recognised at year end

	2010 $'000	2009 $'000
In addition to the above dividends, since year end the directors have recommended: The payment of a final dividend of 12.5 cents per fully paid ordinary share (2009: 11.0 cents).	**19,891**	17,467
The payment of a special dividend of 10.0 cents per fully paid ordinary share (2009: nil). These dividends will be fully franked to 100% at 30% corporate tax rate.	**15,913**	–

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2010.

	2010 $'000	2009 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009 – 30%)	**79,280**	66,065

31 DIVIDENDS (CONTINUED)

The above amounts represent the balance of the franking account as at the reporting date, adjusted for:

a) franking credits that will arise from the payment of the amount of the provision for income tax,

b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

32 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated	
	2010 $	**2009 $**
Short-term employee benefits	**6,919,334**	7,957,338
Post-employment benefits – Defined contribution fund contributions	**406,722**	1,160,969
Share-based payments	**164,280**	331,067
	7,490,336	9,449,374

Detailed remuneration disclosures are provided in the remuneration report on pages 8 to 17.

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Salmat Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2010 **Name**	**Balance at start of the year**	**Exercised**	**Forfeited**	**Balance at end of the year**	**Vested and exercisable**	**Unvested**
Directors of Salmat Limited						
Philip Salter	495,000	–	(330,000)	165,000	–	165,000
Peter Mattick	495,000	–	(330,000)	165,000	–	165,000
Other key management personnel of the Salmat Group						
Peter Anson	140,000	–	(80,000)	60,000	40,000	20,000
David Besson	180,000	(40,000)	(120,000)	20,000	–	20,000
Peter Boyle	180,000	(40,000)	(140,000)	–	–	–
Colin Wright	7,500	–	–	7,500	–	7,500
Andrew Hume	200,000	(90,000)	(30,000)	80,000	65,000	15,000
Gary Smith	50,000	(20,000)	(20,000)	10,000	–	10,000
Peter Hartley	12,500	–	(2,500)	10,000	2,500	7,500
Terry Daly	20,000	–	–	20,000	–	20,000
Geoffrey Court	35,000	–	(20,000)	15,000	10,000	5,000

32 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(b) Equity instrument disclosures relating to key management personnel (continued)

2009 Name	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Salmat Limited							
Philip Salter	660,000	–	–	(165,000)	495,000	–	495,000
Peter Mattick	660,000	–	–	(165,000)	495,000	–	495,000
Other key management personnel of the Salmat Group							
Peter Anson	180,000	–	–	(40,000)	140,000	–	140,000
David Besson	260,000	–	–	(80,000)	180,000	–	180,000
Peter Boyle	260,000	–	–	(80,000)	180,000	–	180,000
Colin Wright	7,500	–	–	–	7,500	–	7,500
Andrew Hume	240,000	–	–	(40,000)	200,000	–	200,000
Gary Smith	80,000	–	–	(30,000)	50,000	–	50,000
Peter Hartley	22,500	–	–	(10,000)	12,500	–	12,500
Terry Daly	20,000	–	–	–	20,000	–	20,000
Geoffrey Court	40,000	–	–	(5,000)	35,000	–	35,000

(ii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Salmat Limited and other key management personnel of the Salmat Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2010 Name	Balance at the start of the year	Granted during the year as compensation	Received during the year on the exercise of options	Other acquisition and disposal of shares	Balance at the end of the year
Directors of Salmat Limited					
Ordinary shares					
Richard Lee	**383,407**	**–**	**–**	**–**	**383,407**
Peter Mattick	**36,500,393**	**–**	**–**	**–**	**36,500,393**
Philip Salter	**36,123,352**	**–**	**–**	**(11,275)**	**36,112,077**
John Thorn	**120,601**	**–**	**–**	**10,500**	**131,101**
Ian Elliot	**33,435**	**–**	**–**	**–**	**33,435**
Fiona Balfour	**–**	**–**	**–**	**12,460**	**12,460**
Grant Harrod	**191,660**	**–**	**–**	**–**	**191,660**
Other key management personnel of the Salmat Group					
Ordinary shares					
Peter Anson	**53,644**	**31,629**	**–**	**–**	**85,273**
Chad Barton	**–**	**26,358**	**–**	**–**	**26,358**
David Hackshall	**–**	**26,358**	**–**	**–**	**26,358**
David Besson	**218,549**	**27,676**	**40,000**	**(200,000)**	**86,225**
Peter Boyle	**248,889**	**–**	**40,000**	**(40,000)**	**248,889**
Colin Wright	**45,404**	**–**	**–**	**(17,385)**	**28,019**
Andrew Hume	**34,770**	**26,358**	**30,000**	**(30,000)**	**61,128**
Gary Smith	**70,498**	**26,358**	**20,000**	**(16,000)**	**100,856**
Peter Hartley	**44,665**	**–**	**–**	**(36,509)**	**8,156**
Geoffrey Court	**29,846**	**9,489**	**–**	**–**	**39,335**
Nick Debenham	**–**	**–**	**–**	**–**	**–**

