SALMAT LIMITED

HALF-YEAR FINANCIAL REPORT
For the six months ended 31 December 2010

Contents

salmat

the evolution of one to one communication

SALMAT LIMITED
(ABN 11 002 724 638)
Appendix 4D

HALF-YEAR REPORT
31 December 2010

Results for announcement to the market

	Percentage Change %		Amount
Revenues from ordinary activities	**(1.2%)**	**to**	**$447.6m**
Underlying earnings before amortisation, depreciation, borrowing costs, significant items and income tax (EBITDA)	**5.0%**	**to**	**$59.9m**
Underlying profit for the period before significant items after tax*	**11.3%**	**to**	**$26.1m**
Net profit after tax*	**(6.5%)**	**to**	**$22.7m**

Dividends (distributions)	**Amount per security**	**Franked amount per security**
Interim Dividend	11.5c	11.5c
Record Date for determining entitlements to dividends		16 March 2011
Dividends payment date		6 April 2011

Explanation of results

Refer to the attached ASX announcement for commentary on the results.

The information contained in this report is to be read in conjunction with the 2010 Annual Report and any announcements to the market by Salmat Limited during the period.

*Refer to note 3 of the Notes to the Financial Statements for the significant items included in the Net Profit for the period.

14 February 2011

Salmat invests in its digital future

Salmat Limited (ASX:SLM) - Australia's leading marketing services provider specialising in targeted customer communication solutions - today announced sales revenue of $447.6 million, which was down 0.5% against the prior corresponding period on a normalised basis.

Underlying EBITA grew by 7.2% to $48.8 million and underlying net profit was up 11.3% to $26.1 million.

The Board has declared an interim dividend of 11.5 cents per share, up 4.5% on the prior corresponding period.

The acquisition of four digital and interactive businesses in late December was a key highlight for the half, signalling Salmat's commitment to the emerging business portfolio and to consolidating Salmat's leading position as an innovator in multi-channel communication.

$ million	Half year ended 31 December 2010	Half year ended 31 December 2009	% change
Normalised sales revenue	447.6	449.9	-0.5%
Reported sales revenue	447.6	452.9	-1.2%
Underlying EBITA	48.8	45.5	+7.2%
Underlying net profit after tax	26.1	23.5	+11.3%
Significant items after tax	(3.4)	0.8	NMF
Statutory profit (NPAT)	22.7	24.3	-6.5%
Underlying earnings per share (cents)	16.5	14.8	+11.5%
Earnings per share (cents)	14.4	15.4	-6.3%
Interim dividend per share (cents) – fully franked	11.5	11.0	+4.5%

Normalised sales revenue was down 0.5% compared with the prior corresponding period, at $447.6 million. The $3 million adjustment to prior year revenue accounted for foreign exchange variances and the removal of pass-through telecommunications revenue. **Reported sales revenue** was down 1.2% on the prior year. The main influencing factor was lower mail volumes in Business Process Outsourcing (BPO), offset by good growth in Customer Contact Solutions (CCS) and Targeted Media Solutions (TMS) revenue.

Underlying EBITA grew by 7.2% on the previous result on the back of growth in TMS and CCS EBITA. BPO EBITA was $0.5 million down on the prior corresponding period. Corporate costs were lower than the prior year following a comprehensive program of business efficiency. The EBITA margin was up 80 basis points to 10.9%.

Underlying earnings per share was 16.5 cents, up 11.5% on the prior corresponding period. Earnings per share was down 1.0 cent to 14.4 cents, in line with the net profit decrease.

Underlying net profit after tax was up 11.3% on the prior year. **Significant items after tax** included $2.8 million in relocation and restructure costs relating to the new BPO Victorian facility; $1.1 million in acquisition transaction costs; and a $0.5 million gain from deferred recognition of property profit in the prior year.

