

# COMMUNICATING TODAY AND TOMORROW

ANNUAL FINANCIAL REPORT 2011

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# CORPORATE GOVERNANCE

30 JUNE 2011

## RESPONSIBILITIES AND FUNCTIONS OF THE BOARD

Salmat Limited is committed to achieving and demonstrating high standards of corporate governance. Salmat's framework is structured to facilitate compliance with the best practice principles and recommendations released by the ASX Corporate Governance Council as updated on 30th June 2010.

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

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

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

The board consists of seven directors, the majority of which are independent non-executive directors. Following their retirement as joint managing directors in October 2009, Peter Mattick and Philip Salter took up non-executive directorships on the board. Grant Harrod, the Chief Executive Officer and Managing Director, is also an executive director.

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

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

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

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

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

The Company has a selection and induction process in place for new directors. This process is tailored for new directors dependent on their individual skills, background and experience. This program includes site visits, discussions with senior managers, review of strategic documents and presentations by business units. Ongoing participation in activities is tailored to the business needs and current activities of the Company from time to time.

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

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

## BOARD AND COMMITTEE MEMBERSHIP OF DIRECTORS

| Board member  |                                               | Appointed director | Committee member                     |                                         |                                     |
|---------------|-----------------------------------------------|--------------------|--------------------------------------|-----------------------------------------|-------------------------------------|
|               |                                               |                    | Audit, risk and compliance committee | Remuneration and compensation committee | Technology and innovation committee |
| Richard Lee   | Chairman, Independent non-executive Director  | 9/08/02            | •                                    | •                                       |                                     |
| John Thorn    | Independent non-executive Director            | 1/09/03            | •                                    | •                                       |                                     |
| Ian Elliot    | Independent non-executive Director            | 1/01/05            | •                                    | •                                       |                                     |
| Philip Salter | Non-executive Director                        | 14/03/84           |                                      |                                         | •                                   |
| Peter Mattick | Non-executive Director                        | 14/03/84           |                                      |                                         | •                                   |
| Fiona Balfour | Independent non-executive Director            | 1/01/10            | •                                    | •                                       | •                                   |
| Grant Harrod  | Chief Executive Officer and Managing Director | 29/04/09           |                                      |                                         |                                     |

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At the annual general meeting, John Thorn and Ian Elliot will retire by rotation, and being eligible, will offer themselves for re-election.

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

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

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

## INDEPENDENCE OF BOARD MEMBERS

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

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

## ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

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

## CODE OF ETHICS

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

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

- to act honestly, fairly and without prejudice with clients in all commercial dealings and to conduct business with professional courtesy and integrity;
- to promote a safe, healthy and efficient work environment;
- to comply with all laws, regulations and any applicable awards;

- not to knowingly make any misleading statements to any person or to be party to any improper practice in relation to dealings with or by the Company;
- to ensure that the Company's resources and property are used properly;
- not to disclose information or documents relating to the Company or its business, other than as required by law, not to make any improper public comment on the Company's affairs and not to misuse any information about the Company or its associates; and
- to ensure there is a clear communication process for material items of concern between employees and the board.

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

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

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

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

## AUDIT, RISK AND COMPLIANCE COMMITTEE

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

The committee met five times during the 2010/11 year.

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

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The responsibility of the committee is as follows:

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

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

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

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

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

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

## REMUNERATION AND COMPENSATION COMMITTEE

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

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

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

The committee met five times during the 2010/11 year.

The responsibility of the committee is to:

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

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

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

## TECHNOLOGY AND INNOVATION COMMITTEE

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

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

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

The committee met six times during the 2010/11 year.

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

- review and approve management's ICT strategy and architecture;
- oversee all IT projects over \$1 million, including review of all post-implementation reviews performed;
- oversee acquisitions in developing operations and businesses;
- review ICT businesses, products, partnerships and relationships for opportunities from a customer communications perspective;
- review ICT operational performance;
- oversee Salmat's ICT services partnerships;

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- maintain a watching brief on ICT and industry-specific developments and opportunities;
- oversee the ICT risk profile for Salmat, including disaster recovery and business continuity planning;
- oversee the company's innovation framework to ensure regular flow of innovation concepts and ideas; and
- review, incubate and endorse the development of innovative concepts into opportunities for investment.

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

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

## RISK MANAGEMENT

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

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

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

Other risk management controls in place include the following:

- policies and procedures for the management of financial risk and treasury operations including exposures to foreign currencies;
- guidelines and limits for the approval of capital expenditure and investments;
- a Group regulatory compliance program supported by approved guidelines and standards covering crisis management, the environment, occupational health and safety, privacy, trade practices, equal employment opportunity, anti-discrimination and sexual harassment;
- extensive certification programs throughout operations to the ISO9001:2000 and ISMS AS/NZ 7799 Standards;
- a comprehensive insurance program including external risk management surveys;

- annual internal audit of all sites for occupational health, safety and environmental regulatory compliance; and
- annual budgeting and monthly reporting systems for all business units to enable the monitoring of key performance indicators.

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

## DIVERSITY

The board has adopted a diversity policy which meets and exceeds the requirements of the ASX Corporate Governance Principles.

In developing the policy, the board did not want to restrict its view of diversity to gender issues only, as the company has a long history of providing a workplace which is welcoming to people from all backgrounds. The policy therefore covers gender, age, ethnicity, sexual preference, disability and cultural background, to reflect the diverse range of employees.

Salmat has also developed a Reconciliation Action Plan which was launched in August 2011 to address disadvantage in indigenous communities. From that will come an indigenous employment strategy. Already, 1.3% of Salmat employees are indigenous, which is considered a significant figure.

## Gender diversity

Salmat has been working on these matters for some time so is reporting on them this year, well ahead of the ASX recommendation on diversity reporting.

The board's support of gender diversity is reflected in the work of Salmat's Women in Leadership Council, which is developing new programs to reinforce the company's position on gender equality. The company's work on developing a constructive culture means that the workplace - as shown in internal surveys - has an environment where people from diverse backgrounds feel comfortable and can achieve their best. Age profiles show a full range across generations. Salmat employs people with disabilities and people from a broad range of ethnic and cultural backgrounds.

Diversity is an agenda item on every remuneration and compensation committee meeting and meetings of the company's senior leadership team.

The board has set five measures for reporting on gender diversity under Recommendation 3.2 of Principle 3 of the ASX Corporate Governance Principles:

- representation of both genders on short lists for all roles;
- representation of both genders on all interview panels;
- gender percentage on the Board;
- gender percentage at all levels of the company using a seven-level scale; and
- certified training undertaken by gender.

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The results for the year were:

- Females were represented on 65% of shortlists and men on 100%.
- Both genders were represented on 91% of interview panels (based on part year data).
- The board is made up of 14.3% women and 85.7% men.
- Gender percentage over seven levels (using an approach developed in the CEO kit published by Chief Executive Women) is tabled below:

|                       | Female | Male  |
|-----------------------|--------|-------|
| Level 7 (most senior) | 0%     | 100%  |
| Level 6               | 0%     | 100%  |
| Level 5               | 7.5%   | 92.5% |
| Level 4               | 25%    | 75%   |
| Level 3               | 36%    | 64%   |
| Level 2               | 48%    | 52%   |
| Level 1               | 51%    | 49%   |

- Attendees at certified training sessions were 48.55% female and 51.45% male (figures are for part year only).

## CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

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

### Materiality and disclosure

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

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

### Restrictions on securities dealings

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

Salmat has a published policy on securities trading, which has been notified to the ASX and is posted on the Salmat website. The policy prohibits directors and key employees from dealing in Salmat securities for the period 15 days before the end of a reporting period to one day after those results are released to the market, being the embargo period. During non-embargo periods, via an

internal notification process, all directors and key employees are required to advise the company secretary of any trade in Salmat securities, in which they have a beneficial interest.

### Shareholder communication

Salmat places considerable importance on effective communication with shareholders.

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

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

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

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

### EXTERNAL AUDITOR'S APPOINTMENT

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

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

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

# DIRECTORS' REPORT

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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:

- 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.

## DIVIDENDS – SALMAT LIMITED

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

|                                                                                                                                          | 2011<br>\$'000 | 2010<br>\$'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         |
|                                                                                                                                          | <b>54,176</b>  | <b>34,944</b>  |

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.

# DIRECTORS' REPORT

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## 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

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.

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Fiona Balfour

*Non-executive Director (Independent)*

## Experience and expertise

Fiona is an independent non-executive director of Metcash Limited and TAL Insurance (Dai-ichi Life, Australia). Fiona is a former member of the Qantas executive committee with responsibilities for information technology, procurement and property for Qantas worldwide and was subsequently Chief Information Officer of Telstra. She has advised Medibank Private and Link Market Services on IT strategy. Fiona is a member of the Information Technology Faculty Advisory Board of Monash University, a Councillor of Knox Grammar School and a Fellow of the Australian Institute of Company Directors. She holds a BA (Hons), Grad.Diploma in Information Management, an MBA and is a Fellow of Monash University.

## 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:

|               | Meetings of committees      |   |                            |    |                               |    |                           |    |
|---------------|-----------------------------|---|----------------------------|----|-------------------------------|----|---------------------------|----|
|               | Full meetings of directors* |   | Audit, Risk and Compliance |    | 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.