32 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

(b) Equity instrument disclosures relating to key management personnel (continued)

2009 Name	Balance at the start of the year	Granted during the year as compensation	Received during the year on the exercise of options	Other acquisition and disposal of shares	Balance at the end of the year
Directors of Salmat Limited					
Ordinary shares					
Richard Lee	375,479	–	–	7,928	383,407
Peter Mattick	36,500,393	–	–	–	36,500,393
Philip Salter	36,107,477	–	–	15,875	36,123,352
John Thorn	110,601	–	–	10,000	120,601
Ian Elliot	33,435	–	–	–	33,435
Grant Harrod	–	191,660	–	–	191,660
Other key management personnel of the Salmat Group					
Ordinary shares					
Peter Anson	31,919	41,725	–	(20,000)	53,644
David Besson	229,706	17,385	–	(28,542)	218,549
Peter Boyle	524,723	–	–	(275,834)	248,889
Colin Wright	15,412	17,385	–	12,607	45,404
Andrew Hume	–	34,770	–	–	34,770
Gary Smith	35,728	34,770	–	–	70,498
Peter Hartley	5,239	36,509	–	2,917	44,665
Terry Daly	24,525	–	–	31,884	56,409
Geoffrey Court	17,329	12,517	–	–	29,846

33 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the group and its related practices:

	Consolidated 2010 $'000	Consolidated 2009 $'000
(a) Audit services		
Amounts received or due and receivable by Ernst & Young (Australia) for:		
Audit or review of the financial report of any entity in the consolidated group	**395**	582
Ernst & Young overseas firms for the audit or review of financial reports of subsidiary entities	**62**	74
Total remuneration for audit services	**457**	656
(b) Other services		
Ernst & Young (Australia)		
Assurance related services		
Other services	**18**	42
Taxation services		
Tax compliance services, including review of company income tax returns	**194**	429
Total remuneration for non-audit services	**212**	471

It is the Group's policy to employ Ernst & Young on assignments additional to their statutory audit duties where Ernst & Young's expertise and experience with the Group are important.

34 CONTINGENCIES

Legal and regulatory proceedings

The Group has been involved from time to time in various claims and proceedings arising from the conduct of its business. Other than the matter discussed below there are currently no claims or proceedings, either individually or in aggregate, which are likely to have a material effect on the Group's financial position. The Group maintains insurance cover to minimise the potential effects of such claims, and where appropriate, provisions have been made.

The Group is currently disputing an amended assessment with regard to the classification of a group of contractors for payroll tax purposes. The directors believe, based on legal advice obtained that the position taken by the entity will be successfully defended.

Guarantees

Cross guarantees given by Salmat Limited as described in note 38.

35 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated	
	2010 $'000	**2009 $'000**
Property, plant and equipment		
Payable:		
Within one year	**19,035**	3,290

(i) Non-cancellable operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year	**27,970**	31,207
Later than one year but not later than five years	**61,597**	67,231
Later than five years	**48,088**	30,102
	137,655	128,540

(ii) Finance leases

The Group leases various plant and equipment under finance lease expiring within four to five years.

Commitments in relation to finance leases are payable as follows:

Within one year	**612**	627
Later than one year but not later than five years	**4,645**	2,783
Minimum lease payments	**5,257**	3,410
Future finance charges	**(436)**	(640)
Recognised as a liability	**4,821**	2,770
Representing lease liabilities:		
Current (note 18)	**443**	424
Non-current (note 24)	**4,378**	2,346
	4,821	2,770

36 RELATED PARTY TRANSACTIONS

(a) Parent entities

The ultimate parent entity within the Group is Salmat Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 37.

(c) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, is set out below.

	Consolidated	
	2010 $	**2009 $**
Peter Mattick or related entities: Provision of printing services to the Group	**947,761**	1,346,952

(d) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

Non-current receivables (loans)		
Joint venture – Reach Media NZ Limited	**3,401,000**	3,672,000
Current payables (purchases of goods)		
Peter Mattick or related entities	**74,000**	66,000

(e) Terms and conditions

All transactions with key management personnel and entities related to them were made on normal commercial terms and conditions and at market rates.

