

Salmat 2011 Annual General Meeting

AGL Theatre – Museum of Sydney

Corner Bridge and Phillip Streets

SYDNEY NSW 2000

10.00am Wednesday 16th November 2011

Presentation by Chairman, Richard Lee

Good morning, ladies and gentlemen.

My name is Richard Lee. I am the Chairman of Salmat Limited and the chairman for today's Annual General Meeting. I am very pleased to welcome you on behalf of the directors and management. We greatly appreciate your interest and attendance.

I have been advised by the company secretary that a quorum is present and as such I declare the 2011 Annual General Meeting open.

I would like to introduce to you my fellow directors:

- Grant Harrod, Managing Director and CEO;
- Philip Salter and Peter Mattick, our founder shareholders and both non-executive directors;
- Fiona Balfour, a non-executive, independent director and chairman of the Technology and Innovation Committee.
- Ian Elliot, a non-executive, independent director and chairman of the Remuneration and Compensation Committee.
- John Thorn, a non-executive, independent director and chairman of the Audit, Risk and Compliance Committee.

I would also like to introduce Stephen Bardwell, our Company Secretary, and Chad Barton, our Chief Financial Officer.

Also in attendance today is Craig Jackson, representing our auditor, Ernst & Young.

The past year was a year of future-building for Salmat, underpinning our leading position in traditional markets and strengthening our digital business capabilities.

It was a tough year for many businesses, marked by softer trading conditions and continued economic uncertainty. Salmat was not immune from this with many of our customers, particularly those in retailing, facing significant market challenges as confidence ebbed across the economy. I am satisfied that your company posted resilient underlying results and laid strong foundations for future success in this difficult environment.

Sales revenue was \$863.0 million, down 1.8% on the prior year. Group revenue was supported by revenue growth in Targeted Media Solutions but negatively impacted by lower revenue in our Business Process Outsourcing and Customer Contact Solutions divisions.

We achieved our underlying EBITA guidance of \$87-92 million with a result of \$88.6 million. This was down 2.8% on the prior year. We also maintained a stable underlying EBITA margin of 10.3%, down just marginally from 10.4% in 2010.

Underlying net profit after tax was down 10.6% on the prior year, at \$42.4 million.

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

These significant item expenses brought statutory net profit after tax to \$36.0 million.

Cash capital expenditure was higher than the previous year at \$23.8 million, in line with the transformation and investments that took place during the year.

Net debt was also higher at \$258.3 million by year end, mainly due to funding of the digital businesses acquired in December 2010.

Total unused facilities of \$77.9 million were available at year end. While gearing and interest coverage ratios increased in line with our higher borrowings, these were still comfortably within our required covenant ratios.

Operating cash flow pre interest and tax was \$99.2 million for the year. Underlying EBITA conversion to cash flow remained strong at 91%, down from 99% in 2010.

In support of the company's solid position and future outlook, your directors were pleased to declare a final dividend of 12.5 cents per share, which was paid on 28th September 2011.

This brought the total dividend for the year to 24.0 cents per share fully franked, representing an increase of 2.1% on the previous year's regular dividend. The franking account balance at year end was \$67 million.

Salmat is currently at the midpoint of a three-year growth initiative. The past year was reflective of this future growth focus, with investment in both existing and new businesses and a number of major initiatives across all areas of the business. I'll touch on just a few of the most significant activities here.

The acquisition of a number of digital businesses in December 2010 was an important and strategic highlight for the year.

Salmat has always remained at the head of the curve in terms of innovation and new communication technology. As we are seeing in our daily lives, communication is increasingly shifting to internet and especially mobile devices. Digital is a logical extension of Salmat's multi-channel communication model, building on both our current services and existing extensive client base to present a whole new area of growth opportunity. Grant will talk a bit more about these opportunities in his presentation.

