

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



FULL-YEAR REPORT
For the year ended 30 June 2011

Results for announcement to the market

Sales revenue	Down	1.8%	to	\$863.0m
Revenue from continuing operations	Down	1.9%	to	\$863.9m
Underlying earnings before amortisation, depreciation, borrowing costs, significant items and income tax (Underlying EBITDA)*	Down	3.1%	to	\$109.6m
Underlying net profit for the period attributable to members*	Down	10.6%	to	\$42.4m
Net profit for the period attributable to members	Down	26.8%	to	\$36.0m

Dividends (distributions)	Amount per security	Franked amount per security
Final Dividend	12.5c	12.5c
Interim Dividend (fully franked)	11.5c	11.5c
Previous corresponding period – final dividend (fully franked)	22.5c*	22.5c*
Record Date for determining entitlements to dividends		9 September 2011
Dividends payment date		28 September 2011
The dividend reinvestment plan continues to be suspended.		
*Includes a special dividend of 10.0c per share (fully franked)		

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 2011 Annual Report and any announcements to the market by Salmat Limited during the period.
- *Refer to note 2 of the notes to the financial statements for the significant items included in the Net Profit for the period.

16 August 2011

Salmat building for the future

Salmat Limited (ASX:SLM), Australia's leading marketing communications and outsourced business services company specialising in innovative and strategic multichannel solutions, today announced revenue of \$863.0 million for the year ended 30 June 2011, slightly down by 1.8% on the prior year.

Underlying EBITDA was \$109.6m and underlying EBITA was \$88.6 million, being in line with guidance. The underlying EBITA margin was stable at 10.3% (2010: 10.4%).

Underlying net profit after tax was \$42.4 million, before a net significant item expense of \$6.4 million which determined a statutory profit (NPAT) of \$36.0 million. The significant item costs related to investments in building out Salmat's digital growth strategy and driving operational efficiencies.

The Board declared a final dividend of 12.5 cents per share, bringing the full year dividend total to 24.0 cents per share, fully franked. This represents an increase of 2.1% on the prior full year regular dividend.

Investment in Salmat's future growth - including the acquisition of a number of digital businesses and the repositioning of the Business Process Outsourcing (BPO) and Customer Contact Solutions (CCS) divisions - was a key theme of the year, as the business undertook a number of strategic initiatives to strengthen its market-leading position in integrated communication and outsourced business services and the rapidly growing digital communication market.

\$ million	Year ended 30 June 2011	Year ended 30 June 2010	% change
Reported sales revenue	863.0	878.8	- 1.8%
Underlying EBITDA	109.6	113.0	- 3.1%
Underlying EBITA	88.6	91.2	- 2.8%
Underlying net profit after tax	42.4	47.4	- 10.6%
Significant items after tax	(6.4)	1.7	NMF
Statutory profit (NPAT)	36.0	49.1	- 26.8%
Underlying earnings per share (cents)	26.8	30.0	- 10.7%
Earnings per share (cents)	22.7	31.1	- 26.9%
Final dividend per share (cents) – fully franked	12.5	12.5	0%
Total full year dividend per share (cents) – fully franked	24.0	23.5*	+ 2.1%

* Excludes special dividend of 10.0 cents per share.

Reported sales revenue of \$863.0 million was driven by Targeted Media Solutions (TMS) normalised revenue growing by 7.1% on the prior year. Customer Contact Solutions (CCS) revenue was 3.6% lower with the exit of the Telstra contract and Business Process Outsourcing (BPO) normalised revenue was down 6.3% following a softer trading environment.

Underlying EBITA of \$88.6 million was at the midpoint of our market guidance. Targeted Media Solutions normalised EBITA was up 4.3% on the prior year. With changes in the client portfolio, Customer Contact Solutions underlying

EBITA was down 20.0% and Business Process Outsourcing normalised EBITA was down 4.3%. Corporate costs were down 11.7% compared with the prior year. The **group underlying EBITA margin** remained stable at 10.3% (2010: 10.4%).

Significant items after tax had a net impact of \$6.4 million in costs for the year, resulting from one-off investments in BPO site relocations, acquisition transaction and integration costs, restructuring and contract closure costs, offset slightly by residual deferred profit on the sale and leaseback of properties in Sydney and Brisbane in an earlier period.

Statutory profit (NPAT) was \$36.0 million, as a result of one off restructuring and investments, higher amortisation and higher net interest expense.

Net debt was \$258.3 million at year end, with the increase mainly due to funding of the digital business acquisition made earlier in the year.

Cash capital expenditure of \$23.8 million was higher than the prior year as we continue our transformation and investment strategy for the future. The key capex items were property relocations and improvement, production technology upgrades and computer and software upgrades.

"It's been a year of investment for Salmat," said Chief Executive Officer Grant Harrod. "We've invested in strengthening our traditional businesses as well as building out our digital communication strategy."

"We've also managed to achieve a solid revenue result despite a challenging trading environment which has impacted many Australian businesses, confirming the resilient nature of many of Salmat's activities and the high rate of growth in digital volumes," said Mr Harrod.

"I'm confident that all areas of the business are now in a much stronger position and are well-placed to expand their market share and position Salmat as the leading marketing communications and outsourced business services company in the Australian marketplace," he said.

In support of the company's solid position, the directors are pleased to declare a **final dividend** of 12.5 cents per share, fully franked.

Operational review

Targeted Media Solutions

\$ million	Year ended 30 June 2011	Year ended 30 June 2010	% change
Normalised sales revenue¹	250.9	234.2	+ 7.1%
Normalised underlying EBITA²	42.5	40.8	+ 4.3%

1: FY10 revenue figure adjusted for transfer of business from BPO division (\$3.6m).

2: FY10 EBITA figure adjusted for transfer of business from BPO division (\$0.5m).

Targeted Media Solutions revenue grew 7.1% for the year. The existing digital businesses – including Lasoo, Interactive and data services – all delivered solid revenue growth.

Underlying EBITA grew by 4.3% to \$42.5 million. Earnings growth was lower than the revenue growth rate, primarily due to investment spending on Lasoo and Roamz as well as some duplication following acquisitions.

Major retailer catalogue volumes grew slightly on the previous year as these clients invested in marketing to drive sales, though smaller retailer activity was impacted by the economic conditions.

Lasoo consumer and client volumes continued an upward trend that has persisted since the site was launched. Site visits were up 43% for the year, while offer interactions and impressions were both up more than 45% on the prior year.

Interactive email and SMS volumes grew by more than 70% and 20% respectively on an underlying basis, supported by increased market demand. Additional volumes from the new digital businesses acquired during the year boosted this growth to more than 150% and 375% respectively.

We have now integrated the digital businesses we acquired in December 2010 to establish a new digital communication centre of excellence. The new combined team has been extremely busy establishing new sales

opportunities from Salmat's extensive client network. In June, Salmat announced the appointment of a new CEO for its digital businesses: Nick Spooner will join Salmat in late August, bringing a wealth of digital experience from prior digital media roles.

Customer Contact Solutions

\$ million	Year ended 30 June 2011	Year ended 30 June 2010	% change
Sales revenue	293.7	304.8	- 3.6%
Underlying EBITA	16.0	20.0	- 20.0%

Customer Contact Solutions revenue was down 3.6% on the prior year to \$293.7 million: a solid result considering the completion of a major contact centre contract and the exit of an underperforming business in Asia during the year.

Underlying EBITA was down 20.0% to \$16.0 million, impacted by the closure of contracts and costs relating to these contracts. Costs were also incurred to restructure and revitalise the Direct Sales, e-Learning and Speech Solutions businesses, which are already showing strong signs of improvement in results.

The strategy to move from contact centre commodity work to more premium services is progressing to plan. There is a very strong pipeline for new business in all service areas of the division, which is expected to translate to improved results in FY12.

Business Process Outsourcing

\$ million	Year ended 30 June 2011	Year ended 30 June 2010	% change
Normalised sales revenue¹	318.5	339.8	- 6.3%
Normalised underlying EBITA²	41.8	43.7	- 4.3%

1: FY10 revenue figure adjusted for transfer of business to TMS division (\$3.6m) and FX impact (\$1.9m).

2: FY10 EBITA figure adjusted for transfer of business to TMS division (\$0.5m).

Business Process Outsourcing revenue was down 6.3% on the prior year to \$318.5 million, largely due to lower mail volumes predominately due to softer trading conditions in certain key markets with the shift to electronic presentment holding at around 3%. New business wins will restore these volumes in FY12. Revenue from e-solutions and scanning was up on the prior year.

Normalised underlying EBITA was down 4.3% to \$41.8 million. One-off investment costs associated with a number of site relocations, new colour print technology installation and e-business restructuring contributed to earnings being down. A focus on cost containment, improved efficiency and the implementation of new business wins should have a positive impact in the current year.

Now that the site integrations and colour print technology installation is complete, savings and volume growth from these initiatives will start to flow through in FY12 onwards.

We anticipate strong growth from the e-solutions portfolio over the next few years.

Digital business acquisition update

The integration of the new digital businesses into the Salmat business has now been completed, with the creation of a digital communication 'centre of excellence'. Five new key service areas – including search engine marketing and search engine optimisation, self-service SMS and email, web development, eCommerce services, consulting services and promotions - have been added to the digital portfolio and the combined sales teams are actively cross-selling these services into the extensive Salmat client base, as well as offering other Salmat services to the acquired clients.

The potential \$15.7 million vendor performance hurdle payment was not triggered. The synergies from the acquisition are on track to meet the acquisition performance guidance for FY12.

Market update

“Many of Salmat’s businesses have proven to be relatively resilient to economic softness. While we expect ongoing volatility in global markets will continue to dampen local trading conditions, we anticipate stable volumes in traditional services and continued high growth in digital volumes in the coming year,” said Grant Harrod.

“The investment we’ve made in our traditional businesses over the past year will continue to generate new wins and steady volumes in a more efficient manner.

“Our digital division – including Lasoo and the newer interactive and online businesses acquired during FY11 – is expected to deliver strong and accelerating growth in line with overall market demand for these services.

“We will provide more details on our performance to date and outlook for FY12 at our annual general meeting in November,” said Mr Harrod.

ABOUT SALMAT

Salmat is Australia's leading marketing communications and outsourced business services company.

Salmat helps businesses find, acquire, grow and retain customers by delivering innovative multichannel communications solutions across an unmatched range of channel options - including:

Digital:	web development, data analytics, e-commerce, social media, email, SMS, search, mobile, e-solutions, scanning, archiving, Lasoo.com.
Voice:	call centres, speech solutions, voice biometrics.
Mail:	unaddressed mail (catalogues), direct mail, essential mail.

Measureable Results

Return on Communication - we deliver a return on our clients' investment in communication with measurable results demonstrating improved sales outcomes and productivity improvements.

Market Leaders

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

Targeted Media Solutions (TMS) delivers more than 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. Salmat's new business, Salmat Digital, brings together all of Salmat's digital capabilities into a digital centre of excellence under TMS. This new business establishes Salmat as Australia's leading digital marketing communications provider. Salmat Digital has extensive capability across nearly every aspect of digital marketing communication including: data analytics, online, e-commerce, email, SMS, social media and e-solutions. Lasoo.com.au - Australia's premier online pre-shop website - also forms part of Salmat Digital.

Customer Contact Solutions (CCS) engages in millions of conversations each 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 as well as voice biometric technology and e-Learning training.

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.

For more information on Salmat go to www.salmat.com

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Salmat Limited

ABN 11 002 724 638

Annual report

for the year ended 30 June 2011

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Directors' report

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 2011.

Directors

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

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

Principal activities

Salmat is Australia's leading outsourced services provider specialising in targeted customer communication solutions. Salmat facilitates their 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:

- (a) **Targeted Media Solutions (TMS)** delivers more than 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.

TMS also brings together all of Salmat's digital capabilities into a digital centre of excellence, establishing Salmat as Australia's leading digital marketing communications provider. Salmat has extensive capability across nearly every aspect of digital marketing communication including: data analytics, online, e-commerce, email, SMS, social media and Lasoo.com.au - Australia's premier online pre-shop website.