37 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding** 2010 %	Equity holding** 2009 %
Salmat Document Management Solutions Pty Limited*	Australia	Ordinary	**100**	100
SDS Data Insights Pty Limited*	Australia	Ordinary	**100**	100
Salmat MediaForce Pty Limited*	Australia	Ordinary	**100**	100
Letterbox Distribution Network Pty Limited*	Australia	Ordinary	**100**	100
Salmat SalesForce Pty Limited*	Australia	Ordinary	**100**	100
SalesForce Australia Pty Ltd*	Australia	Ordinary	**100**	100
Pardrive Pty Limited*	Australia	Ordinary	**100**	100
SalesForce Services Pty Ltd*	Australia	Ordinary	**100**	100
Salmat International Pty Limited*	Australia	Ordinary	**100**	100
Deltarg Distribution Systems Limited***	New Zealand	Ordinary	**100**	100
Salmat Asia Limited	Hong Kong	Ordinary	**100**	100
Salmat Mauritius Limited	Mauritius	Ordinary	**100**	100
Salmat Asia Pacific Pte Limited	Singapore	Ordinary	**100**	100
Salmat Philippines Inc.	Philippines	Ordinary	**100**	100
Salmat (China) Limited	Hong Kong	Ordinary	**100**	100
SalesForce New Zealand Limited	New Zealand	Ordinary	**100**	100
VeCommerce Limited*	Australia	Ordinary	**100**	100
Tri Screen Entertainment Pty Limited*	Australia	Ordinary	**100**	100
Salmat Interactive Pty Limited*	Australia	Ordinary	**100**	100
VeCommerce (NZ) Limited	New Zealand	Ordinary	**100**	100
VeCommerce (UK) Limited	UK	Ordinary	**100**	100
VeCommerce Inc	USA	Ordinary	**100**	100
Scitec Americas Inc	USA	Ordinary	**100**	100
Salmat Print on Demand Pty Limited*	Australia	Ordinary	**100**	100
Salmat Administrative Services Pty Limited*	Australia	Ordinary	**100**	100
Lasoo Pty Limited*	Australia	Ordinary	**100**	100
SalesForce Global Pty Limited*	Australia	Ordinary	**100**	100
SalesForce Direct Sales Pty Limited*	Australia	Ordinary	**100**	100
HPAL Limited*	Australia	Ordinary	**100**	100
Direct Headquarters Pty Limited*	Australia	Ordinary	**100**	100
Hermes Precisa Pty Limited*	Australia	Ordinary	**100**	100
HPA Unit Trust	Australia	Ordinary	**100**	100
SalesForce Contact Centres SDN BHD	Malaysia	Ordinary	**100**	100
Salmat HPA Pty Limited*	Australia	Ordinary	**100**	100
A.C.N. 133 915 321 Pty Limited	Australia	Ordinary	**100**	100
A.C.N. 137 918 577 Pty Limited	Australia	Ordinary	**100**	100
Salmat BusinessForce Pty Limited*	Australia	Ordinary	**100**	100
Salmat Services Inc	Philippines	Ordinary	**100**	100

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 38.

** The proportion of ownership interest is equal to the proportion of voting power held.

*** In liquidation.

38 DEED OF CROSS GUARANTEE

Salmat Limited and the following controlled entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others.

- Salmat Document Management Solutions Pty Limited
- Letterbox Distribution Network Pty Limited
- Salmat MediaForce Pty Limited
- Salmat SalesForce Pty Limited
- SalesForce Australia Pty Ltd
- Salmat Interactive Pty Limited
- VeCommerce Limited
- Salmat Print on Demand Pty Limited
- Direct Headquarters Pty Limited
- Hermes Precisa Pty Limited
- HPAL Limited
- SDS Data Insights Pty Limited
- Pardrive Pty Limited
- SalesForce Services Pty Ltd
- Salmat International Pty Limited
- Tri Screen Entertainment Pty Limited
- Salmat Administrative Services Pty Limited
- Lasoo Pty Limited
- SalesForce Global Pty Limited
- SalesForce Direct sales Pty Limited
- Salmat BusinessForce Pty Limited
- Salmat HPA Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Salmat Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained earnings for the year ended 30 June 2010 of the Closed Group.

	2010 $'000	2009 $'000
Income statement		
Profit before income tax	**65,913**	56,048
Income tax expense	**(19,539)**	(16,485)
Profit for the year	**46,374**	39,563
Statement of comprehensive income		
Profit for the year	**46,374**	39,563
Other comprehensive income		
Cash flow hedges	**2,916**	(4,732)
Actuarial (losses)/gains on retirement benefit obligation	**(218)**	(1,175)
Income tax relating to components of other comprehensive income	**(875)**	1,420
Other comprehensive income for the year, net of tax	**1,823**	(4,487)
Total comprehensive income for the year	**48,197**	35,076
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**99,401**	57,114
Profit for the year	**46,374**	39,563
Change of entities within the closed group	**–**	34,864
Actuarial (losses) on retirement benefit obligation	**(218)**	(1,175)
Dividends provided for or paid	**(34,944)**	(30,965)
Retained earnings at the end of the financial year	**110,613**	99,401

38 DEED OF CROSS GUARANTEE (CONTINUED)

(b) Statement of financial position

Set out below is a consolidated statement of financial position as at 30 June 2010 of the Closed Group.