Statutory profit (NPAT) was down $1.6 million on the prior year at $22.7 million, largely due to the $3.4 million in net significant item costs. Importantly, the significant item costs all relate to investment activity that will drive future earnings growth benefits.

Cash capital expenditure of $10.6 million for the period was up 32.5% on the prior year. Apart from some cash capex on the site relocation discussed earlier, we have also commenced our investment in colour technology.

Net debt was $160.2 million at 31 December 2010, up from $156.2 million at 31 December 2009.

The directors are pleased to declare an **interim dividend** of 11.5 cents per share, fully franked. This represents a 4.5% increase over the previous interim dividend. While statutory NPAT and cash flow were impacted by the net cost of significant items, the Board still elected to increase the interim dividend based on their confidence in Salmat's future prospects. The dividend has a record date of 16 March 2011 and is payable on 6 April 2011.

"This has been a busy and exciting first half for Salmat, with major activities relating to new service launches, business restructuring, site relocations and new business acquisitions," said Chief Executive Officer, Grant Harrod.

"It's extremely pleasing that we've been able to continue to increase underlying earnings while making investments for future growth.

"As well as the digital business acquisition, other highlights for the first half included the relocation of our BPO Victorian sites into a new facility at Ravenhall; the launch of our new strategy for the small to medium enterprise market; and a strong performance by our Lasoo business, following the decision to accelerate our growth strategy in this area," said Mr Harrod.

Operational review

Targeted Media Solutions

$ million	Half year ended 31 December 2010	Half year ended 31 December 2009	% change
Normalised sales revenue	121.8	118.1	+3.1%
Underlying EBITA	22.5	20.7	+8.7%

Normalised Targeted Media Solutions (TMS) revenue was up 3.1% on the prior corresponding period, on the back of stable volumes and good revenue growth in some of the smaller businesses, including Lasoo. Adjustments were made to the prior period TMS revenue for the removal of pass-through telecommunications revenue and the transfer of a data analytics business into TMS from the BPO division.

A strong business efficiency program across all parts of the division helped grow underlying EBITA by 8.7%.

Additional focus on enhanced content and functionality for the Lasoo site during the first half is already delivering returns, with a marked increase in site traffic and revenue over the previous year. The site received 2.5 million visitors in December, including more than 200,000 mobile hits. More than 73 million page views in December gave Lasoo the number one spot for all Australian pre-shopping sites in the week just after Christmas.

The acquisition of the four new businesses greatly boosted the digital and interactive arm of TMS. Further detail about this development follows under a separate heading.

Customer Contact Solutions

$ million	Half year ended 31 December 2010	Half year ended 31 December 2009	% change
Reported sales revenue	162.9	153.3	+ 6.3%
Underlying EBITA	10.0	9.7	+ 3.1%

Customer Contact Solutions revenue grew by 6.3% as a result of good performance in the call centre business. Revenue growth was drawn from both existing and new clients. Revenue was lower in the @Home business as some work moved across to traditional call centres. Revenue was also lower in Asia as an underperforming business was exited. While revenue growth was achieved in the learning and speech solutions businesses, these businesses are more discretionary in nature and therefore vulnerable to a softer retail environment.

Underlying EBITA was higher than the prior corresponding period due to improved operational performance in the call centre business. Field sales earnings continue to be impacted by the weaker retail sector.

A longer-term strategy has been commenced to transition from commodity call centre work to premium, higher-margin work and better leverage the unique skills and resources of our business.

Business Process Outsourcing

$ million	Half year ended 31 December 2010	Half year ended 31 December 2009	% change
Normalised sales revenue	162.9	178.5	-8.7%
Underlying EBITA	21.9	22.4	-2.2%

Normalised Business Process Outsourcing revenue was down 8.7% on the previous year, resulting from lower mail volumes that flowed through from the second half of 2010. Revenue from e-solutions and scanning was up on the prior period, though from a relatively small base. Adjustments were made to prior period revenue for foreign exchange impacts and the transfer of the data analytics business into the TMS division.