- (b) **Customer Contact Solutions (CCS)** engages in millions of conversations each 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 as well as voice biometric technology and e-Learning training.
- (c) **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.

Dividends - Salmat Limited

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

	2011	2010
	\$'000	\$'000
Final ordinary dividend for the year ended 30 June 2010 of 12.5 cents (2009 - 11.0 cents) per fully paid share paid on 28 September 2010	19,892	17,467
Special dividend for the year ended 30 June 2010 of 10.0 cents (2009 - nil) per fully paid share paid on 28 September 2010	15,914	-
Interim ordinary dividend for the year ended 30 June 2011 of 11.5 cents (2010 - 11.0 cents) per fully paid share paid on 6 April 2011	18,370	17,477
	54,176	34,944

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final ordinary dividend of \$19,972,537 (12.5 cents per fully paid share) to be paid on 28 September 2011 out of retained earnings at 30 June 2011.

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 monthly board meeting allowing all directors to actively monitor the Group's performance.

Environmental issues

On 10 July 2011, the Australian Government announced the Carbon Price Mechanism (Carbon Tax) as part of its Clean Energy Future package. The Group does not expect any significant direct impact to its performance as a result of the new carbon tax.

Review of operations

A review of Group operations and the results for the year ended 30 June 2011 are set out in the Shareholder Review.

Significant changes in the state of affairs

On 22 December 2010, Salmat acquired 100% of the share capital in four leading Australian digital and interactive businesses for a consideration of \$75.8 million. The portfolio businesses represent a combination of complementary 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.

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 \$19,972,537 (12.5 cents per fully paid share) to be paid on 28 September 2011 out of retained profits at 30 June 2011.

Except for the matter discussed above, no other matter or circumstance has arisen since 30 June 2011 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 Deputy Chairman of Ridley Corporation Limited and a Director of Newcrest Mining Limited and the Australian Rugby Union Limited. He 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 a former Chief Executive of the NM Rothchild Australia Group and a former Director of NM Rothchild 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

397,467 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.

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.

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.

Special responsibilities

Member of the innovation and technology committee.

Interests in shares and options

36,140,772 ordinary shares in Salmat Limited

Information on directors (continued)

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 innovation and technology committee.

Interests in shares and options

36,446,213 ordinary shares in Salmat Limited.

Fiona Balfour

Non-executive Director (Independent)

Experience and expertise

Fiona is a non executive director of Metcash Limited and Tower Australia Limited. 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 innovation and technology committee.

Interests in shares and options

35,740 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 April 2009. Prior to this, Grant spent 13 years with Corporate Express Australia Limited, a leading office supplies distributor, where he served as Managing Director and Chief Executive Officer for over six years. Grant's previous roles at Corporate Express included General Manager of Sales and Marketing and General Manager of Operations.

Special responsibilities

Member of the innovation and technology committee.

Interests in shares and options

464,884 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 2011, and the numbers of meetings attended by each director were:

	Full meetings of directors *		Audit, Risk and Compliance		Meetings of committees			
					Remuneration and Compensation		Technology and Innovation	
	A	B	A	B	A	B	A	B
Richard Lee	9	9	5	5	5	5	**	**
John Thorn	8	9	5	5	5	5	**	**
Ian Elliot	9	9	**	**	**	**	5	5
Philip Salter	9	9	5	5	5	5	**	**
Peter Mattick	9	9	**	**	**	**	5	5
Fiona Balfour	9	9	5	5	5	5	5	5
Grant Harrod	9	9	**	**	**	**	5	5

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

* = One additional unscheduled meeting was held during the year by an appointed sub-committee to approve the execution of the share purchase agreement for the digital businesses acquired. This meeting was attended by Richard Lee, Philip Salter, Peter Mattick and Grant Harrod.

** = 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. 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 nine 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 overseen 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 report (audited) (continued)

A Principles used to determine the nature and amount of remuneration

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.

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.
- Review succession plans of the chief executive officer and senior executives.
- Oversee the Company's compliance with occupational health and safety legislation.
- Ensure compliance with ASX Corporate Governance Guidelines on Diversity.

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 \$250,000 per annum.
- The five other non-executive directors received \$130,000 per annum.
- All director's fees are inclusive of superannuation entitlements.

The deferred share scheme entitlement was a once only purchase subsequent to the appointment of each director up to 2005. 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.

Remuneration report (audited) (continued)

A Principles used to determine the nature and amount of remuneration

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. 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 subject to achieving a total shareholder return in excess of the small industrials index for a three year period; and
- 50% of the shares are subject to achieving an EPS target set by the board.

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.

The Chief Executive Officer's target remuneration mix comprises 50% fixed remuneration, 38% STI and 12% LTI.

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.

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, at the October 2008 annual general meeting and will be considered again at the 2011 annual general meeting. The Company's use of the option plan was to offer participation to secure the employment of 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 oversees 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

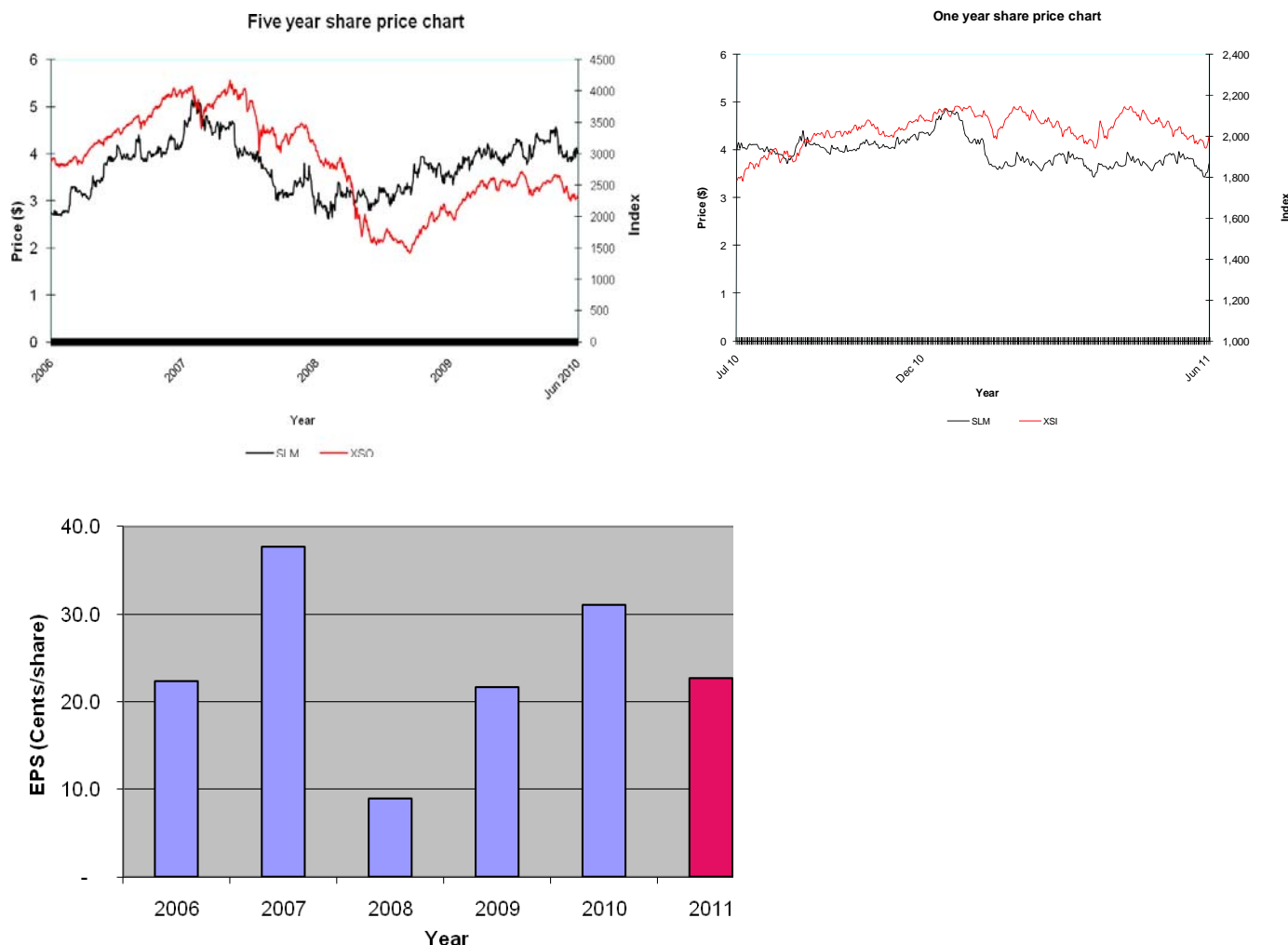
The Salmat Deferred Employee Share Plan was initially established following shareholder approval in October 2002. The continuance of this plan was approved by the shareholders at the November 2005 annual general meeting, at the October 2008 annual general meeting and will be considered again at the 2011 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 oversees 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 graphs below shows the performance of the Group as measured by the Group's Total Shareholder Return (TSR), 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 5 years up to 30 June 2010, the small industrials on the ASX (XSI) for the period from 1 July 2010 to the current period and the EPS performance of the Group for last five years.

Remuneration report (audited) (continued)

A Principles used to determine the nature and amount of remuneration



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 3 to 4 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
- David Besson - Chief Executive Officer - Targeted Media Solutions
- Geoffrey Court - Head of People and Culture
- Nick Debenham - Chief Executive Officer - Business Process Outsourcing
- David Hackshall - Chief Information Officer
- Andrew Hume - Chief Executive Officer - Customer Contact Solutions
- Ian Jones - Head of Sales (appointed 21 March 2011)
- Gary Smith - Head of Strategic Solutions (resigned 18 March 2011)

Remuneration report (audited) (continued)

B Details of remuneration (continued)

Amounts of remuneration (continued)

Key management personnel of the Group

2011	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 \$
<i>Non-executive directors</i>							
Richard Lee	234,801	-	-	15,199	-	-	250,000
John Thorn	119,266	-	-	10,734	-	-	130,000
Ian Elliot	119,266	-	-	10,734	-	-	130,000
Philip Salter#	119,266	-	-	10,734	-	(88,699)	41,301
Peter Mattick #	119,266	-	-	10,734	-	(88,699)	41,301
Fiona Balfour	119,266	-	-	10,734	-	-	130,000
Sub-total non-executive directors	831,131	-	-	68,869	-	(177,398)	722,602
<i>Executive director</i>							
Grant Harrod	790,261	248,614	18,540	15,199	400,333	-	1,472,947
<i>Other key management personnel (Group)</i>							
Peter Anson #	295,691	84,872	94,718	21,560	111,711	(25,185)	583,367
Chad Barton	386,800	77,250	-	25,199	60,268	-	549,517
David Besson #	396,800	110,622	-	25,199	74,605	(25,185)	582,041
Geoffrey Court #	254,801	48,840	-	50,299	34,391	(6,296)	382,035
Nick Debenham	299,433	68,250	-	50,566	17,550	-	435,799
David Hackshall	341,800	71,094	-	15,199	55,003	-	483,096
Andrew Hume #	448,301	34,763	-	15,199	88,706	(18,889)	568,080
Ian Jones # ***	78,808	7,518	-	4,206	8,934	(2,613)	96,853
Gary Smith # ***	395,735	-	-	50,782	22,313	(12,592)	456,238
Total key management personnel compensation (Group)	4,519,561	751,823	113,258	342,277	873,814	(268,158)	6,332,575

** Remuneration has been pro-rated from the date of appointment.

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, forfeiting their deferred shares. Any share based payment expense previously recognised under AASB2 in respect of the deferred shares has been reversed.

