SALMAT LIMITED

HALF-YEAR FINANCIAL REPORT
For the six months ended 31 December 2014

Contents

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

HALF-YEAR REPORT
31 December 2014

Results for announcement to the market

	Half year ended 31-Dec-14 $m	Half year ended 31-Dec-13 $m	% Change Increase / (decrease)
Revenue	253.5	232.1	9.2%
Net (loss)/ profit for the period attributable to members	(70.7)*	7.0	(1110.0%)
Net (loss)/profit	(69.7)	7.0	(1095.7%)
Fully Franked Dividends			
Fully franked interim dividend	-	7.5 c	(100%)

* Net loss for the period attributable to members includes a non-cash impairment of $64.6m relating to goodwill within the CES division (refer note 7)

Explanation of results

- Refer to the attached ASX announcement for commentary on the results.
- The information contained in this report is to be read in conjunction with the 2014 Annual Report and any announcements to the market by Salmat Limited during the period.

The Directors present their report on the consolidated entity consisting of Salmat Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

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

Peter Mattick
Fiona Balfour
Ian Elliot
Philip Salter
John Thorn
Mark Webster

REVIEW OF OPERATIONS

Salmat's operations

Principal activities
Salmat's core business strategy is to be the leading customer engagement and marketing services provider in the Australasian marketplace. Key to this strategy is our deep understanding of the future needs and behaviours of consumers and our unique ability to seamlessly integrate existing and evolving technologies. This enables our clients to cost effectively reach and influence their customers and maximise their sales and return on investment.

Salmat deploys these key competences across two business pillars which are both market leaders:

(a) The Consumer Marketing Solutions (CMS) division consists of the Salmat Digital and Universal Catalogue businesses. CMS delivers relevant, targeted and integrated communications across all digital and traditional channels. Salmat's solutions enable clients to interact and engage with their customers through interactive email, online content management, search optimisation, data insights and analytics, loyalty management, e-commerce, SMS, letterbox advertising and catalogue distribution, as well an omnichannel marketing solution and Australia's premier online pre-shopping site, Lasoo.com.

(b) Customer Engagement Solutions (CES) helps Australia and New Zealand's most trusted brands generate revenue, reduce cost and improve their customer experience. Salmat designs and delivers multi-channel contact centre services and technology solutions, field sales services and learning and development solutions. Salmat CES specialises in maximising customer lifetime value using inbound and outbound voice, email, web chat, social media, mobile, SMS and field sales. Salmat provides sophisticated speech technology and automation solutions including natural language speech recognition, voice biometrics and Reach, enterprise class contact centre technology solutions hosted in the cloud.

Key developments

2015 half year operating results summary

Revenue of $253.5 million (pcp $232.1m) was up 9.2% on the prior corresponding year (pcp). Revenue held well across the group and was boosted by the acquisitions made during FY14.

EBITDA of $5.1 million was down from $14.4 million in the prior corresponding period. This was largely the result of investment costs relating to the growth strategy, particularly in Customer Engagement Solutions (CES) and IT. Contract closures in Direct Sales and increased sales in some lower-margin services also contributed to the drop. Around $1.4 million was spent on restructuring and transformation projects during the half, focused on longer-term earnings growth.

An underlying loss before income tax of $2.6 million compares with a profit of $9.1 million for 1H14. Depreciation and amortisation was up 31.2% on the prior corresponding period due to the addition of the acquired companies and amortisation of customer-related intangibles and the Reach platform.

An impairment loss of $64.6 million was recognised during the half, relating to goodwill within the CES division. The impairment resulted from a number of items, including a review of the Direct Sales business, which resulted in a decision to reduce focus on residential door-to-door sales. The flow-on effect of delays in the Reach platform also had an impact. Forecasts have been revised based on the known timing of the Reach platform and current market conditions.

Net loss after tax of $69.7 million resulted from the impairment and a tax expense of $2.5 million. Tax was significantly higher this period due to profits generated from overseas entities and movements in timing related differences.

Financial position and cash flows
Net cash was $21.5 million at 31 December 2014, following the payment of $23.5 million in borrowings; $12.0 million in dividends and $12.4 million in prior year provisions.

The Board has elected not to pay an interim Dividend for this period.