Underlying EBITA was down $0.5 million, largely due to the reduced volumes. Reinvestment in e-solutions also impacted earnings from this area. Productivity gains across the business supported EBITA.

Revenue growth in BPO for the full year is unlikely however a higher sales result is anticipated for thereafter due to new business conversions. A focus on maintaining high service levels during the Victorian site integration led to short-term increased staffing costs and thus production inefficiencies within the new facility, however we expect savings of around $1.8 million per annum to flow through from FY2012. A refresh of BPO's colour business to install market-leading print technologies will be finalised in the second half and should contribute approximately $2.8 million in annualised savings, also from FY2012 onwards.

Digital business acquisition

As announced to the market, Salmat acquired a portfolio of four digital and interactive businesses for $75.3 million on 22 December 2010. An additional $15.7 million capped performance hurdle will be paid by 30 June 2011, dependent on performance. The four businesses include C4 Communication (providing digital and experiential media services), Be.Interactive (interactive mobile marketing), MessageNet (business SMS communication) and Returnity (email marketing and database services).

These businesses are being merged into Salmat's TMS division, complementing the existing digital portfolio, including Lasoo and interactive services. The integration team is currently working to bring these businesses into the 'One Salmat' fold and leverage the new opportunities they present.

Salmat anticipates around $50 million in annualised gross revenue and $8.4 million in EBITA from the deal, plus synergy gains. It is expected to be EPS accretive in FY11 (excluding one-off costs and amortisation) and achieve over 5% accretion in FY12.

Outlook

"Assuming trading conditions remain stable and comparable to the first half, we anticipate remaining on track to meet our underlying EBITA guidance of $92–97 million," said Chief Executive Officer, Grant Harrod.

"Earnings in the second half will be impacted by the additional labour costs linked to the BPO site integration; the strategic transition from commodity to premium work in CCS; additional marketing investment in Lasoo; and the tougher retail trading environment. We expect each of these areas to show improvement in FY2012.

"Our results will be boosted however by the increased earnings and synergy benefits flowing from the recent acquisition and increased multi-channel sales from the continued rollout of the One Salmat strategy," said Mr Harrod.

About Salmat

Salmat is Australia's leading marketing services provider specialising in targeted customer communication solutions. Salmat facilitates its clients' contact with their customers via an unmatched range of communication channel options – including voice, online, print, electronic and mobile - with comprehensive reporting on measurable results.

Salmat has three key divisions, all of which are market leaders:

Targeted Media Solutions (TMS) delivers more than 5.9 billion retail catalogues 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 email, mobile and interactive voice response campaigns throughout Australia through its digital communication operation Salmat Interactive.

TMS launched Lasoo.com.au in 2007, and it is now the premier online pre-shop service for Australian retailers, connecting buyers with sellers in a virtual marketplace. Lasoo provides a strong online presence for retailers to promote items and feature products for sale, 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 Salmat's Dynamic Catalogue software product, which creates searchable catalogues on the retailers' own websites, hosted e-commerce solutions for retailers seeking to go online and a self service direct marketing portal to assist SME businesses in promoting their goods and services.

Customer Contact Solutions (CCS) engages in more than 100 million conversations per year for its clients. 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 e-Learning training are fuelling further growth.

Business Process Outsourcing (BPO) sends more than 1.2 billion 'essential' mail packs every year. The division 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.

BPO streamlines and improves delivery of these services and 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.

Over 30 years Salmat has built a 7,000 plus strong team, experienced in contributing to their clients' growth by helping them to communicate effectively with their customers. This experience, together with its proprietary systems and technology and strong client relationships, secures Salmat's position as Australia's – and increasingly the region's – leader in customer communication solutions.

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For more information about the Salmat Group, please visit Salmat's website at www.salmat.com.au.

For further information, please contact:

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The Directors present their report on the consolidated entity consisting of Salmat Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2010.