	2010 $'000	2009 $'000
Current assets		
Cash and cash equivalents	**52,411**	36,937
Trade and other receivables	**140,850**	144,216
Inventories	**6,171**	6,809
Other current assets	**8,211**	9,322
Total current assets	**207,643**	197,284
Non-current assets		
Other financial assets	**8,716**	8,737
Property, plant and equipment	**40,819**	43,417
Deferred tax assets	**18,492**	19,135
Intangible assets	**394,254**	404,190
Total non-current assets	**462,281**	475,479
Total assets	**669,924**	672,763
Current liabilities		
Trade and other payables	**95,173**	96,094
Borrowings	**443**	424
Derivative financial instruments	**1,074**	4,732
Current tax liabilities	**15,795**	6,164
Provisions	**29,673**	30,040
Total current liabilities	**142,158**	137,454
Non-current liabilities		
Payables	**250**	861
Borrowings	**188,262**	205,346
Derivative financial instruments	**741**	–
Provisions	**9,412**	10,160
Retirement benefit obligations	**1,165**	947
Deferred tax liabilities	**8,778**	11,104
Total non-current liabilities	**208,608**	228,418
Total liabilities	**350,766**	365,872
Net assets	**319,158**	306,891
Equity		
Contributed equity	**208,731**	207,542
Reserves	**(186)**	(52)
Retained earnings	**110,613**	99,401
Total equity	**319,158**	306,891

39 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

(a) Carrying amounts

Information relating to joint ventures and associates is set out below.

Name of company	Principal activity	Ownership interest 2010 %	Ownership interest 2009 %	2010 $'000	2009 $'000
Unlisted					
Reach Media NZ Limited, New Zealand (Joint Venture)	Unaddressed Mail Distribution	**50**	50	**782**	938
MailForce Document Solutions Pty Limited (Associate)	Print, Mail and Document Solutions	**30**	30	**348**	331
				1,130	1,269

The reporting date of the above entities is 30 June.

There were no capital commitments or contingent liabilities relating to the joint venture.

	Consolidated 2010 $'000	Consolidated 2009 $'000
(b) Movements in carrying amounts		
Carrying amount at the beginning of the financial year	**1,269**	1,312
Amount invested in current year	**–**	306
Share of profits recognised, after income tax	**244**	(298)
Adjustment to carrying value	**(327)**	–
Net exchange differences	**(4)**	(51)
Dividends received	**(52)**	–
Carrying amount at the end of the financial year	**1,130**	1,269
(c) Fair value of unlisted investments in joint venture and associate		
Reach Media NZ Limited	**782**	938
MailForce Document Solutions Pty Limited	**348**	331
	1,130	1,269

(d) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Ownership Interest %	Company's share of: Assets $'000	Liabilities $'000	Revenues $'000	Profit/(Loss) $'000
2010					
Reach Media NZ Limited, New Zealand	**50**	**5,553**	**4,755**	**13,430**	**176**
MailForce Document Solutions Pty Ltd	**30**	**501**	**152**	**744**	**68**
		6,054	**4,907**	**14,174**	**244**
2009					
Reach Media NZ Limited, New Zealand	50	5,391	4,780	14,667	(330)
MailForce Document Solutions Pty Ltd	30	384	40	293	32
		5,775	4,820	14,960	(298)

40 EVENTS OCCURRING AFTER THE REPORTING PERIOD

(a) Dividends

Since 30 June 2010 the directors have recommended the payment of a final ordinary dividend of $19,891,498 (12.5 cents per fully paid share – fully franked) and a special dividend of $15,913,198 (10.0 cents per fully paid share – fully franked) to be paid on 28 September 2010 out of profits at 30 June 2010.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

(i) the Group's operations in future financial years, or
(ii) the results of those operations in future financial years, or
(iii) the Group's state of affairs in future financial years.