Business risks, strategies and prospects

Business strategies and Prospects
Salmat's core business strategy is to be the leading multi-channel marketing and customer communications service provider in the Australasian marketplace. Consumers are able to access more information, from more sources, than ever before. Brands are no longer able to rely on a single medium to engage with consumers, who are demanding engagement on their terms, across multiple channels. By combining physical and digital assets, Salmat is uniquely positioned to enable its clients to engage with their customers across the whole lifecycle – targeting and finding customers, acquiring them, servicing them, retaining them, and growing them. In short, we help our clients get closer to their customers.

The divestment of the BPO division in 2013 has simplified the group strategy around this vision and has transformed the balance sheet of the group to allow investment in innovative, configurable platforms. Increasingly, Salmat is becoming a provider of technology-enabled services. We are building configurable platforms which allow us to bring together insights across that customer lifecycle and delivered differentiated services to our customer. Examples of this are:

- **The Salmat Universal Catalogue**. Seamless distribution of physical and digital catalogue content is delivered through Salmat's Universal Catalogue platform. By combining the traditional physical catalogue with our digital assets from Lasoo, we are uniquely positioned to enable our clients to distribute more engaging content anytime, anywhere, on any device to drive more sales. By overlaying the data capability we have in our physical distribution business, with the data insights we have in our online business, we can help our clients target the consumer more effectively.

- **Salmat Reach**. As a hosted solution, Salmat Reach is a leading edge contact centre technology platform that seamlessly integrates all customer communications channels within the one application. This solution is hosted by Salmat and combines the expertise of Salmat, Australia's largest and most experienced customer contact solutions provider, with the innovation of Avaya, one of the world's best contact centre infrastructure platforms and Kana, a global leader in customer service solutions. Salmat Reach makes enterprise class contact centre applications accessible and affordable for organisations of almost any size. This is also the same solution that Salmat uses to support our 60 different contact centres, giving you the power to use our technology without having to purchase it.

- **Swiftplan**. Salmat has designed the newest letterbox media planning tool to help media agencies tackle enduring challenge: how do you achieve the best targeting without pouring in masses of extra time and resources. SwiftPlan uses a sophisticated algorithm to statistically expand Census data, incorporate Roy Morgan's Helix Personas and then apply spend overlays based on the ABS' s Household Expenditure Survey. Planners can use a combination of over 50 targeting variables, including advanced targeting overlays like average household income and typical household spending on different product categories, as well as standard age and gender filters. This substantially boosts the efficiency of letterbox campaigns. Highly accurate heat maps allow planners to visualise the penetration of their selected target audiences, right down to areas as small as 200 households. It's another example of leveraging physical and digital assets to drive great outcomes for our clients.

The drive to be a technology platform centric business revolves around investing in systems to extract further value from all of our businesses, as well as capturing opportunities in the emerging high growth digital communication and commerce channels. We are implementing technology-based, rather than labour-based, solutions across the company that are highly scalable and improve the standard of service and efficiency to our customers.

The opportunity is to provide our customers with a service they require on a more effective basis with lower risk. We own significant intellectual property underpinning the services and we have a great ability to leverage this investment. The opportunity is for us to build further scale and volume and this journey is well underway.

Business Risks
Salmat is committed to embedding risk management practices in a manner that supports achieving its strategic objectives. Risk management is carried out in accordance with policies approved by the Board. Salmat has established a management-led Risk Management Committee that directs the implementation and operation of an appropriate risk management framework and culture. Salmat faces a variety of material risks including (but not limited to) strategic, operational, information technology, financial and regulatory risks.

The current economic trading environment, particularly in the retail sector, combined with the competitive trading environment, remain significant business risks. Salmat's sales volumes and therefore its profitability are directly related to the level of retail sales achieved by our retailer customers particularly in the CMS division. The company in its handling of customer data and door to door sales on behalf of our clients increases its exposure to regulatory risk, reputation and brand risk.

Following the divestment of BPO, the Group has simplified its strategy and continues investing heavily into highly scalable systems in the drive to become a technology centric business. The ability to execute against key strategic projects will be a key enabler of the accelerated growth strategy.

An integral part of the Salmat Group's growth strategy involves business combinations which entail a number of risks including the cost of effectively integrating acquisitions to realise synergies, significant write-offs or restructuring charges, and unanticipated costs and liabilities. The Group may also be liable for the past acts, omissions or liabilities it has acquired that are unforeseen or greater than anticipated.