The businesses acquired in this deal brought some exciting new and complementary digital communication capabilities to the Salmat service suite, including web development, search engine optimisation and e-commerce. We have now invested more than \$100 million into Salmat's digital capabilities, employing more than 250 digital experts. We have established a digital communication 'centre of excellence' and appointed a specialist CEO to drive Salmat Digital to the next level. We are excited about the future of digital and are confident that our investment in this area will deliver Salmat a considerable share of its significant growth potential.

One of our first investments in the digital space was Lasoo – our consumer-facing pre-shop website – and I'm pleased to report that its performance was once again a highlight for the year. Consumer visits to the site grew 43% to more than 20 million, driven both by a growing interest in online pre-shopping and a 48% increase in the number of offers on site to more than six billion.

We ramped up our marketing investment in Lasoo during the year with a \$4 million injection and will continue investing in the site during FY12. Even with this increased spend, we remain on track to achieve our forecast run rate break even by the end of this financial year.

Another major activity during the year was the significant transformation program undertaken within our Business Process Outsourcing or BPO division. BPO is an area where we are established market leaders. During FY11, we consolidated a number of sites, including the integration of two major production facilities into a new site in Victoria. We also installed new colour print technology and relocated a range of back office functions to our Manila facility. While the Victorian site consolidation took a little longer than expected to start delivering returns, we are now seeing improved margins on the back of all these initiatives.

Finally, our Customer Contact Solutions or CCS division also underwent an important change process, as the division moves from basic 'labour for hire' type contracts to a more integrated model providing complete outsourced management of our clients' customer engagement operations. This process was accelerated somewhat with the closure of the major Telstra contract, which saw around 800 roles previously carried out by Salmat in Australia move offshore. The contract closure process was completed by 30 June, making way for new full-service contract work. Key production metrics and new business wins were also improving by year end.

In a moment, Grant will provide some more insight to the next stage of our strategy and detail some of the specific growth activities we have underway.

Before he does, I'd like to return briefly to the matter of dividends.

Salmat has a history of being a higher-yield stock, having consistently increased our regular total dividend each year since listing as well as paying two special dividends of ten cents per share.

In fact, over the nine years since Salmat was initially offered to the public at \$1.90 per share, we've returned a total of \$1.76 per share, fully franked, almost completely paying out the initial

subscription to our public shareholders in under ten years. Not many other companies could lay claim to such an achievement.

This constant dividend performance was maintained through periods of significant acquisitions and business integration, intense competition in tier markets, difficult economic conditions including the global financial crisis and occasional losses of key contracts.

As our track record clearly indicates, the board recognises the importance of dividends to our shareholders and regards the payment of solid dividends as a high priority.

Finally, I'd like to take this opportunity to thank Grant, his senior team and indeed the entire Salmat group on behalf of the board, for a dedicated and sustained effort during the past year. It's been a challenging year for many businesses and it is thanks to the efforts of our people that Salmat has posted a solid result in the current economic climate.

I am now very pleased to invite our Managing Director, Grant Harrod, to outline Salmat's strategic growth initiatives; provide some more detail on Salmat's progress over the past year; and provide an update for the 2012 financial year.

Thank you.

Presentation by Managing Director, Grant Harrod

Thank you, Rick and good morning, ladies and gentlemen.

As Rick has outlined, the past year was a busy one for Salmat, with a number of major growth initiatives taking place.

Salmat has reached a key stage in its development where we need to respond to the market demand for multi-channel communication services and evolve the business in order to deliver these and reach the next stage of our growth. All parts of the business are complementing the existing offerings with more technology-based services, where platform solutions and consulting 'smarts' add significant value to straight commodity sales. It's a natural evolution and one we are well underway in building.

At the beginning of 2010, I outlined a three-year strategy for growth, comprising four key components. We remained focussed on this strategy throughout FY11 and it remains our guiding directive for FY12.

The four components of our growth strategy are the establishment of digital services, new markets, One Salmat and continued productivity and efficiency improvements across the group. I am pleased to report we are continuing to make strong progress in each of these areas.