# DIRECTORS' REPORT

30 JUNE 2011

## 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 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](http://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.

### 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. STIs 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.

# DIRECTORS' REPORT

30 JUNE 2011

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

- 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 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.

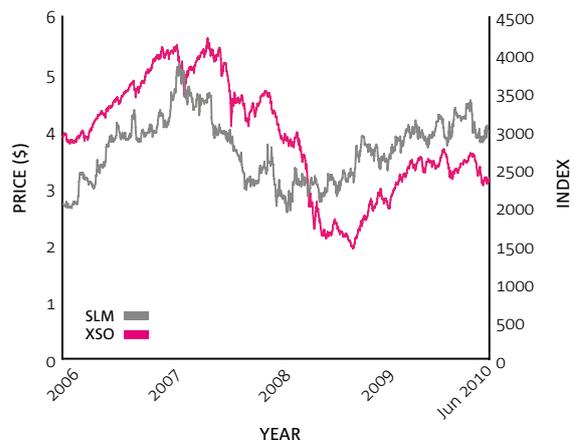
### Salmat Deferred Employee Share Plan

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.

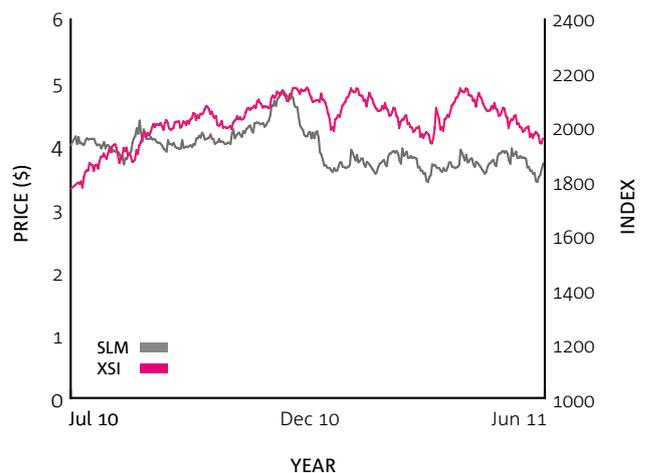
The board oversees the plan in accordance with the plan rules. The terms and conditions of the specific grants to participants are detailed in the plan; refer to part D of this remuneration report.

The graphs here show 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 five 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 past five years.

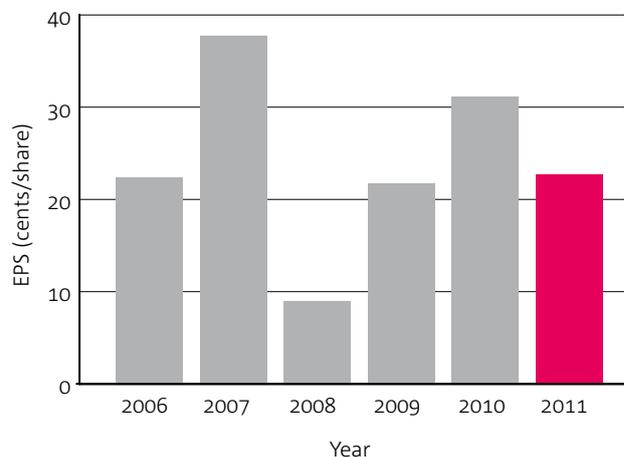
Five year share price chart



One year share price chart



Earnings per share chart



# DIRECTORS' REPORT

30 JUNE 2011

## B Details of remuneration

### Amounts of remuneration

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

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

- Peter Anson – Chief Operating Officer
- Chad Barton – Chief Financial Officer
- 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)

### Key management personnel of the Group

| 2011                                                       | Short-term employee benefits |                |                          | Post employment benefits | Share-based payments |                  | Total \$         |
|------------------------------------------------------------|------------------------------|----------------|--------------------------|--------------------------|----------------------|------------------|------------------|
|                                                            | Cash salary and fees \$      | Cash bonus \$  | Non-monetary benefits \$ | Super-annuation \$       | Shares \$            | Options \$       |                  |
| <b>Non-executive directors</b>                             |                              |                |                          |                          |                      |                  |                  |
| 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 <sup>#</sup>                                 | 119,266                      | –              | –                        | 10,734                   | –                    | (88,699)         | 41,301           |
| Peter Mattick <sup>#</sup>                                 | 119,266                      | –              | –                        | 10,734                   | –                    | (88,699)         | 41,301           |
| Fiona Balfour                                              | 119,266                      | –              | –                        | 10,734                   | –                    | –                | 130,000          |
| <b>Sub-total non-executive directors</b>                   | <b>831,131</b>               | <b>–</b>       | <b>–</b>                 | <b>68,869</b>            | <b>–</b>             | <b>(177,398)</b> | <b>722,602</b>   |
| <b>Executive director</b>                                  |                              |                |                          |                          |                      |                  |                  |
| Grant Harrod                                               | 790,261                      | 248,614        | 18,540                   | 15,199                   | 400,333              | –                | 1,472,947        |
| <b>Other key management personnel (Group)</b>              |                              |                |                          |                          |                      |                  |                  |
| Peter Anson <sup>#</sup>                                   | 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 <sup>#</sup>                                  | 396,800                      | 110,622        | –                        | 25,199                   | 74,605               | (25,185)         | 582,041          |
| Geoffrey Court <sup>#</sup>                                | 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 <sup>#</sup>                                   | 448,301                      | 34,763         | –                        | 15,199                   | 88,706               | (18,889)         | 568,080          |
| Ian Jones <sup>***</sup>                                   | 78,808                       | 7,518          | –                        | 4,206                    | 8,934                | (2,613)          | 96,853           |
| Gary Smith <sup>***</sup>                                  | 395,735                      | –              | –                        | 50,782                   | 22,313               | (12,592)         | 456,238          |
| <b>Total key management personnel compensation (Group)</b> | <b>4,519,561</b>             | <b>751,823</b> | <b>113,258</b>           | <b>342,277</b>           | <b>873,814</b>       | <b>(268,158)</b> | <b>6,332,575</b> |

\*\* 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.

# DIRECTORS' REPORT

30 JUNE 2011

## 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 |                  |                  |
|------------------------------------------------------------|------------------------------|------------------|--------------------------|--------------------------|----------------------|------------------|------------------|
|                                                            | Cash salary and fees \$      | Cash bonus \$    | Non-monetary benefits \$ | Super-annuation \$       | Shares \$            | Options \$       | Total \$         |
| <b>Non-executive directors</b>                             |                              |                  |                          |                          |                      |                  |                  |
| 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 <sup>^</sup>                                 | 76,217                       | –                | –                        | 6,860                    | –                    | –                | 83,077           |
| Peter Mattick <sup>^</sup>                                 | 76,217                       | –                | –                        | 6,860                    | –                    | –                | 83,077           |
| Fiona Balfour                                              | 29,081                       | –                | –                        | 26,765                   | –                    | –                | 55,846           |
| <b>Sub-total non-executive directors</b>                   | <b>586,111</b>               | <b>–</b>         | <b>–</b>                 | <b>74,696</b>            | <b>9,332</b>         | <b>–</b>         | <b>670,139</b>   |
| <b>Executive directors</b>                                 |                              |                  |                          |                          |                      |                  |                  |
| Philip Salter <sup>#</sup>                                 | 624,995                      | –                | –                        | 31,179                   | –                    | (104,975)        | 551,199          |
| Peter Mattick <sup>#</sup>                                 | 630,269                      | –                | –                        | 31,179                   | –                    | (104,975)        | 556,473          |
| Grant Harrod                                               | 757,209                      | 629,375          | –                        | 42,824                   | 207,280              | –                | 1,636,688        |
| <b>Other key management personnel (Group)</b>              |                              |                  |                          |                          |                      |                  |                  |
| Peter Anson <sup>#</sup>                                   | 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 <sup>#</sup>                                  | 375,557                      | 168,566          | –                        | 24,461                   | 28,811               | (13,202)         | 584,193          |
| Geoffrey Court <sup>#</sup>                                | 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 <sup>***</sup>                               | 305,693                      | 77,634           | 33,565                   | 14,461                   | (35,388)             | 4,204            | 400,169          |
| Andrew Hume <sup>#</sup>                                   | 435,538                      | 110,072          | –                        | 14,461                   | 45,093               | (9,902)          | 595,262          |
| Gary Smith <sup>#</sup>                                    | 344,538                      | 125,822          | –                        | 30,461                   | 45,093               | (6,601)          | 539,313          |
| Colin Wright <sup>**</sup>                                 | 106,250                      | 43,519           | 13,750                   | 50,000                   | 16,852               | 6,036            | 236,407          |
| <b>Total key management personnel compensation (Group)</b> | <b>5,223,684</b>             | <b>1,553,617</b> | <b>142,033</b>           | <b>406,722</b>           | <b>410,198</b>       | <b>(245,918)</b> | <b>7,490,336</b> |

<sup>^</sup> In October 2009 retired as a joint managing director to become non executive director.