DIRECTORS
The names of the Directors of Salmat Limited in office during the half-year and until the date of this report are as follows:

Richard Lee
Fiona Balfour
Ian Elliot
Grant Harrod
Peter Mattick
Philip Salter
John Thorn

REVIEW OF OPERATIONS
Revenue from continuing operations for the half-year was $448.3m, a decrease of $5.3m over the previous corresponding period. Profit before tax for the half year of $31.9m was $3.2m less than the previous corresponding period.

Included in the half-year profit was $3.4m of significant expenses after tax representing $2.8m for relocation and restructuring activities in Business Processing Outsourcing, $1.1m for transaction costs relating to the acquisition of digital and interactive businesses, offset by a deferred gain on the sale and leaseback of land and buildings of $0.5m.

On 22 December 2010 Salmat acquired 100% of the share capital in four leading Australian digital and interactive businesses. The portfolio businesses represent a combination of complimentary fold-in and new expanded services for Salmat's existing Targeted Media Solutions Division, including digital and interactive communications, innovative web development, experiential media services and other e-commerce services.

EVENTS OCCURRING AFTER BALANCE DATE
Since the December 2010 half year end the directors have recommended the payment of an interim ordinary dividend of $18.4m (11.5 cents per fully paid share) to be paid on 6 April 2011 out of retained profits at 31 December 2010. The dividend is 100% franked at the corporate tax rate. A record date of 16 March 2011 has been set for the dividends due to be paid on 6 April 2011.

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 9.

ROUNDING OF AMOUNTS
The company is an entity to which ASIC Class order 98/0100 applies. Accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars.

Signed this 14th day of February 2011 in accordance with a resolution of the Board of Directors.

Grant Harrod
Chief Executive Officer

Richard Lee
Chairman

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Auditor's Independence Declaration to the Directors of Salmat Limited

In relation to our review of the financial report of Salmat Limited for the half-year ended 31 December 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
14 February 2011

SALMAT LIMITED
Income Statement
For the half year ended 31 December 2010

	Note	Consolidated Half Year Ended 31 Dec 2010 $000	Consolidated Half Year Ended 31 Dec 2009 $000
Sales revenues		447,594	452,971
Revenues from other activities		720	627
Revenue from continuing operations		**448,314**	**453,598**
Employee benefits expenses		(225,221)	(218,829)
Depreciation and amortisation expense		(16,318)	(16,759)
Freight and distribution		(64,795)	(65,265)
Materials usage		(30,808)	(33,176)
Property related expenses		(20,190)	(19,683)
Equipment related expenses		(27,086)	(30,909)
Other expenses from ordinary activities		(25,653)	(28,237)
Finance costs		(7,481)	(6,982)
Profit on disposal of land and buildings		725	1,198
Share of net profits of associates accounted for using the equity method		43	155
Other income		400	-
Profit before income tax		**31,930**	**35,111**
Income tax expense		(9,224)	(10,820)
Profit attributable to members of Salmat Limited		**22,706**	**24,291**

Earnings per share for profit attributable to the ordinary equity holders of the company

	Note	Half Year Ended 31 Dec 2010	Half Year Ended 31 Dec 2009
Basic earnings per share (cents per share)	5	**14.38**	**15.35**
Diluted earnings per share (cents per share)	5	14.25	15.32

SALMAT LIMITED
Statement of Comprehensive Income
For the half year ended 31 December 2010

	Consolidated	
	Half Year Ended 31 Dec 2010 $000	**Half Year Ended 31 Dec 2009 $000**
Net profit for the period	**22,706**	**24,291**
Other comprehensive income		
Changes in the fair value of cash flow hedges	1,376	2,616
Income tax relating to changes in fair value of cash flow hedges	(413)	(785)
Exchange differences on translation of foreign operations	(2,430)	(670)
Other comprehensive income / (loss) for the period	**(1,467)**	**1,161**
Total comprehensive income for the period attributable to members of Salmat Limited	**21,239**	**25,452**