Within **digital services**, we are looking at a shift from activities built around labour-centric services to becoming a more technology-focused business. The move to more technology and platform-based services greatly enhances Salmat's growth prospects, by permitting more scalable service models and higher returns in many cases, and supports our clients' growing demand for more digital-based communication management services. With this focus we have already seen digital-based revenues double in the past two and a half years and we expect digital services to represent more than 20% of group revenues in the current period.

While our traditional communication channels remain highly relevant, demand for complementary services in the digital space continues to grow as this market grows. It's a logical extension of our offering and presents a major opportunity to leverage Salmat's trusted reputation as the leading communication services provider, by cross-selling these new digital services to our enviable list of blue-chip clients.

The past year saw some key strategic steps taken in digital, with the ramping up of existing services such as Lasoo; the acquisition of the new digital businesses; an investment in the new Roamz app to provide mobile location-based services; the formal establishment of Salmat Digital within the TMS division in September; continued growth and development of our e-solutions capability in BPO; and the appointment of Nick Spooner as our new Digital CEO. I'll be asking Nick to give a brief overview of our new integrated digital business shortly.

The acquisition of several new digital businesses was Salmat's largest single investment for the year, with a \$75 million deal to secure key expertise and established capabilities in social media, email and SMS, web development, search engine optimisation and many more related digital services. The integration of the existing and acquired businesses into a single, cohesive group was completed very successfully. Numerous cross-selling opportunities were evident right from the start, and we expect a number of these to come to fruition, as we'll hear later in today's presentation.

We have also identified some other technology-based areas where we can help our clients grow their sales. Our experience with Lasoo and the online retail space raised our awareness that there was a real gap in the local market for a robust, uncomplicated and affordable e-commerce solution for retailers. Many more Lasoo users are clicking on the 'Buy Now' button, but still not all the retailer sites permit users to purchase online. Accordingly, we have developed a new hosted e-commerce platform, tailored for Australian retail businesses. We have already secured contracts to host the online sites for some well-known retailers and have a strong pipeline of additional opportunities. While Lasoo is the premier online media channel to generate buyer interest for retailers, Salmat's e-commerce solution facilitates the online transaction on their behalf.

Within the BPO division, we have also been developing new digital-based services in the e-solutions area. E-solutions sees the 'digitalisation' of traditional paper-based manual process activities such as forms processing, accounts payable, exam marking, hospital admissions, insurance claims management and many more. This area is anticipated to experience strong growth over the next few years, as demand for digital solutions in these services continues to grow, given the opportunity to enhance consumer engagement, increase business efficiency and reduce our clients' operating costs.

In **new markets**, we announced our entry into the small to medium enterprise (SME) market and I am pleased to confirm we have been growing our share of this market in catalogue distribution, with the launch of our one-stop targeted marketing service for SME businesses. While initially focussing on catalogue distribution, we will expand the range of services offered over time.

As part of our SME strategy, we launched a new online self-service portal during the year, providing fully-featured customer targeting and marketing distribution solutions at an affordable price to a whole new market. It's also a cost-effective means for Salmat to engage and offer services to a larger number of smaller clients. It's been a popular service, with sales growing at a steady rate and expected to increase further following a portal expansion in FY12. Following this expansion, we'll also be looking to extend the range of services, adding additional digital and print channels to the current offering.

There is great potential for Salmat in this segment, as we currently hold a very small share of the market. Over the longer term, we anticipate that revenue from SME clients will account for 30%+ of TMS revenue, growing from around 6% today.

Our **One Salmat** strategy aims to unite both the Salmat business and service offering in order to provide clients with a seamless multi-channel solution. This has been a major undertaking for such a large and diverse business, but we've made great progress, particularly in the key area of sales. Our sales team is now coordinated at a national level, with industry-specific sales directors identifying multi-channel opportunities in key verticals and working closely with our business sales teams. We are ramping up our strategic selling and consulting skills to provide greater value to our clients and achieve cross-selling benefits for the business.