<sup>#</sup> Share-based expense previously recognised under AASB2 in respect of options has been reversed due to not meeting non market vesting condition.

<sup>\*\*</sup> Ceased employment during the year (retired 27 November 2009).

<sup>\*\*\*</sup> 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     |
| <b>Other key management personnel of Salmat Group</b> |                    |        |               |        |               |        |
| 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     | –             | –      |

# DIRECTORS' REPORT

30 JUNE 2011

## 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

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.

# DIRECTORS' REPORT

30 JUNE 2011

## D Share-based compensation (continued)

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

| Grant date    | Date vested and exercisable | Expiry date   | Exercise price | Value per option at grant date |
|---------------|-----------------------------|---------------|----------------|--------------------------------|
| April 2005    | December 2008               | December 2010 | \$4.83         | \$0.96                         |
| November 2005 | November 2008               | November 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 dividends 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   |
| <b>Other key management personnel of the Salmat Group</b> |                                           |      |                                          |        |
| 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.

| Name                                                      | Date of exercise of options | Number of ordinary shares issued on exercise of options during the year |        |
|-----------------------------------------------------------|-----------------------------|-------------------------------------------------------------------------|--------|
|                                                           |                             | 2011                                                                    | 2010   |
| <b>Other key management personnel of the Salmat Group</b> |                             |                                                                         |        |
| 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 |

# DIRECTORS' REPORT

30 JUNE 2011

## D Share-based compensation (continued)

### Share-based compensation: Options and deferred employee shares

Further details relating to options and deferred employee shares.

| Name                                                      | A<br>Share-based<br>remuneration<br>% | B<br>Value at<br>grant date<br>\$ | C<br>Value at<br>exercise date<br>\$ | D<br>Value at<br>lapse date<br>\$ |
|-----------------------------------------------------------|---------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|
| <b>Directors of Salmat Limited</b>                        |                                       |                                   |                                      |                                   |
| Philip Salter                                             | – %                                   | –                                 | –                                    | 676,500                           |
| Peter Mattick                                             | – %                                   | –                                 | –                                    | 676,500                           |
| Grant Harrod                                              | 27%                                   | 967,213                           | –                                    | –                                 |
| <b>Other key management personnel of the Salmat Group</b> |                                       |                                   |                                      |                                   |
| 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<br>of shares | Number<br>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                 |
|                      |               |                          | 97,500                 |

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

### Shares issued on the exercise of options

The following ordinary shares of Salmat Limited were issued during the year ended 30 June 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<br>of shares | Number of<br>shares issued |
|----------------------|--------------------------|----------------------------|
| November 2006        | \$3.41                   | 42,500                     |
| November 2007        | \$4.40                   | 107,500                    |
|                      |                          | 150,000                    |

# DIRECTORS' REPORT

30 JUNE 2011

## D Share-based compensation (continued)

### Salmat Limited Shares issued under Salmat's Deferred Employee Share Plan

Long term incentives to the chief executive officer and senior managers are made by way grants of deferred shares subject to service and performance conditions under Salmat's Deferred Employee Share Plan. 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 |
| <b>Director of Salmat Limited</b>                       |                                          |        |                                         |      |
| Grant Harrod                                            | 273,224                                  | –      | –                                       | –    |
| <b>Other key management personnel of Salmat Limited</b> |                                          |        |                                         |      |
| 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.

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: 8.2%

# DIRECTORS' REPORT

30 JUNE 2011

## D Share-based compensation (continued)

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

### Shares granted to senior employees in February 2009

#### *Performance condition – No 1*

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

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

### 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.

# DIRECTORS' REPORT

30 JUNE 2011

## D Share-based compensation (continued)

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](http://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 19.

## ROUNDING OF AMOUNTS

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

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



**Richard Lee**  
Chairman



**Grant Harrod**  
Chief Executive Officer

Sydney  
16 August 2011

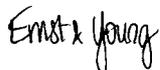
# AUDITOR'S INDEPENDENCE DECLARATION

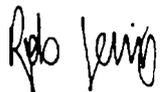


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## Auditor's Independence Declaration to the Directors of Salmat Limited

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.

  
Ernst & Young

  
Rob Lewis  
Partner  
16 August 2011

# INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

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

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

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

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

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

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

|                                                   | Notes | Consolidated   |                |
|---------------------------------------------------|-------|----------------|----------------|
|                                                   |       | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>Current assets</b>                             |       |                |                |
| 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          |
| <b>Total current assets</b>                       |       | <b>149,302</b> | 187,814        |
| <b>Non-current assets</b>                         |       |                |                |
| 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            |
| <b>Total non-current assets</b>                   |       | <b>543,692</b> | 469,462        |
| <b>Total assets</b>                               |       | <b>692,994</b> | 657,276        |
| <b>Current liabilities</b>                        |       |                |                |
| 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          |
| <b>Total current liabilities</b>                  |       | <b>119,993</b> | 146,557        |
| <b>Non-current liabilities</b>                    |       |                |                |
| 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            |
| <b>Total non-current liabilities</b>              |       | <b>294,889</b> | 214,318        |
| <b>Total liabilities</b>                          |       | <b>414,882</b> | 360,875        |
| <b>Net assets</b>                                 |       | <b>278,112</b> | 296,401        |
| <b>Equity</b>                                     |       |                |                |
| Contributed equity                                | 29    | 205,761        | 205,616        |
| Reserves                                          | 30(a) | 267            | 570            |
| Retained earnings                                 | 30(b) | 72,084         | 90,215         |
| <b>Total equity</b>                               |       | <b>278,112</b> | 296,401        |

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

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

| Consolidated                                                           | Notes | Contributed equity<br>\$'000 | Reserves<br>\$'000 | Retained earnings<br>\$'000 | Total equity<br>\$'000 |
|------------------------------------------------------------------------|-------|------------------------------|--------------------|-----------------------------|------------------------|
| <b>Balance at 1 July 2009</b>                                          |       | <b>205,640</b>               | <b>(750)</b>       | <b>76,278</b>               | <b>281,168</b>         |
| Profit for the year                                                    |       | –                            | –                  | 49,099                      | 49,099                 |
| Other comprehensive income                                             |       | –                            | 1,513              | (218)                       | 1,295                  |
| <b>Total comprehensive income for the year</b>                         |       | <b>–</b>                     | <b>1,513</b>       | <b>48,881</b>               | <b>50,394</b>          |
| <b>Transactions with owners in their capacity as owners:</b>           |       |                              |                    |                             |                        |
| 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)               |
| <b>Balance at 30 June 2010</b>                                         |       | <b>205,616</b>               | <b>570</b>         | <b>90,215</b>               | <b>296,401</b>         |
| <b>Balance at 1 July 2010</b>                                          |       | <b>205,616</b>               | <b>570</b>         | <b>90,215</b>               | <b>296,401</b>         |
| Profit for the year                                                    |       | –                            | –                  | 35,954                      | 35,954                 |
| Other comprehensive income                                             |       | –                            | (812)              | 91                          | (721)                  |
| <b>Total comprehensive income for the year</b>                         |       | <b>–</b>                     | <b>(812)</b>       | <b>36,045</b>               | <b>35,233</b>          |
| <b>Transactions with owners in their capacity as owners:</b>           |       |                              |                    |                             |                        |
| 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)               |
| <b>Balance at 30 June 2011</b>                                         |       | <b>205,761</b>               | <b>267</b>         | <b>72,084</b>               | <b>278,112</b>         |

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

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

|                                                                           | Notes | Consolidated    |                |
|---------------------------------------------------------------------------|-------|-----------------|----------------|
|                                                                           |       | 2011<br>\$'000  | 2010<br>\$'000 |
| <b>Cash flows from operating activities</b>                               |       |                 |                |
| 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)       |
| <b>Net cash inflow from operating activities</b>                          | 42    | <b>40,762</b>   | 84,926         |
| <b>Cash flows from investing activities</b>                               |       |                 |                |
| 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             |
| <b>Net cash outflow from investing activities</b>                         |       | <b>(97,887)</b> | (12,615)       |
| <b>Cash flows from financing activities</b>                               |       |                 |                |
| 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)       |
| <b>Net cash inflow (outflow) from financing activities</b>                |       | <b>18,419</b>   | (57,192)       |
| <b>Net (decrease) increase in cash and cash equivalents</b>               |       | <b>(38,706)</b> | 15,119         |
| Cash and cash equivalents at the beginning of the financial year          |       | 59,333          | 44,214         |
| <b>Cash and cash equivalents at end of year</b>                           | 7     | <b>20,627</b>   | 59,333         |

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

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30 JUNE 2011

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# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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 Securities Exchange.

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

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

### 1 Summary of significant accounting policies

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

#### (a) Basis of preparation

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

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

#### Compliance with IFRS

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

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 1 Summary of significant accounting policies (continued)

### (d) Foreign currency translation

#### Functional and presentation currency

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

#### Transactions and balances

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

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

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

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

#### Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); 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 cash flows. 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.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 1 Summary of significant accounting policies (continued)

### (f) Income tax (continued)

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.

### (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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 1 Summary of significant accounting policies (continued)

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.

### (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); or
- 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.

#### 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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 1 Summary of significant accounting policies (continued)

### (o) Derivatives and hedging activities (continued)

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.