SALMAT LIMITED
Statement of Financial Position
As at 31 December 2010

	Note	Consolidated As at 31 Dec 2010 $000	As at 30 Jun 2010 $000	As at 31 Dec 2009 $000
Current Assets				
Cash and cash equivalents		36,205	59,333	46,668
Trade and other receivables		115,312	114,966	109,915
Inventories		8,456	7,722	8,536
Other current assets		8,472	5,793	7,576
Total Current Assets		**168,445**	187,814	**172,695**
Non-Current Assets				
Receivables		2,770	3,401	3,631
Investments accounted for using the equity method		1,464	1,130	1,098
Property, plant and equipment		52,601	47,820	45,113
Deferred tax assets		18,303	19,758	19,252
Intangible assets	8	477,242	396,622	401,844
Other non-current assets		630	731	692
Total Non-Current Assets		**553,010**	469,462	**471,630**
Total Assets		**721,455**	657,276	**644,325**
Current Liabilities				
Trade and other payables		94,331	95,063	85,732
Acquisition purchase consideration payable	9	88,200	-	-
Borrowings	10	7,561	443	195,438
Derivative financial instrument		281	1,074	2,116
Current tax liabilities		5,690	16,282	9,361
Provisions		29,846	31,621	28,406
Other current liabilities		1,349	2,074	2,235
Total Current Liabilities		**227,258**	146,557	**323,288**
Non-Current Liabilities				
Borrowings	10	188,769	193,202	7,471
Deferred tax liabilities		11,318	8,778	9,972
Provisions		8,547	9,011	10,293
Retirement benefit obligations		1,561	1,638	1,386
Derivative financial instrument		158	741	-
Payables		250	250	461
Other non-current liabilities		1,701	698	1,735
Total Non-Current Liabilities		**212,304**	214,318	**31,318**
Total Liabilities		**439,562**	360,875	**354,606**
Net Assets		**281,893**	296,401	**289,719**
Equity				
Contributed equity		205,760	205,616	205,657
Reserves		(982)	570	960
Retained profits		77,115	90,215	83,102
Total Equity		**281,893**	296,401	**289,719**

SALMAT LIMITED
Statement of Changes in Equity
As at 31 December 2010

	Consolidated			
	Contributed Equity $000	**Retained Profits $000**	**Reserves $000**	**Total $000**
Balance at 1 July 2009	**205,640**	**76,278**	**(750)**	**281,168**
Profit for the year	-	24,291	-	24,291
Other comprehensive income	-	-	1,161	1,161
Total comprehensive income for the period attributable to members of Salmat Limited	-	24,291	1,161	25,452
Transactions with owners in their capacity as owners:				
Exercise of options under the Salmat Executive Performance Option Plan	17	-	-	17
Cost of share-based payments	-	-	549	549
Dividends paid	-	(17,467)	-	(17,467)
	17	(17,467)	549	(16,901)
Balance at 31 December 2009	**205,657**	**83,102**	**960**	**289,719**
Balance at 1 July 2010	**205,616**	**90,215**	**570**	**296,401**
Profit for the year	-	22,706	-	22,706
Other comprehensive income	-	-	(1,467)	(1,467)
Total comprehensive income for the period attributable to members of Salmat Limited	-	22,706	(1,467)	21,239
Transactions with owners in their capacity as owners:				
Exercise of options under the Salmat Executive Performance Option Plan	144	-	-	144
Cost of share-based payments	-	-	(85)	(85)
Dividends paid	-	(35,806)	-	(35,806)
	144	(35,806)	(85)	(35,747)
Balance at 31 December 2010	**205,760**	**77,115**	**(982)**	**281,893**