Already we have seen an increase in the percentage of top clients utilising services from more than one division and we also have further such opportunities in discussion.

An example of One Salmat at work is that of a major retailer who initially engaged Salmat to simply provide catalogue distribution. Salmat earned its stripes and consequently was asked to assist when new multi-channel communication was undertaken by the client.

Salmat assisted the client in managing customer communications via mail and email associated with a loyalty program and provided sales promotions management services. This grew into additional services including – but by no means limited to - fulfilment, scanning, data services, online promotions, call centres, in-store kiosks, reporting portals and extended also into services for the retailer's related businesses. It's a true multi-channel or One Salmat relationship to reduce costs of doing business and drive improvements in customer experience for this retailer.

In terms of sales, we'd estimate that the extension of services over the past two years alone has resulted in a 47% increase in revenue from that client's group of companies.

Productivity and efficiency gains are an important goal for any business, but especially so for a company as large as Salmat, with immense and geographically diverse operations as well as a large number of acquisitions over the years. Salmat has a dedicated Optimise team that continually examines all aspects of the business to identify better ways of running our operations, utilising our resources, implementing work, sourcing products and services and complementing our service suite. Outside of one-off restructuring costs, investments and acquisitions, we have successfully kept underlying operating expenses flat year on year in an otherwise rising cost environment.

Some of the specific productivity improvement programs undertaken in FY11 included the major site integrations and colour print technology upgrade in our Business Process Outsourcing division.

Site integrations continued in South Australia and took place in Queensland and Victoria during the year, which led to some short-term production inefficiencies in some cases, but solid benefits going forward. Around \$1.8 million in annualised savings are anticipated from the Victorian relocation alone. The new colour print technology installed during the year should deliver annualised savings of around \$2.8 million from FY12 onwards.

Our clients generally are now recognising the strength of a multi-channel approach to customer communication and seeking our advice on how to utilise these services to acquire, retain and grow their markets. It's not just Salmat pushing the benefits of multichannel: industry research and real examples are proving that our clients simply cannot afford not to speak with their customers across multiple touchpoints or fail to offer the communication channels their customers prefer. The market situation of today and tomorrow is what's driving Salmat's wider strategy and our confidence in where we are headed.

As part of Salmat's growth strategy, we've also been evolving the cultural and community life of the business. We believe these are critical elements to building a team culture required to fulfil our growth expectations. Examples of this include:

Salmat's Women in Leadership Committee was established in 2009, to help improve career path prospects for women, especially in senior management. We are already seeing positive benefits of being a more diverse organisation, especially in encouraging all our staff to be the best they want to be.

A major initiative launched by the committee this year was the Aspire awards program, which seeks to identify and develop future business leaders in three categories: two categories open to both genders plus a female-specific category.

Salmat introduced a paid parental leave program to help both mothers and fathers to manage this important time within their longer-term career. We've also established measures to encourage staff to return and continue their careers at Salmat. Our aim is to promote Salmat as a family-friendly company and attract talent seeking such a relationship with their employer.

During the year, Salmat developed a Reconciliation Action Plan, aimed at bridging the gap between indigenous and non-indigenous Australians. Officially launched in August, this plan

outlines a number of steps Salmat is taking to improve our engagement with indigenous communities, including sponsorship arrangements, building business relationships, establishing indigenous employment and work experience programs and developing cultural protocols. In order to keep track of the behaviours, beliefs and norms within our business and formulate our ongoing culture strategy, Salmat conducts a culture survey every two years. The most recent of these took place in March this year. The results are showing ongoing improvement in our culture and engagement of all our people with the many programs we now have underway.

Workplace health and safety is an important goal for Salmat and happily we continue to see reductions in work place injuries and lost time injuries. In 2011, the percentage of incidents resulting in time lost from work reduced by 420 basis points on the prior year and our Lost Time Injury Frequency Rate (LTIFR) was reduced for the fourth consecutive year, recording an 8% reduction against the previous year.