### 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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 1 Summary of significant accounting policies (continued)

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 three to seven years.

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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.

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 1 Summary of significant accounting policies (continued)

### (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.

*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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 1 Summary of significant accounting policies (continued)

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

(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.

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 cash flows 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 five 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 2 Segment information (continued)

| 2011                                                       | Targeted Media Solutions<br>\$'000 | Customer Contact Solutions<br>\$'000 | Business Process Outsourcing<br>\$'000 | Corporate Costs<br>\$'000 | Total<br>\$'000 |
|------------------------------------------------------------|------------------------------------|--------------------------------------|----------------------------------------|---------------------------|-----------------|
| <b>Segment revenue</b>                                     |                                    |                                      |                                        |                           |                 |
| Sales to external customers                                | 250,851                            | 293,712                              | 318,464                                |                           | 863,027         |
| Interest revenue                                           |                                    |                                      |                                        |                           | 895             |
| <b>Total revenue</b>                                       |                                    |                                      |                                        |                           | <b>863,922</b>  |
| <b>Underlying segment EBITA</b>                            | <b>42,545</b>                      | <b>15,949</b>                        | <b>41,835</b>                          |                           | <b>100,329</b>  |
| <b>Reconciliation of segment EBITA to income statement</b> |                                    |                                      |                                        |                           |                 |
| Corporate costs                                            |                                    |                                      |                                        | (11,744)                  | (11,744)        |
| EBITA                                                      |                                    |                                      |                                        |                           | 88,585          |
| Amortisation expense                                       |                                    |                                      |                                        |                           | (12,035)        |
| Net finance costs                                          |                                    |                                      |                                        |                           | (16,863)        |
| Significant items                                          |                                    |                                      |                                        |                           | (9,172)         |
| <b>Profit before income tax</b>                            |                                    |                                      |                                        |                           | <b>50,515</b>   |
| Income tax expense                                         |                                    |                                      |                                        |                           | (14,561)        |
| <b>Profit attributable to members of Salmat Limited</b>    |                                    |                                      |                                        |                           | <b>35,954</b>   |

| 2010                                                       |               |               |               |          |                |
|------------------------------------------------------------|---------------|---------------|---------------|----------|----------------|
| <b>Segment revenue</b>                                     |               |               |               |          |                |
| Sales to external customers                                | 230,598       | 304,837       | 343,356       | –        | 878,791        |
| Interest revenue                                           |               |               |               |          | 1,454          |
| <b>Total revenue</b>                                       |               |               |               |          | <b>880,245</b> |
| <b>Underlying segment EBITA</b>                            | <b>40,266</b> | <b>20,003</b> | <b>44,188</b> |          | <b>104,457</b> |
| <b>Reconciliation of segment EBITA to income statement</b> |               |               |               |          |                |
| Corporate costs                                            |               |               |               | (13,292) | (13,292)       |
| EBITA                                                      |               |               |               |          | 91,165         |
| Amortisation expense                                       |               |               |               |          | (10,518)       |
| Net finance costs                                          |               |               |               |          | (12,901)       |
| Significant items                                          |               |               |               |          | 2,395          |
| <b>Profit before income tax</b>                            |               |               |               |          | <b>70,141</b>  |
| Income tax expense                                         |               |               |               |          | (21,042)       |
| <b>Profit attributable to members of Salmat Limited</b>    |               |               |               |          | <b>49,099</b>  |

|                     | Segment revenues from sales to external customers |                | Segment assets |                |
|---------------------|---------------------------------------------------|----------------|----------------|----------------|
|                     | 2011<br>\$'000                                    | 2010<br>\$'000 | 2011<br>\$'000 | 2010<br>\$'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          |
|                     | <b>863,027</b>                                    | 878,791        | <b>676,171</b> | 638,126        |
| Deferred tax asset  |                                                   |                | 16,823         | 19,150         |
| <b>Total assets</b> |                                                   |                | <b>692,994</b> | 657,276        |

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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<br>\$'000 | 2010<br>\$'000 |
| <b>Significant items:</b>                                  |                |                |
| 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          | –              |
| <b>Total significant items before tax</b>                  | <b>9,172</b>   | <b>(2,395)</b> |
| Income tax expense                                         | (2,752)        | 719            |
| <b>Net significant items</b>                               | <b>6,420</b>   | <b>(1,676)</b> |

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 3 Revenue

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

## 4 Expenses

|                                                                     |                |        |
|---------------------------------------------------------------------|----------------|--------|
| <b>Depreciation</b>                                                 |                |        |
| Plant and equipment                                                 | 20,989         | 21,857 |
| <b>Amortisation</b>                                                 |                |        |
| Customer intangibles                                                | 9,233          | 8,519  |
| Other intangibles                                                   | 2,802          | 1,999  |
| Total amortisation                                                  | 12,035         | 10,518 |
| Total depreciation and amortisation                                 | 33,024         | 32,375 |
| <b>Finance costs</b>                                                |                |        |
| Interest and finance charges paid/payable                           | 17,758         | 14,355 |
| <b>Net (gain)/loss on disposal of property, plant and equipment</b> | <b>(1,217)</b> | 4      |
| <b>Rental expense relating to operating leases</b>                  |                |        |
| Minimum lease payments                                              | 25,137         | 24,407 |
| <b>Foreign exchange gains and losses</b>                            |                |        |
| Net foreign exchange (gains)/losses                                 | 275            | 79     |
| <b>Defined contribution superannuation expense</b>                  | <b>24,894</b>  | 24,192 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 5 Income tax expense

|                                                                                                                           | Consolidated   |                |
|---------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                           | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>(a) Income tax expense:</b>                                                                                            |                |                |
| Current tax                                                                                                               | 15,631         | 23,586         |
| Deferred tax                                                                                                              | 914            | (2,478)        |
| Adjustments for current tax of prior periods                                                                              | (1,984)        | (66)           |
|                                                                                                                           | <b>14,561</b>  | 21,042         |
| <b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>                                      |                |                |
| Profit from continuing operations before income tax expense                                                               | 50,515         | 70,141         |
| Tax at the Australian tax rate of 30% (2010 – 30%)                                                                        | 15,155         | 21,042         |
| <b>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</b>                            |                |                |
| 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                                                                             | 55             | (73)           |
| Total income tax expense                                                                                                  | <b>14,561</b>  | 21,042         |
| <b>(c) Tax expense (income) relating to items of other comprehensive income</b>                                           |                |                |
| Cash flow hedges                                                                                                          | (184)          | (875)          |
| <b>(d) Tax losses</b>                                                                                                     |                |                |
| Gross unused tax losses for which no deferred tax asset has been recognised                                               | 8,572          | 14,523         |
| All unused tax losses were incurred by entities in Hong Kong that are not part of the tax consolidated group              |                |                |
| <b>(e) Unrecognised temporary differences</b>                                                                             |                |                |
| Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised |                |                |
| Undistributed earnings                                                                                                    | –              | –              |

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

### (f) Tax consolidation legislation

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 6 Net tangible asset backing

|                                               | Consolidated  |               |
|-----------------------------------------------|---------------|---------------|
|                                               | 2011<br>Cents | 2010<br>Cents |
| Net tangible asset backing per ordinary share | (114.2)       | (63.0)        |

## 7 Current assets – cash and cash equivalents

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

### (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)          |
|                                        | <b>105,310</b> | <b>106,907</b> |
| Other receivables                      | 8,958          | 8,059          |
|                                        | <b>114,268</b> | <b>114,966</b> |

### (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)      |
|                                                          | <b>668</b> | <b>569</b> |

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 8 Current assets – trade and other receivables (continued)

### (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:

|                      | Consolidated   |                |
|----------------------|----------------|----------------|
|                      | 2011<br>\$'000 | 2010<br>\$'000 |
| 1-30 days            | 9,324          | 13,132         |
| 31-60 days           | 3,316          | 2,410          |
| greater than 60 days | 3,157          | 1,249          |
|                      | <b>15,797</b>  | <b>16,791</b>  |

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

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

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

Related party transactions have been made on normal commercial terms and conditions and at market rates. The average interest rate on loans during the year was 10% (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<br>\$'000 | 2010<br>\$'000 |
| <b>Raw materials</b>       |                |                |
| At cost                    | 6,825          | 5,260          |
| Provision for obsolescence | (1,023)        | (929)          |
| <b>Raw materials</b>       | <b>5,802</b>   | <b>4,331</b>   |
| Work in progress           |                |                |
| At cost                    | 2,031          | 3,391          |
|                            | <b>7,833</b>   | <b>7,722</b>   |

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 10 Current assets – other current assets

|                      | Consolidated   |                |
|----------------------|----------------|----------------|
|                      | 2011<br>\$'000 | 2010<br>\$'000 |
| Prepayments          | 6,338          | 5,596          |
| Recoverable deposits | 236            | 197            |
|                      | <b>6,574</b>   | 5,793          |

## 11 Non-current assets – receivables

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

### (a) Fair values

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

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

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<br>\$'000 | 2010<br>\$'000 |
| Shares in joint venture and associate (note 40) | <b>1,724</b>   | 1,130          |