EVENTS OCCURRING AFTER BALANCE DATE
On 23 February 2015 the Group agreed terms underlying its borrowing facilities. This included a decision to repay $20m of the current borrowings recorded at 31 December 2014, and agreeing terms in relation to a new 2 year facility consisting of a A$22m tranche and a US$10m tranche.

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 11.

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

Signed this 24th day of February 2015 in accordance with a resolution of the Board of Directors.

Peter Mattick
Chairman

Auditor's Independence Declaration

As lead auditor for the review of Salmat Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Salmat Limited and the entities it controlled during the period.

S. Horlin

Susan Horlin
Partner
PricewaterhouseCoopers

Sydney
24 February 2015

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SALMAT LIMITED
Income Statement
For the half year ended 31 December 2014

	Note	Half year ended 31 Dec 2014 $000	Half year ended 31 Dec 2013 $000
Sales revenues		252,167	229,283
Revenues from other activities		1,290	2,865
Total Revenue		**253,457**	**232,148**
Employee benefits expenses		(132,108)	(110,251)
Depreciation and amortization expense		(6,807)	(5,188)
Freight and distribution expenses		(79,245)	(78,212)
Materials usage		(49)	(196)
Property related expenses		(11,847)	(8,403)
Equipment related expenses		(4,990)	(4,032)
Other expenses from ordinary activities		(19,258)	(16,535)
Impairment loss	7	(64,613)	-
Finance costs		(2,138)	(2,969)
Share of net profits of associates accounted for using the equity method		399	269
(Loss)/Profit before income tax		**(67,199)**	**6,631**
Income tax (expense)/benefit	4	(2,521)	373
(Loss)/Profit for the period		**(69,720)**	**7,004**
Attributable			
Owners of the company		(70,658)	**7,004**
Non-controlling interests		938	**-**

Earnings per share for (loss)/ profit for the period

Basic (loss)/earnings per share (cents per share)	**(43.70)**	**4.41**
Diluted (loss)/earnings per share (cents per share)	(43.70)	4.36

Earnings per share for profit attributable to members of Salmat Limited

Basic (loss)/earnings per share (cents per share)	**(44.28)**	**4.41**
Diluted (loss)/earnings per share (cents per share)	(44.28)	4.36

SALMAT LIMITED
Statement of Comprehensive Income
For the half year ended 31 December 2014

	Note	Half year ended 31 Dec 2014 $000	Half year ended 31 Dec 2013 $000
(Loss)/Profit for the period		**(69,720)**	**7,004**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Changes in the fair value of cash flow hedges		-	928
Income tax relating to changes in fair value of cash flow hedges		-	(279)
Exchange differences transferred to the income statement		-	1,567
		-	
Exchange differences on translation of foreign operations		1,803	1,553
Other comprehensive income for the period		**1,803**	**3,769**
Total comprehensive (loss)/income		**(67,917)**	**10,773**
Attributable			
Owners of the company:		(69,674)	**10,773**
Non-controlling interests		1,757	-
		(67,917)	**10,773**

SALMAT LIMITED
Statement of Financial Position
As at 31 December 2014

	Note	As at 31 Dec 2014 $000	As at 30 Jun 2014 $000
Current Assets			
Cash and cash equivalents		66,271	116,860
Trade and other receivables		57,683	55,317
Inventories		717	689
Other current assets		6,987	5,696
Total Current Assets		**131,658**	**178,562**
Non-Current Assets			
Receivables		3,932	3,768
Investments accounted for using the equity method		2,483	2,058
Property, plant and equipment		21,132	21,947
Deferred tax assets		15,352	16,703
Intangibles assets	7	125,600	189,344
Other non-current assets		16	15
Total Non-Current Assets		**168,515**	**233,835**
Total Assets		**300,173**	**412,397**
Current Liabilities			
Trade and other payables		52,784	65,490
Borrowings		44,741	66,912
Other financial liabilities		4,042	1,350
Current tax payable		439	413
Provisions		15,088	13,845
Total Current Liabilities		**117,094**	**148,010**
Non-Current Liabilities			
Borrowings		7	23
Other financial liabilities		39,652	38,661
Deferred tax liabilities		3,553	3,466
Provisions		4,125	4,130
Retirement benefit obligations		622	469
Other non-current liabilities		698	698
Total Non-Current Liabilities		**48,657**	**47,447**
Total Liabilities		**165,751**	**195,457**
Net Assets		**134,422**	**216,940**
Equity			
Contributed equity		209,555	209,231
Reserves		(29,374)	(27,419)
Retained earnings		(56,035)	26,609
Equity attributable to owners of the company		**124,146**	**208,421**
Non-controlling interests		**10,276**	**8,519**
Total Equity		**134,422**	**216,940**