Now to an outlook of performance expectations for the current year.

Salmat is fortunate that our business is fairly resilient throughout periods of economic volatility, though we are of course not completely immune.

The first quarter of FY12 has seen continued softer trading conditions, particularly in the retail segment, which has slowed the momentum of some of our businesses.

This year, the Targeted Media Solutions division will be focussed on maintaining our market share in catalogue distribution as well as growing the volumes in non-traditional markets such as SMEs and other new client segments. The catalogue market as a whole remains a very solid and reliable media channel, with major retailers generally maintaining or increasing volumes to drive sales. We expect to see higher revenue from SME and non-traditional markets as we evolve these strategies, which will both help offset volume declines in tier two and discretionary retailers and add volume over the longer period.

Our Business Process Outsourcing and Customer Contact Solutions divisions are just coming out of investment and restructuring phases, involving changes to sales teams, operational adjustments and both physical and business model integrations.

Some business wins late in FY11 are expected to contribute to BPO volumes this year and an ongoing efficiency drive in the print and mail business, as well as technology improvements will continue to defend margins in this business.

While the longer-term shift to electronic mail remains at around 2-3% per annum, print and mail communication remains a highly relevant channel and is still the most important medium for many types of communication. We will seek to offset this decline and grow our BPO division with the growth of our e-solutions business.

The current year will be an exciting one for CCS, with a number of important initiatives underway to enhance the service offering and boost multi-service sales. With the majority of our commodity contract work now transforming to premium services, we have a real opportunity to cement this division's position and returns as the premium Australian outsourced provider in customer relationship management. Following the transition of a large labour-based contract in FY11, we anticipate replacing these earnings by FY13.

Our new integrated digital business within TMS will seek to capitalise on their unique position offering the most comprehensive range of digital communication services targeting Salmat's extensive network of clients via our One Salmat sales focus.

Given the continued volatility of the macro environment we are inclined to take a more conservative view and anticipate the benefits from our growth strategy will push into the following fiscal period as we deal with softer trading conditions.

As a result, we anticipate FY12 EBITA in the range of \$83 million to \$88 million.

The first quarter has generally been soft, however we are expecting an improvement in conditions for the second quarter, especially with the upcoming Christmas trading period. We are anticipating the second half will post a stronger performance than the current half.

We have now future-proofed our business in relation to the evolution of our digital investments across the group, our focus will be to continue the roll-out of our strategy and to retain the excellent cash-generative features of our company.

I would like to thank the board, management team, our staff, clients and our shareholders for their continued support throughout the year.

I'd now like to introduce Nick Spooner, a member of our senior leadership team and CEO of Salmat Digital, who'll make a brief presentation about the Salmat Digital business and where it is headed.

We announced Nick's appointment in June 2011 and he started with us at the end of August, so he has a few months now under his belt. Nick came to Salmat with a strong background in digital media at organisations including Network Ten, ninemsn and Singtel Optus. We are confident that Nick is a valuable addition to the Salmat team and to our new Salmat Digital business, so I'll hand over now to Nick and let him tell you a bit more about this exciting new part of the business.

Presentation by Salmat Digital CEO, Nick Spooner

Good morning and thank for this opportunity to talk to you about Salmat Digital.

I came to Salmat because I am passionate about the digital world and I am genuinely excited about how Salmat has positioned itself to take advantage of the digital revolution. One of the key attractions for me in joining the business was the increasingly significant role digital will play as part of Salmat's multi-channel offering over the next few years. As Grant has indicated in his presentation, digital revenue is on the rise and will be a key source of growth for the business.

We are truly in the eye of the digital storm:

- 17 million Australians are online;
- We are spending an astonishing 22 hours online per week;
- Our mobile penetration rate is 125%; and
- We are the biggest consumer of social media in the world.