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 13 Non-current assets – plant and equipment

|                                                                                   | Plant and<br>equipment<br>\$'000 |
|-----------------------------------------------------------------------------------|----------------------------------|
| <b>At 1 July 2009</b>                                                             |                                  |
| Cost                                                                              | 158,144                          |
| Accumulated depreciation                                                          | (108,123)                        |
| Net book amount                                                                   | 50,021                           |
| <b>Year 30 June 2010</b>                                                          |                                  |
| 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 | (1,086)                          |
| Closing net book amount                                                           | 47,820                           |
| <b>At 30 June 2010</b>                                                            |                                  |
| Cost                                                                              | 175,332                          |
| Accumulated depreciation                                                          | (127,512)                        |
| Net book amount                                                                   | 47,820                           |
| <b>Year 30 June 2011</b>                                                          |                                  |
| 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 | (814)                            |
| Closing net book amount                                                           | 61,425                           |
| <b>At 30 June 2011</b>                                                            |                                  |
| Cost                                                                              | 195,428                          |
| Accumulated depreciation                                                          | (134,003)                        |
| Net book amount                                                                   | 61,425                           |

\* Non cash financing of plant and equipment: During the year, \$11,739,000 of plant and equipment was acquired by way of finance lease.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 14 Non-current assets – deferred tax assets

|                                                                     | Consolidated   |                |
|---------------------------------------------------------------------|----------------|----------------|
|                                                                     | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>The balance comprises temporary differences attributable to:</b> |                |                |
| 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          |
|                                                                     | <b>16,823</b>  | 19,758         |
| <b>Movements:</b>                                                   |                |                |
| 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                                          | <b>16,823</b>  | 19,758         |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 15 Non-current assets – intangible assets

|                                         | Goodwill<br>\$'000 | Other<br>intangible<br>assets<br>\$'000 | Customer<br>intangible<br>\$'000 | Total<br>\$'000 |
|-----------------------------------------|--------------------|-----------------------------------------|----------------------------------|-----------------|
| <b>At 1 July 2009</b>                   |                    |                                         |                                  |                 |
| Cost                                    | 365,037            | 10,069                                  | 55,761                           | 430,867         |
| Accumulated amortisation and impairment | –                  | (5,610)                                 | (18,698)                         | (24,308)        |
| Net book amount                         | 365,037            | 4,459                                   | 37,063                           | 406,559         |
| <b>Year ended 30 June 2010</b>          |                    |                                         |                                  |                 |
| 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                 | 365,066            | 3,012                                   | 28,544                           | 396,622         |
| <b>At 30 June 2010</b>                  |                    |                                         |                                  |                 |
| Cost                                    | 365,066            | 8,540                                   | 55,761                           | 429,367         |
| Accumulated amortisation and impairment | –                  | (5,528)                                 | (27,217)                         | (32,745)        |
| Net book amount                         | 365,066            | 3,012                                   | 28,544                           | 396,622         |
| <b>Year ended 30 June 2011</b>          |                    |                                         |                                  |                 |
| 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                 | 429,869            | 3,656                                   | 26,992                           | 460,517         |
| <b>At 30 June 2011</b>                  |                    |                                         |                                  |                 |
| Cost                                    | 429,869            | 11,986                                  | 63,442                           | 505,297         |
| Accumulated amortisation and impairment | –                  | (8,330)                                 | (36,450)                         | (44,780)        |
| Net book amount                         | 429,869            | 3,656                                   | 26,992                           | 460,517         |

### (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<br>Process<br>Outsourcing<br>\$'000 | Targeted<br>Media<br>Solutions<br>\$'000 | Customer<br>Contact<br>Solutions<br>\$'000 | Total<br>\$'000 |
|-------------|----------------------------------------------|------------------------------------------|--------------------------------------------|-----------------|
| <b>2011</b> |                                              |                                          |                                            |                 |
| Goodwill    | 274,613                                      | 75,382                                   | 79,874                                     | 429,869         |
|             | 274,612                                      | 75,383                                   | 79,874                                     | 429,869         |
| <b>2010</b> |                                              |                                          |                                            |                 |
| Goodwill    | 272,944                                      | 12,248                                   | 79,874                                     | 365,066         |
|             | 272,944                                      | 12,248                                   | 79,874                                     | 365,066         |

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 15 Non-current assets – intangible assets (continued)

### (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.

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<br>\$'000 | 2010<br>\$'000 |
| Recoverable deposits | 590            | 731            |

## 17 Current liabilities – trade and other payables

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

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) | 3,876 | 443 |
|-----------------------------|-------|-----|

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 19 Derivative financial instruments

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

### (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<br>\$'000 | 2010<br>\$'000 |
| Income tax | 2,238          | 16,282         |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 21 Current liabilities – provisions

|                                            | Consolidated   |                |
|--------------------------------------------|----------------|----------------|
|                                            | 2011<br>\$'000 | 2010<br>\$'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          |
|                                            | <b>26,742</b>  | 31,621         |

### (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    | 42      | 2,999   |

## 22 Current liabilities – other current liabilities

|                 |   |       |
|-----------------|---|-------|
| Deferred profit | – | 2,074 |
|-----------------|---|-------|

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          | –   |
|                         | <b>1,064</b> | 250 |

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 24 Non-current liabilities – borrowings

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

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

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.

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%).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 24 Non-current liabilities – borrowings (continued)

### (c) Fair value

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

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

### (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<br>\$'000 | 2010<br>\$'000 |
| <b>The balance comprises temporary differences attributable to:</b> |                |                |
| Prepayments                                                         | 405            | –              |
| Unearned income                                                     | 345            | 240            |
| Intangible assets                                                   | 8,317          | 8,538          |
| Total deferred tax liabilities                                      | <b>9,067</b>   | 8,778          |
| <b>Movements:</b>                                                   |                |                |
| 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)                          | 3,041          | –              |
| Closing balance at 30 June                                          | <b>9,067</b>   | 8,778          |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 26 Non-current liabilities – provisions

|                                        | Consolidated   |                |
|----------------------------------------|----------------|----------------|
|                                        | 2011<br>\$'000 | 2010<br>\$'000 |
| Employee benefits – long service leave | 3,538          | 3,713          |
| Other provisions – lease make good     | 3,828          | 5,298          |
|                                        | <b>7,366</b>   | 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 make good |              |       |
|------------------------------------|--------------|-------|
| 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     | <b>3,828</b> | 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.

### (b) Statement of financial position amounts

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 27 Non-current liabilities – retirement benefit obligations (continued)

### (b) Statement of financial position amounts (continued)

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:

|                    | Consolidated   |                |
|--------------------|----------------|----------------|
|                    | 2011<br>\$'000 | 2010<br>\$'000 |
| Cash               | 231            | 386            |
| Equity instruments | 2,168          | 1,881          |
| Debt instruments   | 382            | 460            |
| Property           | 325            | 294            |
| Other assets       | 437            | 394            |
|                    | <b>3,543</b>   | <b>3,415</b>   |

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

#### Reconciliation of the present value of the defined benefit obligation, which is partly funded:

|                                        |              |              |
|----------------------------------------|--------------|--------------|
| Balance at the beginning of the year   | 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         | <b>5,199</b> | <b>5,048</b> |

#### 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         | <b>3,543</b> | <b>3,415</b> |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 27 Non-current liabilities – retirement benefit obligations (continued)

### (d) Amounts recognised in consolidated income statement

The amounts recognised in the income statement are as follows:

|                                                 | Consolidated   |                |
|-------------------------------------------------|----------------|----------------|
|                                                 | 2011<br>\$'000 | 2010<br>\$'000 |
| 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 |
|----------------------------------------------|------|-----|

### (f) Principal actuarial assumptions

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

|                                | Consolidated |       |
|--------------------------------|--------------|-------|
|                                | 2011         | 2010  |
| <b>Australia</b>               |              |       |
| Discount rate                  | 5.3%         | 5.2%  |
| Expected return on plan assets | 8.6%         | 8.6%  |
| Future salary increases        | 3.5%         | 3.5%  |
| <b>Taiwan</b>                  |              |       |
| Discount rate                  | 2.0%         | 2.0%  |
| Expected return on plan assets | 2.0%         | 1.5%  |
| Future salary increases        | 2.5%         | 2.5%  |
| <b>Philippines</b>             |              |       |
| 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 above mentioned 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<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 | 2008<br>\$'000 | 2007<br>\$'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            |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 28 Non-current liabilities – other non-current liabilities

|                 | Consolidated   |                |
|-----------------|----------------|----------------|
|                 | 2011<br>\$'000 | 2010<br>\$'000 |
| Deferred profit | 698            | 698            |

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

### (a) Share capital

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

### (b) Movements in ordinary share capital

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

### (c) Ordinary shares

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

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

### (d) Treasury shares

Treasury shares are shares in Salmat Limited that are held by the Salmat Executive Performance Option Plan and are deducted from equity (see note 44 for further information).