Remuneration report (audited) (continued)

B Details of remuneration (continued)

Amounts of remuneration (continued)

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 \$
<i>Non-executive directors</i>							
Richard Lee	185,154	-	-	14,461	-	-	199,615
John Thorn	109,721	-	-	9,875	-	-	119,596
Ian Elliot	109,721	-	-	9,875	9,332	-	128,928
Philip Salter^	76,217	-	-	6,860	-	-	83,077
Peter Mattick^	76,217	-	-	6,860	-	-	83,077
Fiona Balfour	29,081	-	-	26,765	-	-	55,846
Sub-total non-executive directors	586,111	-	-	74,696	9,332	-	670,139
<i>Executive directors</i>							
Philip Salter^ #	624,995	-	-	31,179	-	(104,975)	551,199
Peter Mattick^ #	630,269	-	-	31,179	-	(104,975)	556,473
Grant Harrod	757,209	629,375	-	42,824	207,280	-	1,636,688
<i>Other key management personnel (Group)</i>							
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 Besson #	375,557	168,566	-	24,461	28,811	(13,202)	584,193
Geoffrey Court#	201,054	30,076	-	49,561	16,234	(3,301)	293,624
Nick Debenham	18,027	-	-	818	-	-	18,845
David Hackshall	212,938	61,667	-	9,006	11,390	-	295,001
Peter Hartley ***	305,693	77,634	33,565	14,461	(35,388)	4,204	400,169
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
Colin Wright **	106,250	43,519	13,750	50,000	16,852	6,036	236,407
Total key management personnel compensation	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 the year (retired 27 November 2009)

*** Resigned 9 June 2010, forfeiting their deferred shares. Any share based payment expense previously recognised under AASB2 in respect of the deferred shares has been reversed.

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

Name	Fixed remuneration		At risk -STI		At risk - LTI	
	2011 %	2010 %	2011 %	2010 %	2011 %	2010 %
Grant Harrod	56	49	17	38	27	13
Other key management personnel of Salmat Group						
Peter Anson	70	65	15	28	15	7
Chad Barton	75	71	14	27	11	2
David Besson	73	68	19	29	8	3
Geoffrey Court	80	85	13	10	7	5
Nick Debenham	80	100	16	-	4	-
David Hackshall	74	75	15	21	11	4
Peter Hartley	-	82	-	18	-	-
Andrew Hume	82	76	6	18	12	6
Ian Jones	85	-	8	-	7	-
Gary Smith	98	70	-	23	2	7
Colin Wright	-	80	-	20	-	-

Remuneration report (audited) (continued)

C Service Agreements

Chief executive officer

The Chief Executive Officers' 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.

No executives are entitled to receive more than one year's salary on termination. 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, at the October 2008 annual general meeting and will be considered again at the 2011 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 are as 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

Remuneration report (audited) (continued)

D Share-based compensation (continued)

Vesting conditions are identical to the conditions placed on the November 06 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

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 2010	\$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 2012	\$4.20	\$0.62
November 2007	November 2010	November 2012	\$-	\$3.12
November 2007	November 2010	November 2012	\$-	\$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 44.

Name	Number of options granted during the year		Number of options vested during the year	
	2011	2010	2011	2010
Other key management personnel of the Salmat Group				
Peter Anson	-	-	10,000	40,000
David Besson	-	-	10,000	40,000
Peter Boyle	-	-	-	40,000
Geoffrey Court	-	-	2,500	10,000
Peter Hartley	-	-	3,750	2,500
Andrew Hume	-	-	7,500	30,000
Ian Jones	-	-	3,750	-
Gary Smith	-	-	5,000	20,000

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.

Remuneration report (audited) (continued)

D Share-based compensation (continued)

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	
		2011	2010
<i>Other key management personnel of the Salmat Group</i>			
David Besson	March 2010	-	40,000
Peter Boyle	January 2010	-	40,000
Geoffrey Court	Nov 2010 & Mar 2011	12,500	-
Andrew Hume	November 2010	7,500	30,000
Ian Jones	Nov 2010 & Mar 2011	3,750	-
Gary Smith	November 2010	5,000	20,000

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				
Philip Salter	-	-	-	676,500
Peter Mattick	-	-	-	676,500
Grant Harrod	27%	967,213	-	-
Other key management personnel of the Salmat of the Group				
Peter Anson	15%	131,890	-	41,000
Chad Barton	11%	114,307	-	-
David Besson	8%	92,323	-	41,000
Geoffrey Court	7%	43,963	16,000	10,250
Nick Debenham	4%	87,927	-	-
David Hackshall	11%	87,927	-	-
Andrew Hume	12%	87,927	30,300	30,750
Ian Jones	7%	33,411	15,713	15,375
Gary Smith	2%	87,927	20,200	20,500

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

B = The fair value at grant date calculated in accordance with AASB 2 Share-based Payment of options and deferred employee shares 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
November 2006	November 2011	\$3.41	45,000
December 2006	December 2011	\$3.80	20,000
November 2007	November 2012	\$4.40	32,500
			<u>97,500</u>

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

Remuneration report (audited) (continued)

D Share-based compensation (continued)

Shares issued on the exercise of options

The following ordinary shares of Salmat Limited were issued during the year ended 30 June 2011 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	42,500
November 2007	\$4.40	107,500
		<u>150,000</u>

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. Salmat Limited issued 498,316 ordinary shares to the Deferred Employee Share Plan at a notional cost of \$2,006,220 based on the five day volume weighted average share price of \$4.025 on 24 November 2010. In 2010 the Deferred Employee Share Plan acquired 285,342 shares at a cost of \$1,213,018. These shares will vest to senior management upon satisfying the service and employment conditions. Should the hurdles not be met the rights to the shares are forfeited by the employees.

Grant date	Date vested and exercisable	Expiry Date	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 2011	October 2011	\$3.79
April 2009	October 2011	October 2011	\$3.70
March 2010	September 2012	September 2012	\$4.24
March 2010	September 2012	September 2012	\$2.80
December 2010	September 2013	September 2013	\$4.13
December 2010	September 2013	September 2013	\$2.95
March 2011	September 2013	September 2013	\$3.64
March 2011	September 2013	September 2013	\$2.36

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

Name	Number of shares granted during the year		Number of shares vested during the year	
	2011	2010	2011	2010
Director of Salmat Limited				
Grant Harrod	273,224	-	-	-
Other key management personnel of the Salmat Limited				
Peter Anson	37,257	31,629	-	-
Chad Barton	32,290	26,358	-	-
David Besson	26,080	27,676	-	-
Geoffrey Court	12,419	9,489	-	-
Nick Debenham	24,838	-	-	-
David Hackshall	24,838	26,358	-	-
Peter Hartley	-	27,676	-	-
Ian Jones	9,438	-	-	-
Andrew Hume	24,838	26,358	-	-
Gary Smith	24,838	26,358	-	-

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 is 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.

Remuneration report (audited) (continued)

D Share-based compensation (continued)

The model inputs for deferred shares issued during the year ended 30 June 2011 included:

- (a) Share price at date of grant: \$4.13 on 14 December 2010 and \$3.64 on 15 March 2011
- (b) Deferred shares issued have no exercise price
- (c) Risk free interest rate: 5.22% on 14 December 2010 and 4.77% on 15 March 2011
- (d) Expected price volatility of the Company's shares: 36%
- (e) Expected dividend yield: 8.2%

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 has been 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.

Remuneration report (audited) (continued)

D Share-based compensation (continued)

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.

Shares granted to senior employees in December 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 10% cumulative growth for the financial years ended 30 June 2011, 2012 and 2013.

Salmat's cumulative EPS for the three years ending 30 June 2013 would need to equal or exceed \$1.115.

A scaled approach for part achievement would apply if:

75% of the targeted compound EPS increase is achieved: 50% of shares vest
80% of the targeted compound EPS increase is achieved: 60% of shares vest
85% of the targeted compound EPS increase is achieved: 70% of shares vest
90% of the targeted compound EPS increase is achieved: 80% of shares vest
95% of the targeted compound EPS increase is achieved: 90% of shares vest
100% of the targeted compound EPS increase is achieved: 100% of shares vest

Performance condition - No 2

50% of the shares granted will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the ASX small industrials index (XSI) for the three fiscal years ending 30 June 2013 at the testing date 30 June 2013.

Salmat's out-performance relative to XSI will be determined as per below, with a straight line interpolation between the 50th and 75th percentile applied:

Salmat's TSR performance compared to XSI companies is less than the 50th percentile: 0% of shares vest
Salmat's TSR performance compared to XSI companies is equal to the 50th percentile: 50% of shares vest
Salmat's TSR performance compared to XSI companies is at or above the 75th percentile: 100% of shares vest

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 2011 in respect of work performed by current or past principals, partners, directors and employees.

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 by the audit committee 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 18.

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.



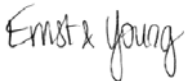
Richard Lee
Chairman



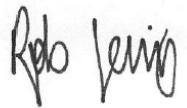
Grant Harrod
Chief Executive Officer
Sydney
16 August 2011

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 2011, 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Rob Lewis'.

Rob Lewis
Partner
16 August 2011

Salmat Limited
Income statement
For the year ended 30 June 2011

		Consolidated	
		2011	2010
	Notes	\$'000	\$'000
Revenue from continuing operations	3	863,922	880,245
Employee benefits expense		(435,324)	(432,202)
Depreciation and amortisation expense	4	(33,024)	(32,375)
Freight and distribution		(135,208)	(127,206)
Materials usage		(58,901)	(61,984)
Property related expenses		(39,259)	(38,137)
Equipment related costs		(51,971)	(57,331)
Other expenses from ordinary activities		(41,779)	(46,758)
Finance costs	4	(17,758)	(14,355)
Share of net profit / (loss) of associates and joint venture partnership accounted for using the equity method		(183)	244
Profit before income tax		50,515	70,141
Income tax expense	5	(14,561)	(21,042)
Profit for the year		35,954	49,099
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent entity:		Cents	Cents
Basic earnings per share	43	22.7	31.1
Diluted earnings per share	43	22.5	30.9

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

Salmat Limited
Statement of comprehensive income
For the year ended 30 June 2011

	Notes	Consolidated 2011 \$'000	2010 \$'000
Profit for the year		35,954	49,099
Other comprehensive income			
Cash flow hedges	30(a)	614	2,916
Actuarial Gains on retirement benefit obligation	27(e)	91	(218)
Exchange differences on translation of foreign operations	30(a)	(1,242)	(528)
Income tax relating to components of other comprehensive income	5(c)	<u>(184)</u>	<u>(875)</u>
Other comprehensive income for the year, net of tax		<u>(721)</u>	1,295
Total comprehensive income for the year		<u>35,233</u>	<u>50,394</u>

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

Salmat Limited
Statement of financial position
As at 30 June 2011

		Consolidated	
		2011	2010
	Notes	\$'000	\$'000
Current assets			
Cash and cash equivalents	7	20,627	59,333
Trade and other receivables	8	114,268	114,966
Inventories	9	7,833	7,722
Other current assets	10	6,574	5,793
Total current assets		149,302	187,814
Non-current assets			
Receivables	11	2,613	3,401
Investments accounted for using the equity method	12	1,724	1,130
Plant and equipment	13	61,425	47,820
Deferred tax assets	14	16,823	19,758
Intangible assets	15	460,517	396,622
Other non-current assets	16	590	731
Total non-current assets		543,692	469,462
Total assets		692,994	657,276
Current liabilities			
Trade and other payables	17	86,043	95,063
Borrowings	18	3,876	443
Derivative financial instruments	19	1,094	1,074
Current tax liabilities	20	2,238	16,282
Provisions	21	26,742	31,621
Other current liabilities	22	-	2,074
Total current liabilities		119,993	146,557
Non-current liabilities			
Payables	23	1,064	250
Borrowings	24	275,063	193,202
Deferred tax liabilities	25	9,067	8,778
Provisions	26	7,366	9,011
Retirement benefit obligations	27	1,524	1,638
Derivative financial instruments	19	107	741
Other non-current liabilities	28	698	698
Total non-current liabilities		294,889	214,318
Total liabilities		414,882	360,875
Net assets		278,112	296,401
Equity			
Contributed equity	29	205,761	205,616
Reserves	30(a)	267	570
Retained earnings	30(b)	72,084	90,215
Total equity		278,112	296,401