This all becomes more poignant for businesses around the nation when you realise that:

- 50% of all retail decisions are made online.
- 78% trust peer recommendations while only 14% trust advertisements.
- And the prize is over \$30 billion expected in online sales by end of 2011.

Yes, the landscape is shifting dramatically and we believe that the future is multi-channel communication, where the new communication channels complement the traditional channels.

Interestingly, multi-channel customers shop more frequently, spend three times more and are more loyal, according to the Australian Centre for Retail Studies at Monash University.

If businesses are not in the multi-channel game, they are missing out on this opportunity.

This is where I get particularly excited about Salmat and the strategic investment we have made in the future of marketing and communications.

More than any other company in Australia, I believe that Salmat is best positioned to deliver a truly integrated multi-channel approach that comprehensively covers established marketing solutions as well as leading the way in digital communications.

Salmat Digital is now Australia's leading digital marketing and communications business. We have pulled together over 250 digital experts and created a digital centre of excellence that has no comparison in Australia.

By any measure, the breadth of capabilities that Salmat Digital offers is impressive:

- We seamlessly blend visual communication with technology to design and engineer digital platforms and websites that represent our client's brand, deliver optimal user experiences and drive your business intents.
- A great example of this is the very successful Telstra NRL, AFL, BigPond and V8 Supercars websites that we developed and now host that attract millions of Aussie sports fans every month.
- You may know that Salmat Digital developed the touch screen technology that drives Telstra's T-Life stores across the country. We can update information on a mobile phone or pricing plan to 250 Telstra stores, in an instant revolutionising how these stores operate.
- We have developed fantastic integrated social media campaigns for MTV, the Wallabies during the world cup and ESPN to name but a few.
- We send hundreds of millions of emails for some of the biggest brands in Australia.
- We help our clients engage with consumers while on the move with innovative mobile apps and SMS campaigns.
- Lasoo.com.au plays to the growing consumer demand for online research and shopping. This site gets nearly 1.6 million visits per month and is growing in popularity as the destination for shoppers looking for what to buy and where.
- Roamz is a totally new, location-based, intelligent app that merges local, social, and mobile technologies to provide you with local knowledge, wherever you are in the world. Roamz

recently held a global launch in the US and in less than a week attracted over 10,000 followers.

These are just some of the things we do at Salmat Digital and it demonstrates how well we are positioned to take full advantage of the digital storm.

Revenue is generated via a combination of hosting and development fees to transaction fees based on volume and a percentage of sales generated on behalf of our clients.

There is no doubt that the future is digital and the future is multi-channel.

Salmat has a reputation for picking winners at the right time – think of catalogues, BPO and call centres - and identified digital early as the next big thing in marketing and communications.

The investment in people and technology that followed has uniquely positioned Salmat to take full advantage of the opportunities that this high growth market offers and I am pleased that we are seeing results.

Presentation by Remuneration and Compensation Committee Chairman, Ian Elliot

Good morning, ladies and gentlemen.

I am pleased to propose adoption of Salmat's remuneration report for the year to 30 June 2011 which is part of the directors' report and can be found on pages 8 to 18 of the full financial report. As you are probably aware, the vote on this motion is advisory and does not bind the company, but I can assure you that we will take any input and comments seriously when reviewing our remuneration policies and practices.

We note the introduction of the 25% no vote provisions of the Corporations Act, which are referred to in the Notice of Meeting. We also note the high percentage of shareholders who have voted - we appreciate the interest Salmat shareholders take in their company.

One consequence of the new corporations law is that we are only able to count a little over 50% of shareholders votes, as a high proportion of Salmat shares are held by the directors and key management personnel who are not able to vote on the remuneration report.

In this environment, there is currently heightened scrutiny around executive remuneration and company performance generally. The committee, and subsequently the board as a whole will monitor and review executive remuneration to ensure that it is reflective of market practice and aligned to the interests of shareholders.