41 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2010 $'000	**2009 $'000**
Profit for the year	**49,099**	34,449
Depreciation and amortisation	**32,375**	35,481
Non-cash employee benefits expense – share-based payments	**(193)**	209
Net gain on sale of non-current assets	**(2,390)**	(6,894)
Share of losses/(profits) of associates not received as dividends or distributions	**(244)**	298
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
Decrease in trade and other receivables	**2,079**	12,355
Decrease in inventories	**199**	207
(Decrease)/Increase in other assets	**(2,639)**	471
Decrease/(Increase) in deferred tax assets	**(150)**	1,138
Increase/(Decrease) in trade and other payables	**849**	(5,413)
Increase in provision for income taxes payable	**9,382**	7,902
Decrease in provision for deferred income tax	**(2,329)**	(3,318)
(Decrease)/Increase in other provisions	**(1,112)**	3,981
Net cash inflow from operating activities	**84,926**	80,866

42 EARNINGS PER SHARE

(a) Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the parent	**31.1**	21.7
(b) Diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the parent	**30.9**	21.6

(c) Reconciliation of earnings used in calculating earnings per share

Basic earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the parent entity used in calculating basic earnings per share	**49,099**	34,449
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the parent entity used in calculating basic earnings per share	**49,099**	34,449

42 EARNINGS PER SHARE (CONTINUED)

(d) Weighted average number of ordinary shares used in the calculation of basic EPS

	Consolidated	
	2010 $'000	**2009 $'000**
Weighted average number of shares on issue used to calculate basic EPS	**158,016**	158,792
Effect of dilutive securities – weighted average number of options outstanding	**1,155**	348
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS	**159,171**	159,140

(e) Information concerning the classification of securities

Options granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 43.

43 SHARE-BASED PAYMENTS

(a) Employee Option Plan

The Salmat Executive Performance Option Plan allows the Company to grant options over shares to key executives. The board may offer options to purchase shares to eligible executives having regard to actual and potential contribution to the Company, as determined by the board from time to time. The consideration for options is an amount equal to the exercise price, but payment is deferred until the options are exercised. Options generally may not be transferred. Quotation of options on the ASX will not be sought. However, the company will apply for official quotation of shares issued on the exercise of options. Shares issued on the exercise of options will rank equally with other shares of the Company.

- In the case of options issued prior to the Company being listed on ASX, the price at which shares are offered under the Prospectus dated 18 October 2002; or
- In other cases, the weighted average market price of shares during the five trading days up to and including the date of grant of the option or such other date or period as the board considers appropriate.

An option may only be exercised by a date to be determined by the board from time to time but not exceeding 10 years after the date the option is granted, subject to applicable performance hurdles and other exercise restrictions.

An unexercised option will lapse on the earlier of the expiry of 10 years (or such earlier date as determined by the board) from the date of its issue to the eligible executive, or the date six months after the eligible executive dies, retires, is made redundant or becomes disabled, or the date one month after the eligible executive ceases to be employed by Salmat for any other reason.

Share options do not carry any voting rights or the right to dividends.

Set out below are summaries of options granted under the plan:

Grant date	Expiry date	Exercise price	Balance at start of the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
Consolidated – 2010								
November 2004	November 2009	$4.41	697,500	(40,000)	–	(657,500)	–	–
April 2005	November 2009	$5.05	6,500	–	–	(6,500)	–	–
April 2005	December 2009	$4.83	225,000	–	–	(225,000)	–	–
April 2005	December 2010	$4.83	65,000	–	–	–	65,000	65,000
November 2006	November 2011	$3.41	330,000	(330,000)	–	–	–	–
November 2006	November 2011	$3.41	860,000	(467,500)	(265,000)	–	127,500	127,500
December 2006	December 2011	$3.80	190,000	(95,000)	(75,000)	–	20,000	20,000
November 2007	November 2012	–	347,500	(67,500)	–	–	280,000	–
November 2007	November 2012	$4.20	330,000	–	–	–	330,000	–
Total			3,051,500	(1,000,000)	(340,000)	(889,000)	822,500	212,500
Weighted average exercise price			$3.50	$3.26	$3.50	$4.52	$2.69	$3.88

43 SHARE-BASED PAYMENTS (CONTINUED)

(a) Employee Option Plan (continued)

Grant date	Expiry date	Exercise price	Balance at start of the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
Consolidated – 2009								
November 2002	October 2007	–	–	–	–	–	–	–
November 2004	November 2009	$4.41	777,500	(80,000)	–	–	697,500	697,500
April 2005	November 2009	$5.05	6,500	–	–	–	6,500	6,500
April 2005	December 2009	$4.83	245,000	(20,000)	–	–	225,000	225,000
April 2005	December 2010	$4.83	65,000	–	–	–	65,000	65,000
November 2005	November 2010	$4.00	1,024,000	(1,024,000)	–	–	–	–
November 2006	November 2011	$3.41	330,000	–	–	–	330,000	–
November 2006	November 2011	$3.41	935,000	(75,000)	–	–	860,000	–
December 2006	December 2011	–	190,000	–	–	–	190,000	–
November 2007	November 2012	–	381,250	(33,750)	–	–	347,500	–
November 2007	November 2012	$4.20	330,000	–	–	–	330,000	–
Total			4,284,250	(1,232,750)	–	–	3,051,500	994,000
Weighted average exercise price			$3.61	$3.89	–	–	$3.50	$4.54

Options may only be exercised within the limitations imposed by the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules. Under the Australian Securities Exchange Listing Rules, options may not be issued to Company Directors under an employee incentive scheme without specific shareholder approval.