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

Salmat Limited
Statement of changes in equity
For the year ended 30 June 2011

Consolidated		Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
	Notes				
Balance at 1 July 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 provided for or paid	31	-	-	(34,944)	(34,944)
Employee share options - value of employee services	29	1,189	-	-	1,189
Employee share scheme	44	-	(193)	-	(193)
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
Balance at 1 July 2010		205,616	570	90,215	296,401
Profit for the year		-	-	35,954	35,954
Other comprehensive income		-	(812)	91	(721)
Total comprehensive income for the year		-	(812)	36,045	35,233
Transactions with owners in their capacity as owners:					
Dividends paid	31	-	-	(54,176)	(54,176)
Cost of share based payments	44	-	509	-	509
Exercise of options under the Salmat Executive Performance Option Plan	29	145	-	-	145
		145	509	(54,176)	(53,522)
Balance at 30 June 2011		205,761	267	72,084	278,112

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

Salmat Limited
Statement of cash flows
For the year ended 30 June 2011

		Consolidated	
		2011	2010
	Notes	\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,072,878	1,096,214
Payments to suppliers and employees (inclusive of goods and services tax)		(988,354)	(984,002)
		84,524	112,212
Interest received		895	1,454
Interest paid		(16,968)	(14,601)
Income taxes paid		(27,689)	(14,139)
Net cash inflow (outflow) from operating activities	42	40,762	84,926
Cash flows from investing activities			
Payment for purchase of controlled entities	37	(73,957)	(29)
Payment of deferred purchase price (prior acquisition)		-	(400)
Payments for plant and equipment	13	(23,810)	(12,856)
Proceeds from sale of plant and equipment		740	123
Payments for investment in associate		(1,021)	-
Payments for software		(174)	-
Repayment of loan by associate		257	495
Dividends received from associate		78	52
Net cash (outflow) inflow from investing activities		(97,887)	(12,615)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		145	1,189
Proceeds from borrowings	24	75,300	185,000
Repayment of borrowings		-	(208,000)
Finance lease payments		(2,850)	(423)
Redeemable deposits		-	(14)
Dividends paid to company's shareholders	31	(54,176)	(34,944)
Net cash inflow (outflow) from financing activities		18,419	(57,192)
Net increase (decrease) in cash and cash equivalents		(38,706)	15,119
Cash and cash equivalents at the beginning of the financial year		59,333	44,214
Cash and cash equivalents at end of year	7	20,627	59,333

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

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Corporate Information

The financial report of Salmat Limited and the entities it controlled for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 16 August 2011.

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

New and amended standards adopted by the Salmat Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2010

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions

AASB Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

AASB 2010 - 4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

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 47.

1. Summary of significant account policies (continued)

(b) Principles of consolidation

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.

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.

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.

1 Summary of significant accounting policies (continued)

(d) Foreign currency translation (continued)

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), and
- all resulting exchange differences are recognised in other comprehensive income.

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 consolidated 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.

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.

1 Summary of significant accounting policies (continued)

(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 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 stand alone 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 as lessee 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.

1 Summary of significant accounting policies (continued)

(h) Business combinations

Business combinations are accounted for using the acquisition method. 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 expensed 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 non-controlling 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 1r). 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.

Contingent consideration is classified as either equity or a financial liability and subsequently remeasured with changes to equity or profit and loss. Changes in the fair value as at acquisition date of the contingent consideration are measurement period changes and are adjusted against the goodwill previously recognised.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previous held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

(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 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 indicators exist, 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.

1 Summary of significant accounting policies (continued)

(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) Investments in subsidiaries and other financial assets

Related parties

Non-current investments are measured using the amortised cost basis. The carrying amount of non-current investments is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets for the non-listed investments. All non-current investments were carried at the lower of cost or net realisable value.

(o) 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.

1 Summary of significant accounting policies (continued)

(o) Derivatives and hedging activities (continued)

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. 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 consolidated 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.

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.

(p) 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.

(q) 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.

- | | |
|--------------------------|--------------------|
| • 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.

1 Summary of significant accounting policies (continued)

(q) Plant and equipment (continued)

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.

(r) Intangible assets

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.

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

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

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 3 to 7 years.

1 Summary of significant accounting policies (continued)

(s) 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.

(t) 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.

(u) 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

A provision has been made for the present value of anticipated costs of future restoration of leased premises. The calculation of this provision requires assumptions such as application of environmental legislation, lease exit dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 26.

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.

(v) 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.

1 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

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.

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.

Share-based payments

Employee Option Plan

The fair value of options under the Salmat Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non vesting conditions but excludes the impact of any service and non-market conditions.

Non-market vesting conditions are included as assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each period, the Company revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Information in relation to these schemes is set out in note 44.

Deferred Employee Share Plan

The fair value of shares under the Salmat Deferred Share Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares. The total amount to be expensed is determined by reference to the fair value of the shares granted, which includes any market performance conditions and the impact of any non vesting conditions but excludes the impact of any service and non-market conditions.

Non-market vesting conditions are included as assumptions about the number of shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each period, the Company revises its estimates of the number of shares that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Information in relation to these schemes is set out in note 44.

(w) Contributed equity

Ordinary shares are classified as equity (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.

1 Summary of significant accounting policies (continued)

(w) Contributed equity (continued)

Treasury shares

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

(x) 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.

(y) 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.

(z) 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.

(aa) New accounting standards and interpretations on issue but not 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 2011, 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.

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2015)

AASB 9 addresses the classification and measurement of financial 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. 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 no such gains or losses were recognised in other comprehensive income. The Group has not yet decided whether to early adopt AASB 9.

1 Summary of significant accounting policies (continued)

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

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.

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.

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

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

AIFRS 10 Consolidated financial statements (effective from 1 January 2013)

AIFRS 10 Consolidated financial statements establishes a new control model that applies to all entities. It replaces parts of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.

The Group will apply the standard from 1 July 2013. The amendment is not expected to have a significant impact on the current accounting for the investments that the Group hold.

AIFRS 11 Joint Arrangements (effective from 1 January 2013)

AIFRS 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Ventures*. AIFRS 11 uses the principle of control in AIFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AIFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

1 Summary of significant accounting policies (continued)

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

The Group will apply the standard from 1 July 2013. The amendment is not expected to have a significant impact on the current accounting for the investment in Reach Media NZ Limited.

AIFRS 12 Disclosure of Interests in Other Entities (effective from 1 January 2013)

AIFRS 12 *Disclosure of Interests in Other Entities* includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

The Group will apply the standard from 1 July 2013. The Group currently discloses a list of all subsidiaries, joint ventures and associates in their annual report. The amendment will lead to increased disclosure of the Group's relationship with these entities.

AIFRS 13 Fair Value Measurement (effective 1 January 2013)

AIFRS 13 *Fair Value Measurement* establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. AIFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS. Application of this definition may result in different fair values being determined for the relevant assets.

AIFRS 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

The Group will apply the standard from 1 July 2013. The Group currently values a number of instruments at fair value, including derivative instruments. The amendment is not expected to have a significant impact on current accounting of these instruments.

(ab) Parent Entity financial information

The financial information for the Parent Entity, Salmat Limited, disclosed in note 46 has been prepared on the same basis as the consolidated financial statements.

(ac) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Comparatives in the statement of cashflows have been restated to reflect consistent treatment with current year disclosures.

2 Segment information

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 (TMS) delivers more than 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.

TMS also brings together all of Salmat's digital capabilities into a digital centre of excellence, establishing Salmat as Australia's leading digital marketing communications provider. Salmat has extensive capability across nearly every aspect of digital marketing communication including: data analytics, online, e-commerce, email, SMS, social media and Lasoo.com.au - Australia's premier online pre-shop website.

Customer Contact Solutions (CCS) engages in millions of conversations each 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 as well as voice biometric technology and e-Learning training.

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.

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 below.

2 Segment information (continued)

2011	Targeted Media Solutions \$'000	Customer Contact Solutions \$'000	Business Process Outsourcing \$'000	Corporate Costs \$'000	Total \$'000
Segment revenue					
Sales to external customers	250,851	293,712	318,464		863,027
Interest revenue				895	
Total revenue				<u>863,922</u>	
Underlying Segment EBITA	42,545	15,949	41,835		100,329
Reconciliation of segment EBITA to income statement					
Corporate costs				(11,744)	(11,744)
EBITA					88,585
Amortisation expense				(12,035)	(12,035)
Net finance costs				(16,863)	(16,863)
Significant items				(9,172)	(9,172)
Profit before income tax					50,515
Income tax expense					(14,561)
Profit attributable to members of Salmat Limited					<u>35,954</u>
2010					
Segment revenue					
Sales to external customers	230,598	304,837	343,356	-	878,791
Interest revenue					1,454
Total revenue					<u>880,245</u>
Underlying Segment EBITA	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)	(10,518)
Net finance costs				(12,901)	(12,901)
Significant items				2,395	2,395
Profit before income tax					70,141
Income tax expense					(21,042)
Profit attributable to members of Salmat Limited					<u>49,099</u>
	Segment revenues from sales to external customers		Segment assets		
	2011	2010	2011	2010	
	\$'000	\$'000	\$'000	\$'000	
Australia	808,793	822,200	654,228	602,805	
New Zealand	25,537	26,377	7,433	6,647	
Asia	26,981	28,406	12,737	25,092	
Other	1,716	1,808	1,773	3,582	
	<u>863,027</u>	<u>878,791</u>	<u>676,171</u>	<u>638,126</u>	
Deferred tax asset			16,823	19,150	
Total assets			<u>692,994</u>	<u>657,276</u>	

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.

2 Segment information (continued)

Other segment information

Segment revenue

Revenues of approximately \$77,973,319 (2010: \$92,090,861) in CCS, \$41,443,538 (2010: \$43,126,151) in BPO and \$4,160,123 (2010: 4,425,060) in TMS are derived from a single external customer. Each segment contracts with customers 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.

Underlying EBITA

The chief operating decision maker assesses the performance of the operating segments based on a measure of adjusted EBITA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, significant property relocation costs and right-sizing costs following the exit from the Telstra contract.

	Consolidated	
	2011	2010
	\$'000	\$'000
Significant items:		
Net property profit (a)	(1,636)	(2,395)
Relocation costs (b)	5,500	-
Contract exit cost (c)	2,499	-
Digital Acquisitions transaction and integration costs (d)	2,809	-
	<hr/>	<hr/>
Total significant items before tax	9,172	(2,395)
Income tax expense	(2,752)	719
	<hr/>	<hr/>
Net significant items	6,420	(1,676)

These significant items (after tax) are relevant in explaining the financial performance:

- (a) \$1,145,200 gain from deferred recognition of property profit in 2008.
- (b) \$3,850,000 in relocation costs relating to the new BPO Victorian facility.
- (c) \$1,749,300 of right-sizing costs following the exit from the Telstra contract in CCS.
- (d) \$1,966,300 in acquisition transaction and integration costs relating to the acquisition of the digital businesses.