SALMAT LIMITED
Statement of Changes in Equity
As at 31 December 2014

	Consolidated				
	Contributed Equity $000	Retained Profits $000	Reserves $000	Non-controlling interest $000	Totals $000
Balance at 1 July 2014	**209,231**	**26,609**	**(27,419)**	**8,519**	**216,940**
(Loss)/Profit for the period	-	(70,658)	-	938	(69,720)
Other comprehensive income/(loss)	-	-	984	819	1,803
Total comprehensive income for the period	-	(70,658)	984	1,757	(67,917)
Transactions with owners in their capacity as owners:					
Cost of share-based payments	-	-	356	-	356
Treasury shares	324	-	(48)	-	276
Dividends paid	-	(11,986)	-	-	(11,986)
Business combination reserve	-	-	(3,247)	-	(3,247)
	324	(11,986)	(2,939)	-	(14,601)
Balance at 31 December 2014	**209,555**	**(56,035)**	**(29,374)**	**10,276**	**134,422**
Balance at 1 July 2013	**205,494**	**50,379**	**1,399**	**-**	**257,272**
Profit for the period	-	7,004	-	-	7,004
Other comprehensive income/(loss)	-	-	3,769	-	3,769
Total comprehensive income for the period attributable to members of Salmat Limited	-	7,004	3,769	-	10,773
Transactions with owners in their capacity as owners:					
Cost of share-based payments	-	-	(55)	-	(55)
Treasury shares	3,737	-	(1,844)	-	1,893
Dividends paid	-	(11,986)	-	-	(11,986)
	3,737	(11,986)	(1,899)	-	(10,148)
Balance at 31 December 2013	**209,231**	**45,397**	**3,269**	**-**	**257,897**

SALMAT LIMITED
Statement of Cash Flows
For the half year ended 31 December 2014

	Half Year Ended 31 Dec 2014 $000	Half Year Ended 31 Dec 2013 $000
Cash Flows from Operating Activities		
Receipts from customers	274,600	253,820
Payment to suppliers and employees	(283,506)	(241,946)
Transaction costs on disposal of subsidiary	-	-
Income tax paid	(1,301)	(1,474)
Net cash (used in)/provided by operating activities	**(10,207)**	**10,400**
Cash Flows from Investing Activities		
Proceeds from sale of plant and equipment	-	15
Payments of deferred consideration for purchase of controlled entities	(487)	-
BPO separation costs	-	(6,869)
Payments for intangible assets	(384)	-
Cash outflow from acquisition of subsidiary	-	(5,429)
Interest received	1,290	2,865
Investment in associate	-	(75)
Payments for plant and equipment	(4,000)	(11,193)
Net cash provided by/(used) in investing activities	**(3,581)**	**(20,686)**
Cash Flows from Financing Activities		
Repayment of borrowings	(23,486)	-
Interest paid	(1,848)	(2,969)
Sale of treasury shares	-	1,811
Finance lease payments	(60)	(56)
Dividends paid to company's shareholders	(11,986)	(11,986)
Net cash used in financing activities	**(37,380)**	**(13,200)**
Net (decrease)/in cash held	**(51,168)**	**(23,486)**
Cash and cash equivalents at the beginning of the period	**116,860**	**189,088**
Effects of exchange rate changes on cash and cash equivalents	**579**	**512**
Cash and cash equivalents at the end of the period	**66,271**	**166,114**

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

a) Basis of preparation

This interim financial report for the half-year period ended 31 December 2014 has been prepared in accordance with Accounting Standard AASB134 Interim Financial Reporting, the Corporations Act 2001 and other mandatory professional reporting requirements.

This interim financial report does not include the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Salmat Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies applied by the consolidated entity are consistent with those applied by the consolidated entity in its full year financial report for the year ended 30 June 2014 except for the adoption of new standards and interpretations issued since this date, noted below.