Now to our remuneration governance systems:

The role of the remuneration and compensation committee, which consists of the four independent non-executive directors, is to:

- 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 the chief executive officer's recommendations for remuneration arrangements including short and long term incentives for the other senior executives of the company;
- Set and review the performance targets for the chief executive officer;
- Review and approve the recommended performance targets for other senior executives;
- Review succession planning for the chief executive officer and other senior executives; and
- Oversee the company's compliance with relevant workplace health and safety legislation.
- Monitor and ensure the effectiveness of Salmat's Diversity Policy. Ensure compliance with ASX Corporate Governance guidelines and other relevant regulations.

Our present policies and practices are designed to align directors' and employees' interests with those of shareholders and are explained in the full financial report. In summary, our aims are to set remuneration packages that:

- reflect the scope of the role;
- are competitive, in order to attract and retain talent;
- are linked to the company's financial and operational performance and reflect its long-term business objectives; and
- reflect individual performance.

The committee obtains independent external advice on best practice and appropriate market benchmarks for remuneration levels, the split between fixed and variable components, as well as

incentives, both short-term and long-term, for the chief executive officer and other senior executives.

It should be noted that no equity incentives are guaranteed as part of these packages. Any equity-based incentives issued to the CEO will be subsequent to, and on the conditions contained in resolutions approved by shareholders, will be dependent on service and performance-based hurdles. The issue of deferred shares as an LTI to the chief executive during the year was approved at the 2010 Annual General Meeting. The CEO did not become entitled to sell or dispose of any shares issued under the LTI scheme during the 2010/11 financial year.

Equity-based incentives issued to senior executives are aligned with the CEO's service and performance hurdles.

I draw your attention to Part D of the remuneration report: Share-based compensation. In this area of the report, we disclose the quantum, the entitlement, expiry date and performance conditions of deferred shares and options currently on issue.

Salmat has not used the Salmat Employee Option Plan for the purposes of long-term incentives since 1 July 2008. 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.

Accordingly, there were no options granted during the past year.

In the option plan, there was a balance of 822,500 options at the start of the year. Of these, 40,000 were forfeited during the year; 150,000 were exercised at a weighted average exercise price of 97 cents; 535,000 expired during the year; and 97,500 remained vested and exercisable at a weighted average exercise price of \$2.35.

Salmat granted 592,403 new shares to the Deferred Employee Share Plan for the long term incentive grant at a notional cost of \$2,385,000 based on the five day volume weighted average share price of \$4.026 up to 24 November 2010. These shares will vest to senior management upon satisfying the service and employment conditions. Should the hurdles not be met, the shares are forfeited.

Of these shares, a total of 273,224 shares were granted to the chief executive officer and a further 216,836 of these shares were granted to other key management personnel.

The issue and conditions were disclosed in detail in the Remuneration Report. I will now summarise the conditions of the grant.

These shares were granted to senior employees in December 2010:

- For 50% of the shares, the performance hurdle is a cumulative EPS for Salmat shares of \$1.115 for the three years ending 30 June 2013. If this EPS is not achieved there is a sliding scale of vesting which is set out in the report. This scale reduces to a nil entitlement for these shares if the EPS achieved is less than 75% of the EPS hurdle.
- For 50% of the shares, the performance condition is based on Salmat achieving a TSR in excess of the S&P/ ASX small industrials accumulation index for the three fiscal years ending 30 June 2013.

As at 30th June, 239,564 shares met the relevant service and performance hurdles and thus became available to senior executives. These shares were held in the deferred share plan as a long term incentive being issued to senior executives in 2008. The CEO was not a beneficiary of this grant.

Non-executive directors' fees are reviewed externally each year. Subsequent to this review, the Board increased the chairman's fee to \$250,000 and the five non-executive director's fees to \$130,000 during the year. These amounts are inclusive of all benefits including superannuation. Full details of the remuneration packages are provided in the remuneration report.