3 Revenue

	Consolidated 2011 \$'000	2010 \$'000
From continuing operations		
<i>Sales revenue</i>		
Services	863,027	878,791
Interest	895	1,454
	<u>863,922</u>	<u>880,245</u>

4 Expenses

<i>Depreciation</i>		
Plant and equipment	20,989	21,857
<i>Amortisation</i>		
Customer Intangibles	9,233	8,519
Other intangibles	2,802	1,999
Total amortisation	<u>12,035</u>	<u>10,518</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable	17,758	14,355
<i>Net (gain) / loss on disposal of property, plant and equipment</i>	(1,217)	4
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	25,137	24,407
<i>Foreign exchange gains and losses</i>		
Net foreign exchange (gains)/losses	275	79
<i>Defined contribution superannuation expense</i>	24,894	24,192

5 Income tax expense

	Consolidated	
	2011	2010
	\$'000	\$'000
(a) Income tax expense:		
Current Tax	15,631	23,586
Deferred tax	914	(2,478)
Adjustments for current tax of prior periods	<u>(1,984)</u>	<u>(66)</u>
	14,561	21,042
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	<u>50,515</u>	<u>70,141</u>
Tax at the Australian tax rate of 30% (2010 - 30%)	15,155	21,042
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Other non-allowable items	1,002	150
Over provision for income tax in prior year	(1,984)	(66)
Difference in overseas tax rates	333	(11)
Share of joint ventures losses not assessable	<u>55</u>	<u>(73)</u>
Total income tax expense	14,561	21,042
(c) Tax expense (income) relating to items of other comprehensive income		
Cash flow hedges	<u>(184)</u>	<u>(875)</u>
(d) Tax losses		
Gross unused tax losses for which no deferred tax asset has been recognised	<u>8,572</u>	<u>14,523</u>
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	<u>-</u>	<u>-</u>

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 2011 Cents	2010 Cents
Net tangible asset backing per ordinary share	<u>(114.2)</u>	<u>(63.0)</u>

7 Current assets - Cash and cash equivalents

Cash at bank	20,602	59,306
Cash on hand	25	27
	<u>20,627</u>	<u>59,333</u>

(a) Interest rate risk exposure

The Group's exposure to interest rate risk is discussed in note 45.

8 Current assets - Trade and other receivables

Net trade receivables

Trade receivables	105,978	107,476
Allowance for doubtful receivables (a)	(668)	(569)
	<u>105,310</u>	<u>106,907</u>
Other receivables	8,958	8,059
	<u>114,268</u>	<u>114,966</u>

(a) Impaired trade receivables

As at 30 June 2011 current trade receivables of the Group with a nominal value of \$668,000 (2010: \$569,000) 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	569	814
Allowance for impairment recognised during the year	474	7
Receivables written off during the year as uncollectible	(375)	(252)
	<u>668</u>	<u>569</u>

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.

(b) Past due but not impaired

As of 30 June 2011, trade receivables of \$15,797,000 (2010: \$16,791,000) 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:

1-30 days	9,324	13,132
31-60 days	3,316	2,410
greater than 60 days	3,157	1,249
	<u>15,797</u>	<u>16,791</u>

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.

8 Current assets - Trade and other receivables (continued)

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% (2010: 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 45.

(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 45 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

	Consolidated 2011 \$'000	2010 \$'000
Raw materials		
At cost	6,825	5,260
Provision for obsolescence	(1,023)	(929)
Raw materials	<u>5,802</u>	<u>4,331</u>
Work in progress		
At cost	<u>2,031</u>	<u>3,391</u>
	<u>7,833</u>	<u>7,722</u>

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2011 amounted to \$58,901,000 (2010: \$61,984,000) and are included in "materials usage" in the consolidated income statement.

10 Current assets - Other current assets

Prepayments	6,338	5,596
Recoverable Deposits	<u>236</u>	<u>197</u>
	<u>6,574</u>	<u>5,793</u>

11 Non-current assets - Receivables

	Consolidated	
	2011	2010
	\$'000	\$'000
Related party receivable - joint venture	<u>2,613</u>	<u>3,401</u>
	<u>2,613</u>	<u>3,401</u>

(a) Fair values

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

Group	2011		2010	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Loans to joint venture	<u>2,613</u>	<u>2,613</u>	<u>3,401</u>	<u>3,401</u>

The loans to joint venture are classified as a non-current receivable as Salmat does not intend to recall the loan within the next twelve months.

(b) Risk exposure

Information about the Salmat Group's exposure to credit risk, foreign exchange and interest rate risk is provided in note 45.

12 Non-current assets - Investments accounted for using the equity method

	Consolidated	
	2011	2010
	\$'000	\$'000
Shares in joint venture and associate (note 40)	<u>1,724</u>	<u>1,130</u>

(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 – Plant and equipment

	Plant and equipment \$'000
At 1 July 2009	
Cost	158,144
Accumulated depreciation	<u>(108,123)</u>
Net book amount	<u>50,021</u>
Year 30 June 2009	
Opening net book amount	50,021
Additions	21,263
Disposals	(521)
Depreciation charge	(21,857)
Net exchange difference on translation of financial reports of foreign operations	<u>(1,086)</u>
Closing net book amount	<u>47,820</u>
At 30 June 2010	
Cost	175,332
Accumulated depreciation	<u>(127,512)</u>
Net book amount	<u>47,820</u>
Year 30 June 2011	
Opening net book amount	47,820
Additions *	35,549
Additions through acquisition of controlled entity	1,456
Disposals	(1,597)
Depreciation charge	(20,989)
Net exchange difference on translation of financial reports of foreign operations	<u>(814)</u>
Closing net book amount	<u>61,425</u>
At 30 June 2011	
Cost	195,428
Accumulated depreciation	<u>(134,003)</u>
Net book amount	<u>61,425</u>

14 Non-current assets - Deferred tax assets

	Consolidated	
	2011	2010
	\$'000	\$'000
The balance comprises temporary differences attributable to:		
Doubtful debts	199	156
Employee benefits	9,068	9,996
Property, plant & equipment	894	-
Deferred capital profit	-	622
Cash flow hedges	360	545
Amortisation of intangibles	448	144
Accruals	4,867	6,925
Other provisions	987	1,370
	16,823	19,758
Movements:		
Opening balance at 1 July	19,758	20,484
Credited/(charged) to the income statement	(3,666)	149
Credited/(charged) to equity	(184)	(875)
Acquisition of controlled entity	915	-
Closing balance at 30 June	16,823	19,758

15 Non-current assets - Intangible assets

	Goodwill \$'000	Other intangible assets \$'000	Customer Intangible \$'000	Total \$'000
At 1 July 2009				
Cost	365,037	10,069	55,761	430,867
Accumulated amortisation and impairment	-	(5,610)	(18,698)	(24,308)
Net book amount	<u>365,037</u>	<u>4,459</u>	<u>37,063</u>	<u>406,559</u>
Year ended 30 June 2010				
Opening net book amount	365,037	4,459	37,063	406,559
Additions	-	551	-	551
Acquisition of controlled entity	29	-	-	29
Amortisation charge	-	(1,998)	(8,519)	(10,517)
Closing net book amount	<u>365,066</u>	<u>3,012</u>	<u>28,544</u>	<u>396,622</u>
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	<u>365,066</u>	<u>3,012</u>	<u>28,544</u>	<u>396,622</u>
Year ended 30 June 2011				
Opening net book amount	365,066	3,012	28,544	396,622
Additions	-	174	-	174
Acquisition of controlled entity	64,803	3,272	7,681	75,756
Amortisation charge	-	(2,802)	(9,233)	(12,035)
Closing net book amount	<u>429,869</u>	<u>3,656</u>	<u>26,992</u>	<u>460,517</u>
At 30 June 2011				
Cost	429,869	11,986	63,442	505,297
Accumulated amortisation and impairment	-	(8,330)	(36,450)	(44,780)
Net book amount	<u>429,869</u>	<u>3,656</u>	<u>26,992</u>	<u>460,517</u>

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
2011				
Goodwill	<u>274,613</u>	<u>75,382</u>	<u>79,874</u>	<u>429,869</u>
	<u>274,612</u>	<u>75,383</u>	<u>79,874</u>	<u>429,869</u>
2010				
Goodwill	<u>272,944</u>	<u>12,248</u>	<u>79,874</u>	<u>365,066</u>
	<u>272,944</u>	<u>12,248</u>	<u>79,874</u>	<u>365,066</u>

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 cashflows is 15.5% (2010: 15.2%). The equivalent post tax discount rate is 10.8% for 2011 (2010: 10.8%).
- The growth rate used to extrapolate cash flows beyond the five-year period is 3% (2010: 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 13.7% (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.

15 Non-current assets - Intangible assets (continued)

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 will increase in future periods, but for impairment modelling it is assumed to be stable over future periods. The loss of a significant customer in any business segment will impact on the ability of that segment to maintain expected earnings and cashflow. 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	
	2011	2010
	\$'000	\$'000
Recoverable deposits	<u>590</u>	<u>731</u>

17 Current liabilities - Trade and other payables

Trade payables	27,546	22,555
Accrued expenses	50,055	60,316
Other payables	<u>8,442</u>	<u>12,192</u>
	<u>86,043</u>	<u>95,063</u>

Terms and conditions relating to trade payables, accrued expenses and other payables are referred to in note 1(s) 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 45.

18 Current liabilities - Borrowings

Lease liabilities (note 35)	<u>3,876</u>	<u>443</u>
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(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 45.

19 Derivative financial instruments

	Consolidated 2011 \$'000	2010 \$'000
Current liabilities		
Interest rate swap cash flow hedge	1,094	1,074
Total current derivative financial instrument liabilities	<u>1,094</u>	<u>1,074</u>
Non-current liabilities		
Interest rate swap cash flow hedge	107	741
Total non-current derivative financial instrument liabilities	<u>107</u>	<u>741</u>
Total derivative financial instrument liabilities	<u>1,201</u>	<u>1,815</u>

(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 45).

Interest rate swap contracts - cash flow hedges

Bank loans of the Group currently bear an average variable interest rate of 6.81%. 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 6.80% and 7.95%.

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 2011 a loss of \$1,083,760 was reclassified into profit or loss (2010 - loss of \$3,943,000) and included in finance costs. There was no material hedge ineffectiveness in the current or prior year.

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 45 for details. However, they are accounted for as held for trading.

20 Current liabilities - Current tax liabilities

	Consolidated 2011 \$'000	2010 \$'000
Income tax	<u>2,238</u>	<u>16,282</u>

21 Current liabilities - Provisions

	Consolidated 2011 \$'000	2010 \$'000
Employee benefits - annual leave	14,823	17,396
Employee benefits - long service leave (a)	11,877	11,226
Provision for surplus lease space (b)	42	2,999
	<u>26,742</u>	<u>31,621</u>

(a) Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Salmat Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Salmat Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

(b) Movements in provisions

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.

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

Provision for surplus lease space

Carrying amount at start of year	2,999	4,520
Additional provision recognised	-	1,200
Unwinding of provision	(2,957)	(2,721)
Carrying amount at end of year	<u>42</u>	<u>2,999</u>

22 Current liabilities - Other current liabilities

Deferred profit	<u>-</u>	<u>2,074</u>
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Deferred profit in the prior year relates to profit on sale of the Group's premises in Sydney and Brisbane.

23 Non-current liabilities - Payables

Deferred purchase price	250	250
Consideration Payable	814	-
	<u>1,064</u>	<u>250</u>

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

24 Non-current liabilities - Borrowings

	Consolidated 2011 \$'000	2010 \$'000
Secured		
Bank loans	259,111	188,824
Lease liabilities (note 35)	<u>15,952</u>	<u>4,378</u>
Total secured non-current borrowings	<u>275,063</u>	<u>193,202</u>

(a) Bank loans and bank overdraft

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

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 non-current based on the expiry date of the loan facility agreements.

The carrying amounts of assets pledged as security 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:

	Consolidated 2011 \$'000	2010 \$'000
Available		
Bank overdraft	5,000	10,000
Loan facilities	313,486	221,548
Lease facilities	26,600	20,000
Guarantee facility	<u>45,000</u>	<u>40,000</u>
	<u>390,086</u>	<u>291,548</u>
Used at balance date		
Bank overdrafts	-	-
Loan facilities	259,786	189,432
Lease facilities	19,828	4,821
Guarantee facility	<u>26,617</u>	<u>24,738</u>
	<u>306,231</u>	<u>218,991</u>
Unused at balance date		
Bank overdrafts	5,000	10,000
Loan facilities	53,700	32,116
Lease facilities	6,772	15,179
Guarantee facility	<u>18,383</u>	<u>15,262</u>
	<u>83,855</u>	<u>72,557</u>

The bank overdraft facilities may be drawn at any time.

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

24 Non-current liabilities - Borrowings (continued)

The current interest rates on loan facilities are 6.73% to 7.03% (2010: 6.02% to 6.38%), on lease facilities 7.16% to 7.97% (2010: 8.05%).