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 29 Contributed equity (continued)

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

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 30 Reserves and retained earnings

### (a) Reserves

|                                                          | Consolidated   |                |
|----------------------------------------------------------|----------------|----------------|
|                                                          | 2011<br>\$'000 | 2010<br>\$'000 |
| Hedging reserve – cash flow hedges                       | (841)          | (1,271)        |
| Share-based payments reserve                             | 4,334          | 3,825          |
| Foreign currency translation reserve                     | (3,226)        | (1,984)        |
|                                                          | 267            | 570            |
| <b>Movements:</b>                                        |                |                |
| <i>Hedging reserve – cash flow hedges</i>                |                |                |
| Balance 1 July                                           | (1,271)        | (3,312)        |
| Revaluation – gross                                      | 614            | 2,916          |
| Deferred tax                                             | (184)          | (875)          |
| Balance 30 June                                          | (841)          | (1,271)        |
| <b>Movements:</b>                                        |                |                |
| <i>Share-based payments reserve</i>                      |                |                |
| Balance 1 July                                           | 3,825          | 4,018          |
| Shares and options expense                               | 509            | (193)          |
| Balance 30 June                                          | 4,334          | 3,825          |
| <b>Movements:</b>                                        |                |                |
| <i>Foreign currency translation reserve</i>              |                |                |
| Balance 1 July                                           | (1,984)        | (1,456)        |
| Currency translation differences arising during the year | (1,242)        | (528)          |
| Balance 30 June                                          | (3,226)        | (1,984)        |

### (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                                                                                  | (54,176) | (34,944) |
| Balance 30 June                                                                            | 72,084   | 90,215   |

### (c) Nature and purpose of reserves

#### Hedging reserve – cash flow hedges

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

#### Share-based payments reserve

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

#### Foreign currency translation reserve

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

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 31 Dividends

### (a) Ordinary shares

|                                                                                                                                          | Consolidated   |                |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                          | 2011<br>\$'000 | 2010<br>\$'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         |
|                                                                                                                                          | <b>54,176</b>  | 34,944         |
| Paid in cash                                                                                                                             | <b>54,176</b>  | 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 |
|                                                                                                 | <b>19,973</b> | 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%) | <b>67,352</b> | 79,280 |
|---------------------------------------------------------------------------------------------------|---------------|--------|

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     |            |
|--------------------------------------------------------------------|------------------|------------|
|                                                                    | 2011<br>\$       | 2010<br>\$ |
| 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    |
|                                                                    | <b>6,332,575</b> | 7,490,336  |

Detailed remuneration disclosures are provided in the remuneration report on pages 8 to 18.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 32 Key management personnel disclosures (continued)

### (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 |
|-----------------------------------------------------------|------------------------------|-----------|------------|----------------------------|------------------------|----------|
| <b>Directors of Salmat Limited</b>                        |                              |           |            |                            |                        |          |
| Philip Salter                                             | 165,000                      | –         | (165,000)  | –                          | –                      | –        |
| Peter Mattick                                             | 165,000                      | –         | (165,000)  | –                          | –                      | –        |
| <b>Other key management personnel of the Salmat Group</b> |                              |           |            |                            |                        |          |
| 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 |
|-----------------------------------------------------------|------------------------------|-----------|------------|----------------------------|------------------------|----------|
| <b>Directors of Salmat Limited</b>                        |                              |           |            |                            |                        |          |
| Philip Salter                                             | 495,000                      | –         | (330,000)  | 165,000                    | –                      | 165,000  |
| Peter Mattick                                             | 495,000                      | –         | (330,000)  | 165,000                    | –                      | 165,000  |
| <b>Other key management personnel of the Salmat Group</b> |                              |           |            |                            |                        |          |
| 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    |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 32 Key management personnel disclosures (continued)

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

#### 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.

| 2011                                                      | Balance at<br>the start of<br>the year | Granted<br>during the<br>year as<br>compensation | Received<br>during the<br>year on the<br>exercise of<br>options | Other<br>acquisition<br>and disposal<br>of shares | Balance at<br>the end of<br>the year |
|-----------------------------------------------------------|----------------------------------------|--------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------|--------------------------------------|
| <b>Directors of Salmat Limited</b>                        |                                        |                                                  |                                                                 |                                                   |                                      |
| <b>Ordinary shares</b>                                    |                                        |                                                  |                                                                 |                                                   |                                      |
| 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                              |
| <b>Other key management personnel of the Salmat Group</b> |                                        |                                                  |                                                                 |                                                   |                                      |
| <b>Ordinary shares</b>                                    |                                        |                                                  |                                                                 |                                                   |                                      |
| 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                               |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 32 Key management personnel disclosures (continued)

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

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

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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<br>\$'000 | 2010<br>\$'000 |
| Property, plant and equipment<br>Payable: |                |                |
| Within one year                           | <b>10,012</b>  | 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                                   | <b>27,965</b>  | 27,970  |
| Later than one year but not later than five years | <b>82,395</b>  | 61,597  |
| Later than five years                             | <b>34,865</b>  | 48,088  |
|                                                   | <b>145,225</b> | 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                                   | <b>5,242</b>   | 612   |
| Later than one year but not later than five years | <b>18,256</b>  | 4,645 |
| Minimum lease payments                            | <b>23,498</b>  | 5,257 |
| Future finance charges                            | <b>(3,670)</b> | (436) |
| Recognised as a liability                         | <b>19,828</b>  | 4,821 |
| Representing lease liabilities:                   |                |       |
| Current (note 18)                                 | <b>3,876</b>   | 443   |
| Non-current (note 24)                             | <b>15,952</b>  | 4,378 |
|                                                   | <b>19,828</b>  | 4,821 |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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<br>\$   | 2010<br>\$ |
| 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:

|                                              |           |           |
|----------------------------------------------|-----------|-----------|
| <b>Non-current receivables (loans)</b>       |           |           |
| Joint venture – Reach Media NZ Limited       | 2,613,000 | 3,401,000 |
| <b>Current payables (purchases of goods)</b> |           |           |
| 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:

- BeInteractive 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<br>\$'000 | Mailforce<br>\$'000 | Total<br>\$'000 |
|----------------------------------------------------------|--------------------------|---------------------|-----------------|
| Purchase consideration:                                  |                          |                     |                 |
| Cash paid                                                | 75,781                   | 406                 | 76,187          |
| Consideration payable                                    | –                        | 814                 | 814             |
| <b>Total consideration</b>                               | <b>75,781</b>            | <b>1,220</b>        | <b>77,001</b>   |
| 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)                | <b>63,134</b>            | <b>1,669</b>        | <b>64,803</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 37 Business combinations (continued)

### (b) Purchase consideration

The net cash outflow on acquisition is as follows:

|                         | Digital assets<br>\$'000 | Mailforce<br>\$'000 | Total<br>\$'000 |
|-------------------------|--------------------------|---------------------|-----------------|
| Cash consideration      | 75,781                   | 406                 | 76,187          |
| Net cash acquired       | (1,920)                  | (310)               | (2,230)         |
| <b>Net cash outflow</b> | <b>73,861</b>            | <b>96</b>           | <b>73,957</b>   |

### (c) Assets and liabilities acquired

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

|                                                       | Digital assets<br>\$'000 | Mailforce<br>\$'000 | Total<br>\$'000 |
|-------------------------------------------------------|--------------------------|---------------------|-----------------|
| <b>Fair value of net identifiable assets acquired</b> |                          |                     |                 |
| 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)           |
| <b>Net identifiable assets acquired</b>               | <b>12,647</b>            | <b>365</b>          | <b>13,012</b>   |

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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 39 Deed of cross guarantee (continued)

### (a) 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.

|                                                                 | 2011<br>\$'000 | 2010<br>\$'000 |
|-----------------------------------------------------------------|----------------|----------------|
| <b>Consolidated income statement</b>                            |                |                |
| Profit before income tax                                        | 46,679         | 65,913         |
| Income tax expense                                              | (12,718)       | (19,539)       |
| Profit from continuing operations                               | 33,961         | 46,374         |
| <b>Consolidated statement of comprehensive income</b>           |                |                |
| <b>Profit for the year</b>                                      | <b>33,961</b>  | <b>46,374</b>  |
| <b>Other comprehensive income</b>                               |                |                |
| 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)          |
| <b>Other comprehensive income for the year, net of tax</b>      | <b>521</b>     | <b>1,823</b>   |
| <b>Total comprehensive income for the year</b>                  | <b>34,482</b>  | <b>48,197</b>  |
| <b>Summary of movements in consolidated retained earnings</b>   |                |                |
| <b>Retained earnings at the beginning of the financial year</b> | <b>110,613</b> | <b>99,401</b>  |
| 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)       |
| <b>Retained earnings at the end of the financial year</b>       | <b>90,489</b>  | <b>110,613</b> |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 39 Deed of cross guarantee (continued)

### (b) Consolidated statement of financial position

Set out below is a consolidated statement of financial position as at 30 June 2011 of the Closed Group.

|                                      | 2011<br>\$'000 | 2010<br>\$'000 |
|--------------------------------------|----------------|----------------|
| <b>Current assets</b>                |                |                |
| 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          |
| <b>Total current assets</b>          | <b>157,190</b> | 207,643        |
| <b>Non-current assets</b>            |                |                |
| 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        |
| <b>Total non-current assets</b>      | <b>539,864</b> | 462,281        |
| <b>Total assets</b>                  | <b>697,054</b> | 669,924        |
| <b>Current liabilities</b>           |                |                |
| 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         |
| <b>Total current liabilities</b>     | <b>112,968</b> | 142,158        |
| <b>Non-current liabilities</b>       |                |                |
| 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          |
| <b>Total non-current liabilities</b> | <b>286,172</b> | 208,608        |
| <b>Total liabilities</b>             | <b>399,140</b> | 350,766        |
| <b>Net assets</b>                    | <b>297,914</b> | 319,158        |
| <b>Equity</b>                        |                |                |
| Contributed equity                   | 210,881        | 208,731        |
| Reserves                             | (3,456)        | (186)          |
| Retained earnings                    | 90,489         | 110,613        |
| <b>Total equity</b>                  | <b>297,914</b> | 319,158        |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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

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<br>\$'000 | 2010<br>\$'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       | 1,724 | 1,130 |

\* 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.