The Group has reclassified certain prior year comparatives to align presentation with the current year.

b) New accounting standards

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
The amendments do not change the current offsetting rules in AASB 132, but they clarify that the right of set-off must be available today (ie not contingent on a future event) and must be legally enforceable in the normal course of business as well as in the event of default, insolvency or bankruptcy. The adoption of AASB 2012-2 had no effect on the financial position or performance of the Group.

Australian Conceptual Framework and Materiality (AASB CF 2013-1, AASB 1031, AASB 2013-9)
The new guidance replaces previous guidance on the objective and qualitative characteristics of financial reporting in the Australian Framework and supersedes Statement of Accounting Concept 2 Objective of General Purpose Financial Reporting. However, the remaining chapters of the Australian Framework remain in place, in anticipation of further revisions to the IASB’s Conceptual Framework.

At the same time, the AASB has also removed the existing guidance on materiality from AASB 1031 Materiality and replaced it with references to other Standards and the Framework. The amendments are not expected to affect any current accounting practices and policies of the Group.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2014 reporting periods and have not been early adopted by the group. The group’s assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments
AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting.

The new hedging rules align hedge accounting more closely with the group’s risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

AASB 9 must be applied for financial years commencing on or after 1 January 2017. The group has not yet assessed how its own hedging arrangements would be affected by the new rules, and it has not yet decided whether to adopt any parts of AASB 9 early. In order to apply the new hedging rules, the group would have to adopt AASB 9 and the consequential amendments to AASB 7 and AASB 139 in their entirety.

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

2. SEGMENT INFORMATION

(a) Business Segments

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

The chief executive officer has identified two reportable segments which are as follows:

CMS

The CMS division consists of Universal Catalogue and Influence focusing on delivering the right offer to the right customer through the right channel. Universal Catalogue delivers seamless distribution of physical and digital catalogue content through our best of breed traditional letterbox division combined with Lasoo's universal catalogue platform. Influence is multichannel campaign management designed to bring deeper customer interactions to life through our expertise in campaign management and marketing services.

CMS's solutions enable clients to interact and engage with their customers through interactive email, online content management, search optimisation, data insights and analytics, loyalty management, e-commerce, SMS, letterbox advertising and catalogue distribution.

CES

CES helps Australia and New Zealand's most trusted brands generate revenue, exit cost, and improve their customer experience. Salmat designs and delivers multi-channel contact centre services and technology solutions, field sales services and learning and development solutions. Salmat CES specialises in maximising customer lifetime value using inbound and outbound voice, email, web chat, social media, mobile, SMS and field sales. Salmat provides sophisticated speech technology and automation solutions including natural language speech recognition, voice biometrics and Reach, enterprise class contact centre technology solutions hosted in the cloud.

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.

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.

All references to EBITA have been updated to EBITDA in the current interim financial report. This has been performed to align presentation in the financial report to internal reports used by the chief executive officer in assessing performance and provides more relevant information to the users of the financial statements.

2. SEGMENT INFORMATION (Continued)

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

Six months to 31 December 2014	**CMS $000**	**CES $000**	**Corporate Costs $000**	**Total $000**
Segment revenue				
Sales to external customers	141,430	110,737		252,167
Interest revenue				1,290
TOTAL revenue				**253,457**
Segment EBITDA before significant items and corporate costs	16,886	615		17,501
Reconciliation of segment EBITDA to income statement				
Corporate Costs			(12,432)	(12,432)
EBITDA before significant items				**5,069**
Depreciation and amortization expense				(6,807)
Net finance costs				(848)
Underlying loss before income tax				**(2,586)**
Significant items (Refer note 3)				(64,613)
Loss before income tax				**(67,199)**
Income tax expense				(2,521)
Loss for the period				**(69,720)**

2. SEGMENT INFORMATION (Continued)

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

Six months to 31 December 2013	**CMS $000**	**CES $000**	**Corporate Costs $000**	**Total $000**
Segment revenue				
Sales to external customers	137,984	91,299		229,283
Interest revenue				2,865
TOTAL revenue				**232,148**
Segment EBITDA before significant items and corporate costs	17,717	3,393		21,110
Reconciliation of segment EBITDA to income statement				
Corporate Costs			(6,686)	(6,686)
EBITDA before significant items				**14,424**
Depreciation and amortization expense				(5,188)
Net finance costs				(104)
Underlying profit before income tax				**9,132**
Significant items (Refer note 3)				(2,501)
Profit before income tax				**6,631**
Income tax benefit				373
Profit for the period				**7,004**