SALMAT LIMITED
Statement of Cash Flows
31 December 2010

	Consolidated	
	Half Year Ended 31 Dec 2010 $000	Half Year Ended 31 Dec 2009 $000
Cash Flows from Operating Activities		
Receipts from customers *	561,049	573,662
Payments to suppliers and employees *	(512,888)	(521,042)
Interest received	720	476
Interest paid	(8,149)	(7,824)
Income tax paid	(19,078)	(9,047)
Net cash provided by operating activities	**21,654**	**36,225**
Cash Flows from Investing Activities		
Proceeds from sale of plant and equipment	71	47
Loans repaid by associated entity	261	194
Cash inflow/(outflow) from acquisition of subsidiary/business	1,920	(400)
Proceeds from disposal of subsidiary	382	-
Investment in associate	(271)	-
Payments for plant and equipment	(10,621)	(7,959)
Dividends received from associate	28	-
Net cash used in investing activities	**(8,230)**	**(8,118)**
Cash Flows from Financing Activities		
Proceeds from issue of shares and other securities	144	17
Repayment of borrowings	-	(8,000)
Finance lease payments	(890)	(203)
Dividends paid to company's shareholders	(35,806)	(17,467)
Net cash used in financing activities	**(36,552)**	**(25,653)**
Net (decrease) / increase in cash held	**(23,128)**	**2,454**
Cash and cash equivalents at the beginning of the period	59,333	44,214
Cash and cash equivalents at the end of the period	**36,205**	**46,668**

* Includes amounts relating to postage disbursements and is inclusive of goods and services tax.

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim half-year reporting period ending 31 December 2010 has been prepared in accordance with Accounting Standard AASB134 *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements.

This interim financial report does not include the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Salmat Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies applied by the consolidated entity are consistent with those applied by the consolidated entity in its full year financial report for the year ended 30 June 2010.

The consolidated entity has not elected to early adopt any new standards or amendments.

2. SEGMENT INFORMATION

(a) Business 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 division, 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 team 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

Six months to 31 Dec 2010	Targeted Media Solutions	Customer Contact Solutions	Business Process Outsourcing	Corporate Costs	Total
	$000	$000	$000	$000	$000
Segment Revenue					
Sales to external customers	121,785	162,946	162,863		447,594
Interest revenue					720
Total revenue					448,314
Segment EBITA before significant items	22,472	10,041	21,930		54,443
Reconciliation of segment EBITA to income statement					
Corporate costs				(5,640)	(5,640)
EBITA					48,803
Amortisation expense					(5,251)
Net finance costs					(6,761)
Significant items – refer note 3					(4,861)
Profit before income tax					31,930
Income tax expense					(9,224)
Profit attributable to members of Salmat Limited					**22,706**

Six months to 31 Dec 2009	Targeted Media Solutions	Customer Contact Solutions	Business Process Outsourcing	Corporate Costs	Total
	$000	$000	$000	$000	$000
Segment Revenue					
Sales to external customers	118,737	153,359	180,875		452,971
Interest revenue					627
Total revenue					453,598
Segment EBITA before significant items	20,671	9,692	22,419		52,782
Reconciliation of segment EBITA to income statement					
Corporate costs				(7,247)	(7,247)
EBITA					45,535
Amortisation expense					(5,267)
Net finance costs					(6,355)
Significant items – refer note 3					1,198
Profit before income tax					35,111
Income tax expense					(10,820)
Profit attributable to members of Salmat Limited					**24,291**

3. PROFIT BEFORE INCOME TAX

Profit from ordinary activities before related income tax expense includes the following items of expense/(income) which, together with other disclosures in this report, are relevant in explaining the financial performance for the half-year:

Significant items included in total expenses	**Six Months to 31 Dec 2010 $000**	**Six Months to 31 Dec 2009 $000**
Sale of land and buildings[1]	(725)	(1,198)
Restructuring costs[2]	4,000	-
Acquisition transaction costs[3]	1,586	-
Significant items before tax	4,861	(1,198)
Income tax	(1,458)	359
Significant items after tax	**3,403**	**(839)**

[1] In the six months ended 31 December 2008 the group sold and leased back its land and buildings. There is approximately $0.8m deferred profit (before tax) in respect of sale and lease back of land and buildings to be recognised in future periods.