### (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:

|                                                     | Ownership Interest % | Company's share of: |                    |                 |                      |
|-----------------------------------------------------|----------------------|---------------------|--------------------|-----------------|----------------------|
|                                                     |                      | Assets \$'000       | Liabilities \$'000 | Revenues \$'000 | Profit/(Loss) \$'000 |
| <b>2011</b>                                         |                      |                     |                    |                 |                      |
| 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)                |
|                                                     |                      | <b>6,928</b>        | <b>3,314</b>       | <b>15,336</b>   | <b>(183)</b>         |
| <b>2010</b>                                         |                      |                     |                    |                 |                      |
| 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                   |
|                                                     |                      | <b>6,054</b>        | <b>4,907</b>       | <b>14,174</b>   | <b>244</b>           |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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<br>\$'000 | 2010<br>\$'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 gain on sale of non-current assets                                                                 | (1,217)        | (2,390)        |
| Share of profits of associates not received as dividends or distributions                              | (2)            | (244)          |
| <b>Change in operating assets and liabilities, net of effects from purchase of controlled entities</b> |                |                |
| Decrease 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)          |
| (Decrease)/Increase in trade and other payables                                                        | (12,573)       | 849            |
| (Decrease)/Increase in provision for income taxes payable                                              | (14,044)       | 9,382          |
| Decrease in provision for deferred income tax                                                          | (2,751)        | (2,329)        |
| Decrease 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 |
|---------------------------------------------------------------------------------------------|------|------|

### (b) Diluted earnings per share

|                                                                                             |      |      |
|---------------------------------------------------------------------------------------------|------|------|
| Profit from continuing operations attributable to the ordinary equity holders of the parent | 22.5 | 30.9 |
|---------------------------------------------------------------------------------------------|------|------|

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

#### Basic earnings per share

|                                                                                                                                                 |        |        |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|
| Profit from continuing operations attributable to the ordinary equity holders of the parent entity used in calculating basic earnings per share | 35,954 | 49,099 |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|

#### Diluted earnings per share

|                                                                                                                      |        |        |
|----------------------------------------------------------------------------------------------------------------------|--------|--------|
| Profit attributable to the ordinary equity holders of the parent entity used in calculating basic earnings per share | 35,954 | 49,099 |
|----------------------------------------------------------------------------------------------------------------------|--------|--------|

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 43 Earnings per share (continued)

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

|                                                                                                                | Consolidated             |                          |
|----------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                                                                | 2011<br>Quantity<br>'000 | 2010<br>Quantity<br>'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                                 | 1,394                    | 1,155                    |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS | 159,555                  | 159,171                  |

### (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.

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

| Grant date                      | Expiry date | Exercise price | Balance at start of the year<br>Number | Forfeited during the year<br>Number | Exercised during the year<br>Number | Expired during the year<br>Number | Balance at end of the year<br>Number | Vested and exercisable at end of the year<br>Number |
|---------------------------------|-------------|----------------|----------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------------------------|
| <b>Consolidated – 2011</b>      |             |                |                                        |                                     |                                     |                                   |                                      |                                                     |
| 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                           |             |                | 822,500                                | (40,000)                            | (150,000)                           | (535,000)                         | 97,500                               | 97,500                                              |
| Weighted average exercise price |             |                | \$2.69                                 | \$3.41                              | \$0.97                              | \$3.18                            | \$2.35                               | \$ 2.35                                             |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 44 Share-based payments (continued)

### (a) Employee Option Plan (continued)

| Grant date                      | Expiry date | Exercise price | Balance at start of the year<br>Number | Forfeited during the year<br>Number | Exercised during the year<br>Number | Expired during the year<br>Number | Balance at end of the year<br>Number | Vested and exercisable at end of the year<br>Number |
|---------------------------------|-------------|----------------|----------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------------------------|
| <b>Consolidated – 2010</b>      |             |                |                                        |                                     |                                     |                                   |                                      |                                                     |
| 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         | 330,000                                | –                                   | –                                   | –                                 | 330,000                              | –                                                   |
| <b>Total</b>                    |             |                | <b>3,051,500</b>                       | <b>(1,000,000)</b>                  | <b>(340,000)</b>                    | <b>(889,000)</b>                  | <b>822,500</b>                       | <b>212,500</b>                                      |
| 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 Securities Exchange Listing Rules. Under the Australian Securities Exchange Listing Rules, options may not be issued to company directors under an employee incentive scheme without specific shareholder approval.

The market price of the company's shares at 30 June 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.

#### 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 44 Share-based payments (continued)

### (b) Employee share plans (continued)

| Grant date    | Date vested and exercisable | Expiry date    | Fair value per share at grant date |
|---------------|-----------------------------|----------------|------------------------------------|
| February 2009 | September 2011              | September 2011 | \$3.31                             |
| February 2009 | June 2011                   | June 2011      | \$2.78                             |
| April 2009    | October 2012                | October 2012   | \$3.79                             |
| April 2009    | October 2012                | October 2012   | \$3.70                             |
| March 2010    | September 2012              | September 2012 | \$4.24                             |
| March 2010    | September 2012              | September 2012 | \$2.80                             |
| 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                  | 2010                  |
|------------------------------|-----------------------|-----------------------|
|                              | Number of shares '000 | Number of shares '000 |
| Exempt Employee Share Plan   |                       |                       |
| Opening balance              | 486                   | 398                   |
| Transfers/disposals          | (83)                  | (52)                  |
| Acquisitions                 | 119                   | 140                   |
| Deferred Employee Share Plan |                       |                       |
| Opening balance              | 1,372                 | 1,622                 |
| Transfers/disposals          | (157)                 | (535)                 |
| Acquisitions                 | 536                   | 285                   |
|                              | <b>2,273</b>          | <b>1,858</b>          |

### (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<br>\$'000 | 2010<br>\$'000 |
| Options issued under employee option plan          | (530)          | (485)          |
| Shares issued under deferred employee share scheme | 1,039          | 292            |
|                                                    | <b>509</b>     | <b>(193)</b>   |

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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:

|                                  | Consolidated   |                |
|----------------------------------|----------------|----------------|
|                                  | 2011<br>\$'000 | 2010<br>\$'000 |
| <b>Financial assets</b>          |                |                |
| Cash and cash equivalents        | 20,627         | 59,333         |
| Trade and other receivables      | 116,881        | 118,368        |
| Other financial assets           | 826            | 928            |
|                                  | <b>138,334</b> | 178,629        |
| <b>Financial liabilities</b>     |                |                |
| Trade and other payable          | 86,043         | 95,063         |
| Borrowings                       | 278,939        | 194,253        |
| Derivative financial instruments | 1,201          | 1,815          |
|                                  | <b>366,183</b> | 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.

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

|                   | 30 June 2011  |               | 30 June 2010  |               |
|-------------------|---------------|---------------|---------------|---------------|
|                   | USD<br>\$'000 | GBP<br>\$'000 | USD<br>\$'000 | GBP<br>\$'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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 45 Financial risk management (continued)

### (a) Market risk (continued)

#### 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 June 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 \$135 million covering the period to 1 July 2011 and interest rate swaps with a notional principal of \$179 million 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 \$0.35 million lower/higher (2010 – change of 100 bps: \$0.22 million lower/higher), mainly as a result of higher/lower interest expense on borrowings. Equity would have been \$0.35 million lower/higher (2010 – \$0.22 million lower/higher).

### (b) Credit risk

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

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

The Group has taken out a debtor insurance policy. Specific debtors up to \$1 million 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.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 72. As at 30 June 2011, the Group's exposure to customers with a balance greater than \$1 million totalled \$26.5 million (2010:\$32.7 million). The Group does not consider that there is any significant concentration of credit risk.