The market price of the company's shares at 30 June 2010 was $4.01 (2009: $3.59).

Fair value of options granted.

There were no options granted during the year.

(b) Employee share plans

Exempt Employee Share Plan

The Salmat Exempt Employee Share Plan is open to all full-time or permanent part-time Australian employees with more than three months service and allows for the purchase of up to $1,000 worth of shares per annum per eligible employee.

Participants will not be permitted to dispose of their shares until three years after the date of acquisition unless they leave the company. An initial offer was made by Salmat to qualifying employees on the basis that the company will match (at no cost to the employee) the contribution made by an employee, such contributions being limited to a maximum of $500 each.

Ordinary shares carry one vote per share and carry the right to dividends.

Deferred Employee Share Plan (refer to note 29(e)).

The Salmat Deferred Employee Share Plan allows invited eligible employees (including Directors) to receive shares as a bonus/incentive or as a remuneration sacrifice.

Participants will not be permitted to dispose of their shares unless any pre-specified hurdle conditions are satisfied. Participants may forfeit their shares if they cease to be an employee at a time when any vesting or performance criteria have not been satisfied.

Ordinary shares carry one vote per share and carry the right to dividends.

The Salmat Deferred Employee Share Plan acquired 285,342 shares (2009: 569,924 shares) in Salmat Limited at a cost of $1,213,018 (2009: $1,902,440) which will vest to senior management upon satisfying the service and employment conditions. Should the hurdles not be met the shares are forfeited.

43 SHARE-BASED PAYMENTS (CONTINUED)

Grant date	Date vested and exercisable	Expiry date	Fair value per share at grant date
February 2009	September 2011	September 2011	$3.31
February 2009	June 2011	June 2011	$2.78
April 2009	October 2012	October 2012	$3.79
April 2009	October 2012	October 2012	$3.70
March 2010	September 2012	September 2012	$4.24
March 2010	September 2012	September 2012	$2.80

The assessed fair value at grant date of deferred shares granted to individuals is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables. Fair value at grant date are independently determined using a Binomial Approximation Valuation option pricing model and a Monte-Carlo simulation model that takes into account share price at grant date and expected price volatility of the underlying share, exercise price, the expected dividend yield and the risk free interest for the term of the deferred share.

The model inputs for deferred shares issued during the year ended 30 June 2010 included:

(a) Share price at date of grant: $4.34

(b) Deferred shares issued have no exercise price

(c) Risk free interest rate: 5.13%

(d) Expected price volatility of the Company's shares: 31.18%

(e) Expected dividend yield: 5.53%

Details of shares in the Company provided as remuneration to key management personnel of the parent entity and the Group are set out below.

	2010	2009
	Number of shares '000	Number of shares '000
Exempt Employee Share Plan		
Opening balance	**398**	227
Transfers/disposals	**(52)**	(30)
Acquisitions	**140**	201
Deferred Employee Share Plan		
Opening balance	**1,622**	1,513
Transfers/disposals	**(535)**	(497)
Acquisitions	**285**	605
	1,858	2,019

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	Consolidated	
	2010 $'000	2009 $'000
Options issued under employee option plan	**(485)**	209
Shares issued under deferred employee share scheme	**292**	639
	(193)	848

44 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. There has been no significant change in the group's risk profile from the prior year. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks; aging analysis for credit risk.

Risk management is carried out in accordance with ageing policies approved by the board of directors. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments, non-derivative financial instruments and investment of excess liquidity.

The Group holds the following financial instruments:

	Consolidated	
	2010 $'000	**2009 $'000**
Financial assets		
Cash and cash equivalents	**59,333**	44,214
Trade and other receivables	**118,368**	120,718
Other financial assets	**928**	914
	178,629	165,846
Financial liabilities		
Trade and other payable	**95,063**	94,182
Borrowings	**194,253**	211,702
Derivative financial instruments	**1,815**	4,732
	291,131	310,616

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than in the respective functional currencies of the Salmat entities. The Group's income and operating cash flows are not materially exposed to any particular foreign currency.

Management has set up a policy requiring Group companies to manage their foreign exchange risk against their functional currency. The Group companies are required to hedge their foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities using forward contracts transacted with Group Treasury.

Forward contracts, transacted with Treasury, are used to manage foreign exchange risk. Group treasury is responsible for managing exposures in each foreign currency by using external forward currency contracts.

All borrowings are in the functional currency of the borrowing entity.