(c) Fair value

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

	At 30 June 2011		At 30 June 2010	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Consolidated				
Bank loans	259,111	259,786	188,824	191,907
Lease liabilities	19,828	19,828	4,821	2,346
	<u>278,939</u>	<u>279,614</u>	<u>193,645</u>	<u>194,253</u>

(d) Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 45.

25 Non-current liabilities - Deferred tax liabilities

	Consolidated 2011 \$'000	2010 \$'000
The balance comprises temporary differences attributable to:		
Prepayments	405	-
Unearned income	345	240
Intangible assets	<u>8,317</u>	<u>8,538</u>
	<u>9,067</u>	<u>8,778</u>
Movements:		
Opening balance at 1 July	8,778	11,107
Charged/(credited) to the income statement (note 5)	(2,752)	(2,329)
Acquisition of controlled entity (note 37)	<u>3,041</u>	<u>-</u>
Closing balance at 30 June	<u>9,067</u>	<u>8,778</u>

26 Non-current liabilities - Provisions

	Consolidated	
	2011	2010
	\$'000	\$'000
Employee benefits - long service leave	3,538	3,713
Other provisions - lease makegood	3,828	5,298
	7,366	9,011

(a) 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.

(b) Movements in provisions

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

Other provisions - lease makegood

Carrying amount at start of year	5,298	3,089
Additional provision recognised	753	2,734
Unwinding of discount	(240)	(525)
Provision utilised	(1,983)	-
Carrying amount at end of year	3,828	5,298

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.

27 Non-current liabilities - Retirement benefit obligations (continued)

(b) Statement of financial position amounts

The amounts recognised in the statement of financial position are determined as follows:

	Consolidated 2011 \$'000	2010 \$'000
Present value of the defined benefit obligation	5,199	5,048
Fair value of defined benefit plan assets	<u>(3,543)</u>	<u>(3,415)</u>
	1,656	1,633
Unrecognised actuarial (losses) and gains	<u>(132)</u>	<u>5</u>
Net liability in the statement of financial position	<u>1,524</u>	<u>1,638</u>

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 gain of \$91,450 (2010: loss \$218,000)

Cumulative actuarial gains and losses recognised in the statement of comprehensive income is a loss of \$991,000 (2010: loss \$1,082,000)

(c) Categories of plan assets

The major categories of plan assets are as follows:

Cash	231	386
Equity instruments	2,168	1,881
Debt instruments	382	460
Property	325	294
Other assets	<u>437</u>	<u>394</u>
	<u>3,543</u>	<u>3,415</u>

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.

27 Non-current liabilities - Retirement benefit obligations (continued)

	Consolidated	
	2011	2010
	\$'000	\$'000
<i>Reconciliation of the present value of the defined benefit obligation, which is partly funded:</i>		
Balance at the beginning of the year	5,048	4,559
Current service cost	111	120
Interest cost	233	234
Contributions by plan participants	14	17
Actuarial (gains) and losses	(86)	250
Foreign currency exchange rate changes	(19)	(24)
Benefits paid	(102)	(108)
Balance at the end of the year	5,199	5,048

Reconciliation of the fair value of plan assets:

Balance at the beginning of the year	3,415	3,203
Expected return on plan assets	260	254
Actuarial gains and (losses)	5	30
Foreign currency exchange rate changes	4	(10)
Contributions by Group companies	27	26
Contributions by plan participants	14	17
Benefits paid	(102)	(105)
Transition adjustment - Philippines	(80)	-
Balance at the end of the year	3,543	3,415

(d) Amounts recognised in consolidated income statement

The amounts recognised in the income statement are as follows:

Current service cost	111	123
Interest cost	233	234
Expected return on plan assets	(260)	(254)
Net actuarial losses (gains) recognised in year	-	(2)
Total included in employee benefits expense	84	101
Actual return on plan assets	263	268

(e) Amounts recognised in other comprehensive income

Actuarial (gain) / loss recognised in the year	(91)	218
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27 Non-current liabilities - Retirement benefit obligations (continued)

(f) Principal actuarial assumptions

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

	2011	Consolidated 2010
Australia		
Discount rate	5.3%	5.2%
Expected return on plan assets	8.6%	8.6%
Future salary increases	3.5%	3.5%
Taiwan		
Discount rate	2.0%	2.0%
Expected return on plan assets	2.0%	1.5%
Future salary increases	2.5%	2.5%
Philippines		
Discount rate	9.1%	10.3%
Expected return on plan assets	7.0%	7.0%
Future salary increases	3.0%	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.

	2011	2010	2009	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000
Defined benefit plan obligation	(5,199)	(5,048)	(4,559)	(4,193)	(4,678)
Plan assets	3,543	3,415	3,203	4,059	4,883
Surplus / (deficit)	(1,656)	(1,633)	(1,356)	(134)	205

28 Non-current liabilities - Other non-current liabilities

	Consolidated 2011 \$'000	2010 \$'000
Deferred profit	<u>698</u>	<u>698</u>

The deferred profit relates to profit on sale of a subsidiary's business to an associated entity Reach Media NZ Limited. This profit will be recognised on either acquisition, disposal or impairment of the investment in Reach Media NZ Limited.

29 Contributed equity

	Notes	Shares	Consolidated 2011 '000	Shares	2010 '000	Consolidated 2011 \$'000	2010 \$'000
(a) Share capital							
Ordinary shares	(b),(c)						
Fully paid			159,780		159,132	210,882	208,731
Treasury shares	(d)		<u>(1,353)</u>		<u>(855)</u>	<u>(5,121)</u>	<u>(3,115)</u>
			<u>158,427</u>		<u>158,277</u>	<u>205,761</u>	<u>205,616</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares '000	\$'000
Wednesday, 1 July 2009	Opening balance	158,792	207,542
	Exercise of options under the Salmat Executive Performance Option Plan	<u>340</u>	<u>1,189</u>
Wednesday, 30 June 2010	Balance	159,132	208,731
Thursday, 1 July 2010	Opening balance	159,132	208,731
	Issue of shares under the Deferred Employee Share Scheme	(f) 498	2,006
	Exercise of options under the Salmat Executive Performance Option Plan	(f) <u>150</u>	<u>145</u>
30 June 2011	Balance	<u>159,780</u>	<u>210,882</u>

(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.

29 Contributed equity (continued)

(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 44 for further information).

Date	Details	Notes	Number of shares '000	\$'000
1 July 2009	Opening balance		570	1,902
	Acquisition of shares by the Trust		<u>285</u>	<u>1,213</u>
30 June 2010	Balance		<u>855</u>	<u>3,115</u>
1 July 2010	Opening balance		855	3,115
	Employee share scheme issue		<u>498</u>	<u>2,006</u>
30 June 2011	Balance		<u>1,353</u>	<u>5,121</u>

(e) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 44.

(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 44.

(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 2011 and 30 June 2010 were as follows:

	Consolidated	
	2011	2010
	\$'000	\$'000
Total borrowings	278,939	193,645
Less: cash and cash equivalents (Note 7)	<u>(20,627)</u>	<u>(59,333)</u>
Net debt	258,312	134,312
Total equity	<u>278,112</u>	<u>296,401</u>
Total capital	<u>536,424</u>	<u>430,713</u>
Gearing ratio	48.2%	31.2%

The increase in gearing ratio during 2011 resulted from increased borrowings to fund the purchase of controlled entities.

30 Reserves and retained earnings

	Consolidated 2011 \$'000	2010 \$'000
(a) Reserves		
Hedging reserve - cash flow hedges	(841)	(1,271)
Share-based payments reserve	4,334	3,825
Foreign currency translation reserve	<u>(3,226)</u>	<u>(1,984)</u>
	<u>267</u>	<u>570</u>
Movements:		
<i>Hedging reserve - cash flow hedges</i>		
Balance 1 July	(1,271)	(3,312)
Revaluation - gross	614	2,916
Deferred tax	<u>(184)</u>	<u>(875)</u>
Balance 30 June	<u>(841)</u>	<u>(1,271)</u>
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July	3,825	4,018
Shares and options expense	<u>509</u>	<u>(193)</u>
Balance 30 June	<u>4,334</u>	<u>3,825</u>
Movements:		
<i>Foreign currency translation reserve</i>		
Balance 1 July	(1,984)	(1,456)
Currency translation differences arising during the year :	<u>(1,242)</u>	<u>(528)</u>
Balance 30 June	<u>(3,226)</u>	<u>(1,984)</u>
(b) Retained earnings		
Balance 1 July	90,215	76,278
Net profit for the year	35,954	49,099
Actuarial gains / (losses) on defined benefit plans recognised directly in retained earnings	91	(218)
Dividends	<u>(54,176)</u>	<u>(34,944)</u>
Balance 30 June	<u>72,084</u>	<u>90,215</u>
(c) Nature and purpose of reserves		
<i>Hedging reserve - cash flow hedges</i>		
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(o). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.		
<i>Share-based payments reserve</i>		
The share based payments reserve is used to recognise the amortised portion of the fair value of options issued but not exercised.		
<i>Foreign currency translation reserve</i>		
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

	Consolidated 2011 \$'000	2010 \$'000
(a) Ordinary shares		
Final ordinary dividend for the year ended 30 June 2010 of 12.5 cents (2009 - 11.0 cents) per fully paid share paid on 28 September 2010	19,892	17,467
Special dividend for the year ended 30 June 2010 of 10.0 cents (2009 - nil) per fully paid share paid on 28 September 2010	15,914	-
Interim ordinary dividend for the year ended 30 June 2011 of 11.5 cents (2010 - 11.0 cents) per fully paid share paid on 6 April 2011	18,370	17,477
	54,176	34,944
Paid in cash	54,176	34,944

(b) Dividends not recognised at the end of the reporting period

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 (2010: 12.5 cents).	19,973	19,891
The payment of a special dividend of nil cents per fully paid ordinary share (2010: 10.0 cents)	-	15,913
	19,973	35,804

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2011 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 2011.

Franking credits available for subsequent financial years based on a tax rate of 30% (2010 - 30%)	67,352	79,280
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The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax,
- franking debits that will arise from the payment of dividends recognised as a liability at the end of each reporting period, and
- franking credits that will arise from the receipt of dividends recognised as receivables at the end of each reporting period.

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
	2011	
	\$	\$
Short-term employee benefits	5,384,642	6,919,334
Post-employment benefits - Defined contribution fund contributions	342,277	406,722
Share based payments	605,656	164,280
	<u>6,332,575</u>	<u>7,490,336</u>

Detailed remuneration disclosures are provided in the remuneration report on pages 5 to 16.

(b) Equity instrument disclosures relating to key management personnel

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.

2011	Balance at start of the year	Exercised	Forfeited *	Balance at end of the year	Vested and exercisable	Unvested
Name						
<i>Directors of Salmat Limited</i>						
Philip Salter	165,000	-	(165,000)	-	-	-
Peter Mattick	165,000	-	(165,000)	-	-	-
<i>Other key management personnel of the Salmat Group</i>						
Peter Anson	60,000	-	(10,000)	50,000	50,000	-
David Besson	20,000	-	(10,000)	10,000	10,000	-
Geoffrey Court	15,000	(12,500)	(2,500)	-	-	-
Terry Daly	20,000	(10,000)	(10,000)	-	-	-
Peter Hartley	10,000	(6,250)	(3,750)	-	-	-
Andrew Hume	80,000	(7,500)	(72,500)	-	-	-
Ian Jones	7,500	(3,750)	(3,750)	-	-	-
Gary Smith	10,000	(5,000)	(5,000)	-	-	-
Colin Wright	7,500	(3,750)	(3,750)	-	-	-

* The number of options at lapse date that were granted as part of remuneration and that lapsed during the year because a vesting condition was not met.

2010	Balance at start of the year	Exercised	Forfeited *	Balance at end of the year	Vested and exercisable	Unvested
Name						
<i>Directors of Salmat Limited</i>						
Philip Salter	495,000	-	(330,000)	165,000	-	165,000
Peter Mattick	495,000	-	(330,000)	165,000	-	165,000
<i>Other key management personnel of the Salmat Group</i>						
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)	-	-	-
Geoffrey Court	35,000	-	(20,000)	15,000	10,000	5,000
Terry Daly	20,000	-	-	20,000	-	20,000
Peter Hartley	12,500	-	(2,500)	10,000	2,500	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
Colin Wright	7,500	-	-	7,500	-	7,500

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.