### (c) Liquidity risk

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

#### Maturities of financial liabilities

The following tables 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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 45 Financial risk management (continued)

### (c) Liquidity risk (continued)

| Contractual maturities of financial liabilities | Less than 6 months | 6 – 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying Amount (assets)/ liabilities |
|-------------------------------------------------|--------------------|---------------|-----------------------|-----------------------|--------------|------------------------------|---------------------------------------|
| At 30 June 2011                                 | \$'000             | \$'000        | \$'000                | \$'000                | \$'000       | \$'000                       | \$'000                                |
| <b>Non-derivatives</b>                          |                    |               |                       |                       |              |                              |                                       |
| Non-interest bearing                            | 86,043             | –             | –                     | –                     | –            | 86,043                       | 86,043                                |
| Variable rate                                   | 2,621              | 2,621         | 114,128               | 163,914               | –            | 283,284                      | 279,614                               |
| <b>Total non-derivatives</b>                    | <b>88,664</b>      | <b>2,621</b>  | <b>114,128</b>        | <b>163,914</b>        | <b>–</b>     | <b>369,327</b>               | <b>365,657</b>                        |
| <b>Derivatives</b>                              |                    |               |                       |                       |              |                              |                                       |
| Net settled (interest rate swaps)               | 224                | 608           | 175                   | 1                     | –            | 1,008                        | 1,201                                 |
| <b>At 30 June 2010</b>                          |                    |               |                       |                       |              |                              |                                       |
| <b>Non-derivatives</b>                          |                    |               |                       |                       |              |                              |                                       |
| Non-interest bearing                            | 95,063             | –             | –                     | –                     | –            | 95,063                       | 95,063                                |
| Variable rate                                   | 306                | 306           | 117,520               | 76,558                | –            | 194,690                      | 194,253                               |
| <b>Total non-derivatives</b>                    | <b>95,369</b>      | <b>306</b>    | <b>117,520</b>        | <b>76,558</b>         | <b>–</b>     | <b>289,753</b>               | <b>289,316</b>                        |
| <b>Derivatives</b>                              |                    |               |                       |                       |              |                              |                                       |
| 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.

### (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:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- 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
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 45 Financial risk management (continued)

### (e) Fair value measurements (continued)

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<br>\$'000         | Level 2<br>\$'000         | Level 3<br>\$'000         | Total<br>\$'000         |
|------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| <b>Assets</b>                |                           |                           |                           |                         |
| <b>Liabilities</b>           |                           |                           |                           |                         |
| Derivatives used for hedging | –                         | 1,201                     | –                         | 1,201                   |
| <b>Total liabilities</b>     | –                         | 1,201                     | –                         | 1,201                   |
| <b>At 30 June 2010</b>       | <b>Level 1<br/>\$'000</b> | <b>Level 2<br/>\$'000</b> | <b>Level 3<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
| <b>Assets</b>                |                           |                           |                           |                         |
| <b>Liabilities</b>           |                           |                           |                           |                         |
| Derivatives used for hedging | –                         | 1,815                     | –                         | 1,815                   |
| <b>Total liabilities</b>     | –                         | 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<br>\$'000 | 2010<br>\$'000 |
| <b>Statement of financial position</b> |                |                |
| Current assets                         | 16,685         | 56,628         |
| Non-current assets                     | 524,363        | 420,162        |
| <b>Total assets</b>                    | <b>541,048</b> | <b>476,790</b> |
| Current liabilities                    | 43,162         | 52,143         |
| Non-current liabilities                | 266,428        | 188,861        |
| <b>Total liabilities</b>               | <b>309,590</b> | <b>241,004</b> |
| Shareholders' equity                   |                |                |
| Contributed equity                     | 210,882        | 208,731        |
| Reserves                               | (4,247)        | (1,313)        |
| Retained earnings                      | 24,823         | 28,368         |
|                                        | <b>231,458</b> | <b>235,786</b> |
| <b>Profit or loss for the year</b>     | <b>50,662</b>  | <b>36,068</b>  |
| <b>Total comprehensive income</b>      | <b>50,662</b>  | <b>36,068</b>  |

### (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.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

## 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.

# DIRECTORS' DECLARATION

30 JUNE 2011

In the directors' opinion:

- (a) the financial statements and notes set out on pages 20 to 76 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) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended Closed Group identified in note 39 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

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

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

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



Ernst & Young Centre  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001  
Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
www.ey.com/au

## 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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



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680 George Street  
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## 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 &amp; Young'.

Ernst & Young

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

Rob Lewis  
Partner  
Sydney  
16 August 2011

# SHAREHOLDER INFORMATION

AS AT 5 SEPTEMBER 2011

## SHARES AND OPTIONS

|                  |             |
|------------------|-------------|
| Shares on issue  | 159,799,674 |
| Options on issue | 68,125      |

## DISTRIBUTION OF SHAREHOLDINGS AS AT 5 SEPTEMBER 2011

| Range             | Total holders | Units              | % issued capital |
|-------------------|---------------|--------------------|------------------|
| 1 to 1,000        | 972           | 408,574            | 0.26             |
| 1,001 to 5,000    | 1,459         | 3,735,484          | 2.34             |
| 5,001 to 10,000   | 370           | 2,763,728          | 1.73             |
| 10,001 to 100,000 | 264           | 6,204,228          | 3.88             |
| 100,001 and over  | 36            | 146,687,660        | 91.79            |
| <b>Total</b>      | <b>3,101</b>  | <b>159,799,674</b> | <b>100.00</b>    |

There were 345 holders of less than a marketable parcel of shares.

## TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AS AT 5 SEPTEMBER 2011

| Name                                                                    | Units      | % issued capital |
|-------------------------------------------------------------------------|------------|------------------|
| Teamnews Pty Limited                                                    | 34,917,120 | 21.85%           |
| Teamdate Pty Limited                                                    | 29,756,874 | 18.62%           |
| HSBC Custody Nominees (Australia) Limited                               | 15,131,127 | 9.47%            |
| JP Morgan Nominees Australia Limited                                    | 14,445,743 | 9.04%            |
| National Nominees Limited                                               | 10,661,191 | 6.67%            |
| Citicorp Nominees Pty Limited                                           | 9,230,882  | 5.78%            |
| RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/C> | 7,397,843  | 4.63%            |
| Mr Philip John Salter                                                   | 5,099,113  | 3.19%            |
| Citicorp Nominees Pty Limited <COLONIAL FIRST STATE INV A/C>            | 2,519,504  | 1.58%            |
| RBC Dexia Investor Services Australia Nominees Pty Limited              | 2,399,732  | 1.50%            |
| Pacific Custodians Pty Limited <DEFERRED ESP TST A/C>                   | 1,655,277  | 1.04%            |
| Argo Investments Limited                                                | 1,448,827  | 0.91%            |
| Cogent Nominees Pty Limited                                             | 1,327,272  | 0.83%            |
| JP Morgan Nominees Australia Limited <CASH INCOME A/C>                  | 1,284,102  | 0.80%            |
| BT Portfolio Services Limited <SALTER FAMILY S/FUND A/C>                | 1,068,643  | 0.67%            |
| BKI Investment Company Limited                                          | 970,100    | 0.61%            |
| Bond Street Custodians Limited <CELESTE CONCENTRATED FUND>              | 960,426    | 0.60%            |
| M F Custodians Ltd                                                      | 959,000    | 0.60%            |
| Sandhurst Trustees Ltd <SISF A/C>                                       | 730,953    | 0.46%            |
| Pacific Custodians Pty Limited <EXEMPT ESP TST A/C>                     | 593,663    | 0.37%            |

## SUBSTANTIAL SHAREHOLDERS AS AT 5 SEPTEMBER 2011

| Name                                      | Units      | % issued capital |
|-------------------------------------------|------------|------------------|
| Teamnews Pty Limited                      | 34,917,120 | 21.85%           |
| Teamdate Pty Limited                      | 29,756,874 | 18.62%           |
| HSBC Custody Nominees (Australia) Limited | 15,131,127 | 9.47%            |
| JP Morgan Nominees Australia Limited      | 14,445,743 | 9.04%            |
| National Nominees Limited                 | 10,661,191 | 6.67%            |
| Citicorp Nominees Pty Limited             | 9,230,882  | 5.78%            |

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**SALMAT LIMITED**

ABN 11 002 724 638

**REGISTERED OFFICE**

Innovation Place  
Level 17, 100 Arthur Street  
NORTH SYDNEY NSW 2060  
Phone: (02) 9928 6500  
Fax: (02) 9928 6652  
Web: [www.salmat.com.au](http://www.salmat.com.au)

**DIRECTORS**

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

**COMPANY SECRETARY**

Stephen Bardwell

**AUDITORS**

Ernst & Young  
680 George Street  
SYDNEY NSW 2000

**BANKERS**

Australia and New Zealand Banking  
Group Limited  
National Australia Bank  
Westpac Banking Corporation

**SHARE REGISTRY**

Link Market Services Ltd  
Locked Bag A14  
SYDNEY SOUTH NSW 1235  
Phone: 1300 554 474  
(02) 8280 7111  
International: +61 2 8280 7111  
Fax: (02) 9287 0303  
Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

**STOCK EXCHANGE LISTING**

Salmat Limited shares are listed on the  
Australian Securities Exchange.  
ASX code: SLM

**ANNUAL GENERAL MEETING**

10.00am, Wednesday 16th November 2011  
AGL Theatre, Museum of Sydney  
Corner Bridge and Phillip Streets  
SYDNEY NSW 2000

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

**KEY DATES****Final dividend payment**

28 September 2011

**Annual General Meeting**

16 November 2011

**Half year results**

February 2012

**Interim dividend**

April 2012

**Full year results and dividend  
announcement**

August 2012

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