[2] Relocation and restructuring costs for the consolidation of Victorian operations in Business Process Outsourcing.

[3] Transaction costs relating to the acquisition of the digital and interactive businesses (refer note 9).

4. DIVIDENDS

(a) Dividends paid during the half-year [4]

Final fully franked ordinary dividend of 12.5 cents (2009: 11.0 cents) per share	19,892	17,467
Special dividend fully franked of 10.0 cents per share	15,914	-
Dividends paid as per Statement of Cash Flows	**35,806**	**17,467**

Dividends proposed but not recognised as a liability at the end of the half year

Since the end of the half-year, the Directors' have recommended the payment of an interim dividend of 11.5 cents per share (2010: 11.0 cents per share). A record date of 16 March 2011 has been set. The aggregate amount of the proposed interim dividend which is expected to be paid on 6 April 2011 is: [4]	**18,371**	**17,468**

[4] All dividends franked to 100% at 30% corporate tax rate.

5. EARNINGS PER SHARE	**Six Months to 31 Dec 2010 $000**	**Six Months to 31 Dec 2009 $000**
(a) Reconciliation of Earnings to Net Profit		
Net profit after tax attributable to members of Salmat Limited	22,706	24,291
Earnings used in the calculation of diluted EPS	**22,706**	**24,291**
(b) Weighted average number of ordinary shares used in the calculation of basic EPS	**Quantity '000**	**Quantity '000**
Weighted average number of shares on issue (excluding treasury shares) used to calculate basic EPS	**157,916**	**158,222**
Effect of dilutive securities - weighted average number of options outstanding	1,427	355
Weighted average number of ordinary shares (excluding treasury shares) used in the calculation of dilutive EPS	**159,343**	**158,577**
(c) Basic earnings per share	**14.38c**	**15.35c**

6. NET TANGIBLE ASSET BACKING

Net tangible asset backing per ordinary share	**(1.22)c**	**(0.71)c**

7. EQUITY SECURITIES ISSUED

	Quantity '000		**$000**	
	31 Dec 2010	31 Dec 2009	**31 Dec 2010**	31 Dec 2009
Issue of ordinary shares during the half-year				
Exercise of options issued under the Salmat Executive Performance Option Plan	119	5	144	17
Issued for no consideration:				
Issue of shares as part of long term incentive scheme	498	-	2,006	-
	617	5	2,150	17
Movements in treasury shares during the half-year				
Acquisition of shares by Salmat Deferred Employee Share Plan	(498)	(570)	(2,006)	(1,902)
	(498)	(570)	(2,006)	(1,902)

8. INTANGIBLES

	Consolidated			
	Goodwill $000	**Other Intangible Assets $000**	**Customer Intangible $000**	**Total $000**
Balance at 1 July 2009	365,037	4,459	37,063	406,559
Additions	-	552	-	552
Amortisation charge	-	(981)	(4,286)	(5,267)
Balance at 31 December 2009	365,037	4,030	32,777	**401,844**
Balance at 1 July 2010	365,066	3,012	28,544	396,622
Additions	75,827	1,960	8,084	85,871
Amortisation charge	-	(1,018)	(4,233)	(5,251)
Balance at 31 December 2010	**440,893**	**3,954**	**32,395**	**477,242**

9. BUSINESS COMBINATIONS

On 22 December 2010 Salmat acquired 100% of the share capital in four leading Australian digital and interactive businesses. The consideration comprised $75.3m in cash and a maximum of $15.7m contingent consideration on the achievement of performance milestones by 30 June 2011.