The Group's exposure to foreign currency risk at the reporting period was as follows:

	30 June 2010		30 June 2009	
	USD $'000	**GBP $'000**	**USD $'000**	**GBP $'000**
Trade receivables	**112**	228	70	8

Sensitivity

Based on the financial instruments held at 30 June 2010, had the Australian dollar weakened/strengthened by 10% against the currencies detailed in the above table with all other variables held constant, the Group's post-tax profit for the year would have been $41,273 higher/$33,770 lower (2009 – $8,107higher/$6,633 lower), mainly as a result of foreign exchange gains/(losses) on translation of foreign currency denominated receivables in the above table.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's treasury policy requires interest rate swaps to be entered into to manage cash flow risks associated with borrowings with variable interest rates. The current policy is for between 70% to 100% of borrowings to be hedged for 12 months, 30% to 100% to be hedged for second year and 20% to be hedged for third year. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

At 30 June 2010 the Group had interest rate swaps with a notional principal of $160million covering the period to 1 July 2010 and interest rate swaps with a notional principal of $135 million covering the year ended 30 June 2011.

As at the reporting date, the Group had the following variable rate borrowings:

	30 June 2010		30 June 2009	
Consolidated	**Weighted average interest rate %**	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Bank overdrafts and bank loans	**6.0%**	**191,907**	3.6%	208,932
Interest rate swaps (notional principal amount)	**6.3%**	**(160,000)**	8.0%	(200,000)
Net exposure to cash flow interest rate risk		**31,907**		8,932

Sensitivity

At 30 June 2010, if interest rates had changed by - /+100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been $0.22 million lower/higher (2009 - change of 100 bps: $0.06 million lower/higher), mainly as a result of higher/lower interest expense on borrowings. Equity would have been $0.22 million lower/higher (2009 – $0.06 million lower/higher).

(b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Salmat has a Credit Policy which provides the guidelines for the management of credit risk. The guidelines provide for the manner in which the credit risk of customers is assessed and the use of credit ratings and other information in order to set appropriate account limits. Customers that do not meet minimum credit criteria are required to pay up front. Customers who fail to meet their account terms are reviewed for continuing credit worthiness.

The Group has taken out a debtor insurance policy. Specific debtors up to $1million are covered subject to a one-off excess of $350,000 and unspecified debtors of up to $250,000 are also provided for under the policy.

Credit risk on derivative contracts is minimised by principally dealing with large banks with an appropriate credit rating.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 67. As at 30 June 2010, the Group's exposure to customers with a balance greater than $1 million totalled $32.7 million (2009:$42.3 million). The Group does not consider that there is any significant concentration of credit risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Maturities of financial liabilities

The tables on page 69 analyse the Group's and the parent entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

Contractual maturities of financial liabilities	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount (assets)/ liabilities
At 30 June 2010	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Non-derivatives							
Non-interest bearing	**95,063**	**–**	**–**	**–**	**–**	**95,063**	**95,063**
Variable rate	**306**	**306**	**117,520**	**76,558**	**–**	**194,690**	**194,253**
Total non-derivatives	**95,369**	**306**	**117,520**	**76,558**	**–**	**289,753**	**289,316**
Derivatives							
Net settled (interest rate swaps)	**319**	**722**	**823**	**129**	**–**	**1,993**	**1,815**
At 30 June 2009							
Non-derivatives							
Non-interest bearing	94,182	–	–	–	–	94,182	94,182
Variable rate	320	306	209,545	2,170	–	212,341	211,702
Total non-derivatives	94,502	306	209,545	2,170	–	306,523	305,884
Derivatives							
Net settled (interest rate swaps)	1,244	3,484	–	–	–	4,728	4,732

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

(e) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

As of 1 July 2009, Salmat Limited has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

44 FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table presents the Salmat group's assets and liabilities measured and recognised at fair value at 30 June 2010. Comparative information has not been provided as permitted by the transitional provisions of the new rules.

At 30 June 2010	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Assets				
Liabilities				
Derivatives used for hedging	–	**1,815**	–	**1,815**
Total liabilities	–	**1,815**	–	**1,815**
Derivatives used for hedging	–	**4,732**	–	**4,732**

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Salmat Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Salmat Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

45 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent entity	
	2010 $'000	2009 $'000
Statement of financial position		
Current assets	**56,628**	36,855
Non-current assets	**420,162**	435,257
Total assets	**476,790**	472,112
Current liabilities	**52,143**	35,045
Non-current liabilities	**188,861**	203,718
Total liabilities	**241,004**	238,763
Shareholders' equity		
Contributed equity	**208,731**	207,542
Reserves	**(1,313)**	(1,439)
Retained earnings	**28,368**	27,246
	235,786	233,349
Profit or loss for the year	**36,068**	37,961
Total comprehensive income	**36,068**	37,961

(b) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2010, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling $1,069,000 (30 June 2009 – $4,623,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

46 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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 Group and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on discounted cash flow calculations. These calculations require the use of assumptions. Refer to note 15.

Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Binomial Approximation Option Valuation model together with a Monte-Carlo simulation model. Refer to note 43.

Defined benefit plans

Various actuarial assumptions are required when determining the Group's pension obligations. Refer to note 27.

DIRECTORS' DECLARATION

30 JUNE 2010

In the directors' opinion:

(a) the financial statements and notes set out on pages 20 to 71 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2010 and of its performance for the financial year ended on that date, 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, and

(c) there are reasonable grounds to believe that the members of the Closed Group identified in note 38 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.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

Grant Harrod
Chief Executive Officer

Richard Lee
Chairman

Sydney
27 August 2010

ERNST & YOUNG

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Independent auditor's report to the members of Salmat Limited

Report on the Financial Report

We have audited the accompanying financial report of Salmat Limited, which comprises the statement of financial position as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. 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 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 met the independence requirements of the *Corporations Act* 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's report was signed. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Salmat Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

ERNST & YOUNG

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2010. 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 Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Salmat Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Rob Lewis

Rob Lewis
Partner
Sydney
27 August 2010

SHAREHOLDER INFORMATION

SHARES AND OPTIONS

Shares on issue	159,134,483
Options on issue	310,000

DISTRIBUTION OF SHAREHOLDINGS AS AT 10 SEPTEMBER 2010

Range	Total holders	Units	% issued capital
1 to 1,000	885	382,800	0.24
1,001 to 5,000	1,350	3,419,996	2.15
5,001 to 10,000	337	2,495,578	1.57
10,001 to 100,000	236	5,294,860	3.33
100,001 and over	44	147,541,249	92.71
Total	2,852	159,134,483	100.00

There were 254 holders of less than a marketable parcel of shares.

TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AS AT 10 SEPTEMBER 2010

Name	Units	% issued capital
Teamnews Pty Limited	34,917,120	21.94%
Teamdate Pty Limited	29,756,874	18.70%
HSBC Custody Nominees (Australia) Limited	15,101,875	9.49%
JP Morgan Nominees Australia Limited	14,805,959	9.30%
National Nominees Limited	9,126,921	5.74%
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	9,005,413	5.66%
Citicorp Nominees Pty Limited	7,511,515	4.72%
Mr Philip John Salter	5,099,113	3.20%
RBC Dexia Investor Services Australia Nominees Pty Limited	3,205,770	2.01%
Cogent Nominees Pty Limited	2,423,273	1.52%
Argo Investments Limited	1,457,048	0.92%
Pacific Custodians Pty Limited <DEFERRED ESP TST A/C>	1,349,699	0.85%
ANZ Nominees Limited <CASH INCOME A/C>	1,135,578	0.71%
Citicorp Nominees Pty Limited <CFSIL CWLTH SMALL CO 7 A/C>	1,085,022	0.68%
BT Portfolio Services Limited <SALTER FAMILY S/FUND A/C>	1,068,643	0.67%
BKI Investment Company Limited	970,100	0.61%
M F Custodians Ltd	959,000	0.60%
Cogent Nominees Pty Limited <SMP ACCOUNTS>	894,346	0.56%
Sandhurst Trustees Ltd <SISF A/C>	730,953	0.46%
Citicorp Nominees Pty Limited <CFSIL CWLTH AUST SHS 14 A/C>	695,102	0.44%

SUBSTANTIAL SHAREHOLDERS AS AT 10 SEPTEMBER 2010

Name	Units	% issued capital
Teamnews Pty Limited	34,917,120	21.94%
Teamdate Pty Limited	29,756,874	18.70%
HSBC Custody Nominees (Australia) Limited	15,101,875	9.49%
JP Morgan Nominees Australia Limited	14,805,959	9.30%
National Nominees Limited	9,126,921	5.74%
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C>	9,005,413	5.66%

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Fiona Balfour Non-executive Director
Ian Elliot Non-executive Director
Grant Harrod Managing Director
Peter Mattick Non-executive Director
Philip Salter Non-executive Director
John Thorn Non-executive Director

COMPANY SECRETARY
Stephen Bardwell

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STOCK EXCHANGE LISTING
Salmat Limited shares are listed on the Australian Securities Exchange.

ASX code: SLM

ANNUAL GENERAL MEETING
10.00am, Thursday 25th November 2010
AGL Theatre, Museum of Sydney
Corner Bridge and Phillip Streets
SYDNEY NSW 2000

Please refer to the formal Notice of Meeting for full details.

KEY DATES

Final dividend payment
28 September 2010

Annual General Meeting
25 November 2010

Half year results
February 2011

Interim dividend
April 2011

Full year results and dividend announcement
August 2011

The Australian Securities Exchange will be notified of any changes to these dates.

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www.salmat.com.au