32 Key management personnel disclosures (continued)

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

2011					
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	-	-	14,060	397,467
John Thorn	131,101	-	-	-	131,101
Ian Elliot	33,435	-	-	-	33,435
Philip Salter	36,112,077	-	-	28,695	36,140,772
Peter Mattick	36,500,393	-	-	(54,180)	36,446,213
Fiona Balfour	12,460	-	-	23,280	35,740
Grant Harrod	191,660	273,224	-	-	464,884
Other key management personnel of the Salmat Group					
Ordinary shares					
Peter Anson	85,273	37,257	-	5,000	127,530
Chad Barton	26,358	32,290	-	-	58,648
David Besson	86,225	26,080	-	45,168	157,473
Geoffrey Court	39,335	12,419	12,500	(5,000)	59,254
Nick Debenham	-	24,838	-	176,152	200,990
David Hackshall	26,358	24,838	-	-	51,196
Andrew Hume	61,128	24,838	7,500	(7,500)	85,966
Ian Jones	67,454	9,438	3,750	-	80,642
Gary Smith	100,856	24,838	5,000	(95,924)	34,770

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
John Thorn	120,601	-	-	10,500	131,101
Ian Elliot	33,435	-	-	-	33,435
Philip Salter	36,123,352	-	-	(11,275)	36,112,077
Peter Mattick	36,500,393	-	-	-	36,500,393
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	-	-	26,538
David Besson	218,549	27,676	40,000	(200,000)	86,225
Peter Boyle	248,889	-	40,000	(40,000)	248,889
Geoffrey Court	29,846	9,489	-	-	39,335
Nick Debenham	-	-	-	-	-
David Hackshall	-	26,358	-	-	26,358
Peter Hartley	44,665	-	-	(36,509)	8,156
Andrew Hume	34,770	26,358	30,000	(30,000)	61,128
Gary Smith	70,498	26,358	20,000	(16,000)	100,856
Colin Wright	45,404	-	-	(17,385)	28,019

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 2011 \$	2010 \$
(a) Audit services		
<i>(i) Amounts received or due and receivable by Ernst & Young (Australia) for:</i>		
Audit or review of the financial report of any entity in the consolidated group	411,000	395,056
Ernst & Young overseas firms for the audit or review of financial reports of subsidiary entities	<u>73,479</u>	<u>62,345</u>
Total remuneration for audit and other assurance services	<u>484,479</u>	<u>457,401</u>
(b) Other services		
<i>(i) Ernst & Young (Australia)</i>		
Other services	11,418	17,975
<i>(ii) Taxation services</i>		
Tax compliance services, including review of company income tax returns	<u>-</u>	<u>194,000</u>
Total remuneration of related practices of EY Australia	<u>11,418</u>	<u>211,975</u>

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. 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.

Guarantees

Cross guarantees given by Salmat Limited as described in note 39.

35 Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of each reporting period but not recognised as liabilities is as follows:

	Consolidated 2011 \$'000	2010 \$'000
<i>Property, plant and equipment</i>		
Payable:		
Within one year	<u>10,012</u>	19,035
	<u>10,012</u>	19,035

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	27,965	27,970
Later than one year but not later than five years	82,395	61,597
Later than five years	<u>34,865</u>	48,088
	<u>145,225</u>	137,655

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	5,242	612
Later than one year but not later than five years	<u>18,256</u>	4,645
Minimum lease payments	23,498	5,257
Future finance charges	<u>(3,670)</u>	(436)
Recognised as a liability	19,828	4,821

Representing lease liabilities:

Current (note 18)	3,876	443
Non-current (note 24)	<u>15,952</u>	4,378
	<u>19,828</u>	4,821

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 38.

(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, are set out below.

	Consolidated 2011 \$	2010 \$
Peter Mattick or related entities:		
Provision of printing services to the Group	1,708,700	947,761

(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:

<i>Non-current receivables (loans)</i>		
Joint venture - Reach Media NZ Limited	2,613,000	3,401,000
<i>Current payables (purchases of goods)</i>		
Peter Mattick or related entities	-	74,000

(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 Business combinations

(a) Summary of acquisitions

Digital assets

On 22 December 2010 Salmat acquired 100% of the share capital in four leading Australian digital and interactive businesses, for a consideration of \$75.8 million in cash.

The principal businesses acquired by Salmat included:

- BelInteractive Holdings Pty Limited
- C4 Communication Pty Limited
- Returnity Pty Limited
- MessageNet Pty Limited

Acquisition transaction costs totalling \$1.9 million have been recognised as an expense in the year ended 30 June 2011. The amount is included within 'Other expenses from ordinary activities' in the Income Statement.

Mailforce Document Solutions Pty Limited

On 13 May 2011 Salmat acquired a further 60% of the share capital in Mailforce Document Solutions Pty Limited (Mailforce) for a consideration of \$1,220,400 giving Salmat 100% ownership of the company. The previously held equity interest in Mailforce was remeasured at fair value on the day of acquisition, and a resulting gain of \$184,618 was recorded in the Income Statement. The consideration is payable in three equal instalments of \$406,800, the first of which was made on the date of acquisition.

	Digital assets \$'000	Mailforce \$'000	Total \$'000
Purchase consideration:			
Cash paid	75,781	406	76,187
Consideration Payable	-	814	814
Total consideration	75,781	1,220	77,001
Less fair value of net identifiable assets acquired	(12,647)	(365)	(13,012)
Fair value of existing investment at date of acquisition	-	814	814
Goodwill arising on acquisition (note 15)	63,134	1,669	64,803

(b) Purchase consideration

The net cash outflow on acquisition is as follows:

Cash consideration	75,781	406	76,187
Net cash acquired	(1,920)	(310)	(2,230)
Net cash outflow	73,861	96	73,957

37 Business combinations (continued)

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition of the digital businesses are as follows:

	Digital assets \$'000	Mailforce \$'000	Total \$'000
Fair value of net identifiable assets acquired			
Cash and cash equivalents	1,920	310	2,230
Trade and other receivables	4,950	279	5,229
Plant and equipment	1,134	322	1,456
Deferred tax assets	895	20	915
Other assets	1,000	28	1,028
Intangibles asset: Customer relationships	6,155	-	6,155
Intangible assets: customer contracts	1,526	-	1,526
Intangible asset: software	3,272	-	3,272
Trade and other payables	(3,832)	(343)	(4,175)
Interest bearing liabilities	(657)	(215)	(872)
Deferred tax liabilities	(3,041)	-	(3,041)
Provisions	(675)	(36)	(711)
Net identifiable assets acquired	12,647	365	13,012

Included in the digital businesses acquired were trade receivables with a gross contractual value of \$4,791,170. The best estimate at the acquisition date of their fair value was \$4,488,731. 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, an additional capped performance hurdle was payable to the vendors based on the achievement of agreed performance milestones by 30 June 2011. The potential undiscounted amount of all future payments required was between \$0 and \$15.7 million. The group has considered the likely outcome based on information available as at the date of acquisition and determined this fair value of this consideration to be nil.

The key factors contributing to the goodwill recognised from the acquisition of the digital businesses in the Targeted Media Solutions Segment include, consolidating Salmat's market leadership position in multi channel marketing communications and the synergies expected to arise upon integration. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

38 Subsidiaries

Significant investments in 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 **	
			2011 %	2010 %
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 (Formerly Dialect 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 (formerly Razoo Media 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
BeInteractive Holdings Pty Limited	Australia	Ordinary	100	-
C4 Communication Pty Limited	Australia	Ordinary	100	-
C4 Live Pty Limited	Australia	Ordinary	100	-
The Population Pty Limited	Australia	Ordinary	100	-
MessageNet Pty Limited	Australia	Ordinary	100	-
Returnity Pty Limited	Australia	Ordinary	100	-
Mailforce Document Solutions Pty Limited	Australia	Ordinary	100	30

* These subsidiaries have been granted relief from the necessity to prepare financial report in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 39.

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

39 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.

Consolidated income statement, consolidated 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 2011 of the Closed Group.

39 Deed of cross guarantee (continued)

	2011 \$'000	2010 \$'000
Consolidated income statement		
Profit before income tax	46,679	65,913
Income tax expense	(12,718)	(19,539)
Profit from continuing operations	33,961	46,374
Profit from discontinued operations	-	-
Profit for the year	33,961	46,374
Consolidated statement of comprehensive income		
Profit for the year	33,961	46,374
Other comprehensive income		
Cash flow hedges	614	2,916
Actuarial (losses)/gains on retirement benefit obligation	91	(218)
Income tax relating to components of other comprehensive income	(184)	(875)
Other comprehensive income for the year, net of tax	521	1,823
Total comprehensive income for the year	34,482	48,197
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	110,613	99,401
Profit for the year	33,961	46,374
Actuarial gains / (losses) on retirement benefit obligation	91	(218)
Dividends provided for or paid	(54,176)	(34,944)
Retained earnings at the end of the financial year	90,489	110,613
Statement of financial position		
Set out below is a consolidated statement of financial position as at 30 June 2011 of the Closed Group.		
Current assets		
Cash and cash equivalents	11,249	52,411
Trade and other receivables	130,229	140,850
Inventories	7,299	6,171
Other current assets	8,413	8,211
Total current assets	157,190	207,643
Non-current assets		
Receivables	-	-
Other financial assets	82,925	8,716
Property, plant and equipment	56,018	40,819
Deferred tax assets	15,499	18,492
Intangible assets	385,422	394,254
Total non-current assets	539,864	462,281
Total assets	697,054	669,924

39 Deed of cross guarantee (continued)

	2011 \$'000	2010 \$'000
Current liabilities		
Trade and other payables	81,904	95,173
Borrowings	3,518	443
Derivative financial instruments	1,093	1,074
Current tax liabilities	1,415	15,795
Provisions	25,038	29,673
Total current liabilities	<u>112,968</u>	<u>142,158</u>
Non-current liabilities		
Payables	250	250
Borrowings	270,421	188,262
Derivative financial instruments	107	741
Provisions	1,073	9,412
Retirement benefit obligations	7,548	1,165
Deferred tax liabilities	6,773	8,778
Total non-current liabilities	<u>286,172</u>	<u>208,608</u>
Total liabilities	<u>399,140</u>	<u>350,766</u>
Net assets	<u>297,914</u>	<u>319,158</u>
Equity		
Contributed equity	210,881	208,731
Reserves	(3,456)	(186)
Retained earnings	<u>90,489</u>	<u>110,613</u>
Total equity	<u>297,914</u>	<u>319,158</u>

40 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			
		2011 %	2010 %	2011 \$'000	2010 \$'000
Unlisted					
	Unaddressed Mail				
Reach Media NZ Limited, New Zealand (Joint Venture)	Distribution	50	50	1,222	782
	Print, Mail and Document				
MailForce Document Solutions Pty Limited (2010: Associate)*	Solutions	100	30	-	348
	Online Location based services				
Online Media Holdings Pty Ltd (Associate)		60	-	502	-
				1,724	1,130

The reporting date of the above entities is 30 June.

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

	Consolidated 2011 \$'000	2010 \$'000
(b) Movements in carrying amounts		
Carrying amount at the beginning of the financial year	1,130	1,269
Amount invested in current year	1,484	-
Share of profits recognised, after income tax	(183)	244
Gain on fair value measurement on acquisition*	185	-
Adjustment to carrying value*	(814)	(327)
Net exchange differences	-	(4)
Dividends received	(78)	(52)
Carrying amount at the end of the financial year	<u>1,724</u>	<u>1,130</u>

*In August 2010, Salmat acquired a further 10% of the share capital in Mailforce Pty Ltd for a consideration of \$271,710. On 13 May 2011 Salmat acquired the remaining 60% of the share capital in Mailforce Pty Ltd for a consideration of \$1,220,400 giving Salmat 100% ownership of the company. The previously held equity interest in Mailforce was remeasured at fair value on the day of acquisition being \$813,600. The resulting gain of \$184,618 was recorded in the Income Statement and the investment in Mailforce Pty Ltd is no longer accounted for as an equity investment. Refer to note 37 Business Combinations.