The principal businesses acquired by Salmat are:

- BeRetail & BeInteractive
- C4 Communications: Live and Digital
- Returnity
- MessageNet

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	$'000
Purchase consideration:	
Cash payable*	75,300
Contingent consideration (at fair value)	12,900
Total consideration	**88,200**
Fair value of net identifiable assets acquired (refer below)	12,373
Goodwill arising on acquisition	75,827
The net cash inflow on acquisition is as follows:	
Net cash acquired	1,920
Net cash inflow	**1,920**
Transaction costs relating to the acquisition	**1,586**
Fair value of net identifiable assets acquired	*(provisional)*
Cash and cash equivalents	1,920
Trade and other receivables	5,057
Plant and equipment	1,252
Deferred tax assets	402
Other assets	1,022
Intangibles	10,044
Trade and other payables	(2,830)
Interest bearing liabilities	(657)
Deferred tax liabilities	(3,162)
Provisions	(675)
Net identifiable assets acquired	**12,373**

* Settled on 11 January 2011.

The amounts recognised on acquisition presented above represent the provisional assessments of the fair value of identifiable assets and liabilities acquired on acquisition. These amounts will be finalised within twelve months from the date of acquisition. The above amounts are only provisional subject to receipt of final board determination of the fair value of the assets and liabilities acquired on acquisition.

Included in the businesses acquired were trade receivables with a gross contractual value of $4,761,170. The best estimate at the acquisition date of their fair value was $4,595,513. Management expects the fair value to be collected in full and converted to cash consistent with customer terms.

Under the terms of the Share Purchase Agreement, the group must pay the former owner of the business's acquired an additional capped performance hurdle payment based on the achievement of agreed performance milestones by 30 June 2011. The potential undiscounted amount of all future payments that could be required is between $0 and $15.7 million. The group has considered the likely outcome based on information available as at the date of acquisition. Using a probability weighted calculation to determine a fair value we have estimated an amount of $12.9m for this consideration and included this in the total acquisition purchase price.

The key factors contributing to the goodwill recognised relate to four leading Australian digital and interactive businesses being acquired, consolidating Salmat's market leadership position in multi-channel marketing communications and synergies expected to arise upon integration. None of the goodwill recognised is expected to be deductible for income tax purposes.

Information in respect of contribution to revenue and profit and loss of the combined entity has not been disclosed as it is considered impracticable to do so.

10. NON-CURRENT BORROWINGS

In December 2010, the group renegotiated its existing bilateral loan facilities to finance the acquisition of the digital and interactive businesses. The bilateral loan facilities were amended as follows:

- Senior Debt Facility for $105m (Tranche A) maturing in December 2011 was extended to December 2013.
- There was no change to the Senior Debt Facility for $105m (Tranche B) maturing December 2012.
- A new four year tranche for $99m (Tranche C) maturing in December 2014 was added. This new Tranche has a variable interest rate and is with the existing three major banks and under equal funding proportions.

$4.7m of borrowings by an overseas subsidiary have been reclassified as current borrowings as the loan facility in respect of these expires within 12 months.

11. CONTINGENCIES

The Salmat Group has been involved from time to time in various claims and legal proceedings arising from the conduct of its business. The Company does not consider the outcome of any proceedings, either individually or in aggregate, are likely to have a material effect on its financial position. The Company maintains insurance cover to minimise the potential effects of such claims, and where appropriate, provisions have been made.

12. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Since the December 2010 half year end the directors have recommended the payment of an interim ordinary dividend of $18.4m (11.5 cents per fully paid share) to be paid on 6 April 2011 out of retained profits at 31 December 2010.

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 10 to 22:

   (a) Comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

   (b) Give a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date.

2. In the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Signed this 14th day of February 2011 on behalf of the Board.

Grant Harrod
Chief Executive Officer

Richard Lee
Chairman

Independent Auditor's Report to Members of Salmat Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Salmat Limited (the company), which comprises the statement of financial position as at 31 December 2010, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Salmat Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Salmat Limited is not in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Rob Lewis

Rob Lewis
Partner
Sydney

14 February 2011