40 Investments in associates and joint ventures (continued)

(c) Summarised financial information of associates

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

		Company's share of:			
	Ownership Interest %	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(Loss) \$'000
2011					
Reach Media NZ Limited, New Zealand (Joint Venture)	50	4,974	3,815	12,687	(23)
MailForce Document Solutions Pty Ltd	100	1,571	(440)	2,649	87
Online Media Holdings Pty Ltd (Associate)	60	383	(61)	-	(247)
		<u>6,928</u>	<u>3,314</u>	<u>15,336</u>	<u>(183)</u>
2010					
Reach Media NZ Limited, New Zealand (Joint Venture)	50	5,553	4,755	13,430	176
MailForce Document Solutions Pty Ltd (Associate)	30	501	152	744	68
		<u>6,054</u>	<u>4,907</u>	<u>14,174</u>	<u>244</u>

41 Events occurring after the reporting period

(a) Dividends

Since 30 June 2011 the directors have recommended the payment of a final ordinary dividend of \$19,972,537 (12.5 cents per fully paid share – fully franked) to be paid on 28 September 2011 out of profits at 30 June 2011.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2011 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.

42 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2011	2010
	\$'000	\$'000
Profit for the year	35,954	49,099
Depreciation and amortisation	33,024	32,375
Non-cash employee benefits expense - share-based payments	509	(193)
Net loss / (gain) on sale of non-current assets	(1,217)	(2,390)
Share of losses / (profits) of associates not received as dividends or distributions	(2)	(244)
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
Decrease / (Increase) in trade and other receivables	6,009	2,079
(Increase) / Decrease in inventories	(111)	199
Decrease / (Increase) in other assets	374	(2,639)
Decrease / (Increase) in deferred tax assets	3,666	(150)
Increase / (Decrease) in trade and other payables	(12,573)	849
Increase / (Decrease) in provision for income taxes payable	(14,044)	9,382
(Decrease) / Increase in provision for deferred income tax	(2,751)	(2,329)
(Decrease) / Increase in other provisions	(8,076)	(1,112)
Net cash inflow (outflow) from operating activities	40,762	84,926

43 Earnings per share

(a) Basic earnings per share

Profit from continuing operations attributable to the ordinary equity holders of the parent	22.7	31.1
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(b) Diluted earnings per share

Profit from continuing operations attributable to the ordinary equity holders of the parent	22.5	30.9
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43 Earnings per share (continued)

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

	Consolidated 2011 \$'000	2010 \$'000
<i>Basic earnings per share</i>		
Profit from continuing operations attributable to the ordinary equity holders of the parent entity used in calculating basic earnings per share	<u>35,954</u>	<u>49,099</u>
<i>Diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the parent entity used in calculating basic earnings per share	<u>35,954</u>	<u>49,099</u>

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

	Quantity '000	Quantity '000
Weighted average number of shares on issue used to calculate basic EPS	158,161	158,016
Effect of dilutive securities - weighted average number of options outstanding	<u>1,394</u>	<u>1,155</u>
<i>Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS</i>	<u>159,555</u>	<u>159,171</u>

(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 44.

44 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.

The exercise price applicable to the option shall, at the discretion of the directors, be determined by reference to:

- 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.

44 Share-based payments (continued)

(a) Employee Option Plan (continued)

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

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Forfeited during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated - 2011								
Apr 05	Dec 10	\$4.83	65,000	-	-	(65,000)	-	-
Nov 06	Nov 11	\$3.41	127,500	(40,000)	(42,500)	-	45,000	45,000
Dec 06	Dec 11	\$3.80	20,000	-	-	-	20,000	20,000
Nov 07	Nov 12	\$-	280,000	-	(107,500)	(140,000)	32,500	32,500
Nov 07	Nov 12	\$4.20	330,000	-	-	(330,000)	-	-
Total			<u>822,500</u>	<u>(40,000)</u>	<u>(150,000)</u>	<u>(535,000)</u>	<u>97,500</u>	<u>97,500</u>
Weighted average exercise price			\$2.69	\$3.41	\$0.97	\$3.18	\$2.35	\$2.35

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Forfeited during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated - 2010								
Nov 04	Nov 09	\$4.41	697,500	(40,000)	-	(657,500)	-	-
Apr 05	Nov 09	\$5.05	6,500	-	-	(6,500)	-	-
Apr 05	Dec 09	\$4.83	225,000	-	-	(225,000)	-	-
Apr 05	Dec 10	\$4.83	65,000	-	-	-	65,000	65,000
Nov 06	Nov 11	\$3.41	330,000	(330,000)	-	-	-	-
Nov 06	Nov 11	\$3.41	860,000	(467,500)	(265,000)	-	127,500	127,500
Dec 06	Dec 11	\$3.80	190,000	(95,000)	(75,000)	-	20,000	20,000
Nov 07	Nov 12	\$-	347,500	(67,500)	-	-	280,000	-
Nov 07	Nov 12	\$4.20	<u>330,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>330,000</u>	<u>-</u>
Total			<u>3,051,500</u>	<u>(1,000,000)</u>	<u>(340,000)</u>	<u>(889,000)</u>	<u>822,500</u>	<u>212,500</u>
Weighted average exercise price			\$3.50	\$3.26	\$3.50	\$4.52	\$2.69	\$3.88

Options may only be exercised within the limitations imposed by the Corporations Act 2001 and the Australian Stock Exchange Listing Rules. Under the Australian Stock 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 2011 was \$3.70 (2010: \$4.01)

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.

44 Share-based payments (continued)

(b) Employee share plans (continued)

Deferred Employee Share Plan

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.

Salmat Ltd issued 498,316 new shares to the Deferred Employee Share Plan at a notional cost of \$2,006,220 based on the five day volume weighted average share price of \$4.025 on 24 November 2010. In 2010 the Deferred Employee Share Plan acquired 285,342 shares in Salmat Limited at a cost of \$1,213,018. These shares 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
December 2010	September 2013	September 2013	\$4.13
December 2010	September 2013	September 2013	\$2.95
March 2011	September 2013	September 2013	\$3.64
March 2011	September 2013	September 2013	\$2.36

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 is 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 2011 included:

- Share price at date of grant: \$4.13 on 14 December 2010 and \$3.64 on 15 March 2011
- Deferred shares issued have no exercise price
- Risk free interest rate: 5.22% on 14 December 2010 and 4.77% on 15 March 2011
- Expected price volatility of the Company's shares: 36%
- Expected dividend yield: 8.20%

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

	2011 Number of shares '000	2010 Number of shares '000
Exempt Employee Share Plan		
Opening balance	486	398
Transfers/disposals	(83)	(52)
Acquisitions	119	140
Opening balance	1,372	1,622
Transfers/disposals	(157)	(535)
Acquisitions	536	285
	2,273	1,858

44 Share-based payments (continued)

(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	
	2011	2010
	\$'000	\$'000
Options issued under employee option plan	(530)	(485)
Shares issued under deferred employee share scheme	1,039	292
	509	(193)

45 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, ie 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 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 and non-derivative financial instruments, and investment of excess liquidity.

The Group holds the following financial instruments:

Financial assets

Cash and cash equivalents	20,627	59,333
Trade and other receivables	116,881	118,368
Other financial assets	826	928
	138,334	178,629

Financial liabilities

Trade and other payable	86,043	95,063
Borrowings	278,939	194,253
Derivative financial instruments	1,201	1,815
	366,183	291,131

(a) Market risk

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. 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.

45 Financial risk management (continued)

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

	30 June 2011		30 June 2010	
	USD \$'000	GBP \$'000	USD \$'000	GBP \$'000
Trade receivables	15	124	112	228

Sensitivity

Based on the financial instruments held at 30 June 2011, 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 \$15,678 higher/\$12,827 lower (2010 - \$41,273 higher/\$33,770 lower), mainly as a result of foreign exchange gains/(losses) on translation of foreign currency denominated receivables in the above table.

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 0% to 100% to be hedged for third year. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

The interest rate on the long term borrowings of \$75,300 drawn down on 12 January 2011 to fund the acquisition of the digital businesses, refer note 37, has been fixed to 30 Jun 2011 at a weighted average fixed interest rate of 6.95%

At 30 June 2011 the Group had interest rate swaps with a notional principal of \$135million covering the period to 1 July 2011 and interest rate swaps with a notional principal of \$179million covering the year ended 30 June 2012.

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

Consolidated	30 June 2011		30 June 2010	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdrafts and bank loans	6.7%	184,486	6.0%	191,907
Interest rate swaps (notional principal amount)	5.8%	(135,000)	6.3%	(160,000)
Net exposure to cash flow interest rate risk		49,486		31,907

Sensitivity

At 30 June 2011, 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 \$0.35million lower/higher (2010 - change of 100 bps: \$0.22million lower/higher), mainly as a result of higher/lower interest expense on borrowings. Equity would have been \$0.35million lower/higher (2010 - \$0.22million 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 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

45 Financial risk management (continued)

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 81. As at 30 June 2011, the Group's exposure to customers with a balance greater than \$1million totalled \$26.5million (2010:\$32.7million). 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 below 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.

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 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Non-interest bearing	86,043	-	-	-	-	86,043	86,043
Variable rate	2,621	2,621	114,128	163,914	-	283,284	279,614
Total non-derivatives	<u>88,664</u>	<u>2,621</u>	<u>114,128</u>	<u>163,914</u>	<u>-</u>	<u>369,327</u>	<u>365,657</u>
Derivatives							
Net settled (interest rate swaps)	224	608	175	1	-	1,008	1,201
At 30 June 2010							
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	<u>95,369</u>	<u>306</u>	<u>117,520</u>	<u>76,558</u>	<u>-</u>	<u>289,753</u>	<u>289,316</u>
Derivatives							
Net settled (interest rate swaps)	319	722	823	129	-	1,993	1,815

(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.

45 Financial risk management (continued)

(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.

AASB 7 *Financial Instruments: Disclosures* 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).

The following table presents the Salmat Group's assets and liabilities measured and recognised at fair value at 30 June 2011 and 30 June 2010.

At 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Liabilities				
Derivatives used for hedging	-	1,201	-	1,201
Total liabilities	-	1,201	-	1,201

At 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Liabilities				
Derivatives used for hedging	-	1,815	-	1,815
Total liabilities	-	1,815	-	1,815

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. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

46 Parent Entity financial information

(a) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	Parent Entity	
	2011	2010
	\$'000	\$'000
Statement of financial position		
Current assets	16,685	56,628
Non-current assets	524,363	420,162
Total assets	541,048	476,790
Current liabilities	43,162	52,143
Non-current liabilities	266,428	188,861
Total liabilities	309,590	241,004
<i>Shareholders' equity</i>		
Contributed equity	210,882	208,731
Reserves	(4,247)	(1,313)
Retained earnings	24,823	28,368
	231,458	235,786
Profit or loss for the year	50,662	36,068
Total comprehensive income	50,662	36,068

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

As at 30 June 2011, the parent entity had contractual commitments for the acquisition of property, plant or equipment totalling \$817,117(30 June 2010 - \$1,069,000). These commitments are not recognised as liabilities as the relevant assets have not yet been received.

47 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.

Defined benefit plans

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

In the directors' opinion:

- (a) the financial statements and notes set out on pages 19 to 84 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 consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date, and
- (b) at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in

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*.

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



Richard Lee
Chairman



Grant Harrod
Chief Executive Officer
Sydney
16 August 2011

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 consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers 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 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. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- a. 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 as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

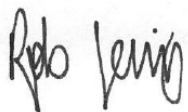
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Salmat Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Rob Lewis'.

Rob Lewis
Partner
Sydney
16 August 2011