3. PROFIT FOR THE HALF YEAR

Significant items included in total expenses	**Six Months to 31 Dec 2014 Pre Tax $000**	**Six Months to 31 Dec 2013 Pre Tax $000**
Impairment Loss	(64,613)	-
Separation costs	-	(2,501)
Total significant items	**(64,613)**	**(2,501)**

Reconciliation to net (loss)/profit after tax		
Net (loss)/profit after tax	(69,720)	7,004
Significant items after tax	64,613	1,751
Underlying net (loss)/profit after tax (excluding significant items)	**(5,107)**	**8,755**

4. INCOME TAX EXPENSE

The income tax expense of $2,521,000 represents current tax payable in relation to profitable overseas jurisdictions as well as the reversal of certain temporary differences.

5. DIVIDENDS

	Six Months to 31 Dec 2014 Pre Tax $000	**Six Months to 31 Dec 2013 Pre Tax $000**
(a) Dividends paid during half-year		
Final fully franked ordinary dividend of 7.5 cents (2013: 7.5 cents) per share	11,986	11,986
Dividends paid as per Statement of Cash Flows	**11,986**	**11,986**

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

No interim dividend has been declared by the Directors (2013: 7.5 cents per share, totalling an aggregate amount of $11,986,000).

6. NET TANGIBLE ASSET BACKING

	Six Months to 31 Dec 2014 $000	**Six Months to 31 Dec 2013 $000**
Net tangible asset backing per ordinary share from continuing operations	**0.06c**	**0.58c**

7. INTANGIBLES

	Consolidated			
	Goodwill $000	**Other Intangible Assets $000**	**Customer Intangible $000**	**Total $000**
Balance at 1 July 2013	149,104	5,238	1,940	156,282
Additions	17,062	4,562	13,863	35,487
Amortisation charge	-	(320)	(1,632)	(1,952)
Foreign currency translation impact	(32)	-	(441)	(473)
Balance at 30 June 2014	**166,134**	**9,480**	**13,730**	**189,344**
Balance at 1 July 2014	166,134	9,480	13,730	189,344
Additions	-	384	-	384
Impairment	(64,613)	-	-	(64,613)
Amortisation charge	-	(323)	(1,048)	(1,371)
Foreign currency translation impact	441	-	1,415	1,856
Balance at 31 December 2014	**101,962**	**9,541**	**14,097**	**125,600**

In the current reporting period the Group has retrospectively decreased Goodwill recognised for acquisitions made in the prior year by $46,982 to reflect new information obtained about facts and circumstances that existed as at the acquisition date. The Group is still within the measurement period of one year from the acquisition date.

a) Impairment tests for goodwill

The Group performs impairment testing of goodwill annually, or at other times if there is an indicator of impairment.

During the period the Group recognised an impairment charge of $64,613,000 in order to bring the carrying value of CES in line with its recoverable amount.

The impairment resulted from a number of items, including the flow-on effect of the delays in the Reach platform. Forecasts have been revised based on the known timing of the Reach platform and current market conditions. A review of the Direct Sales business has also been undertaken with a decision to reduce focus on residential door-to-door sales.

Allocation of goodwill to cash generating units (CGU) is aligned with reporting segments.

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

	Consumer Marketing Solutions	**Customer Engagement Solutions**	**Total**
31 December 2014			
Goodwill	82,969	18,993	101,962
30 June 2014			
Goodwill	82,969	83,165	166,134

The recoverable amount of CES is determined based on value in use using discounted cash flow calculations. These calculations use cash flow projections based on the board approved FY15 budget, business forecasts for FY16 – FY17 and projections for FY18 – FY20. 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 CES operates.

b) Key assumptions

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

- revenue forecasts for a 5 year forecast period based on management's detailed FY15 - FY17 forecast and F18 – FY20 projections at sustainable growth rate of 5%;
- a growth rate to extrapolate cash flows beyond the 5 year period of 2.5%; and
- a discount rate applied to forecast pre-tax cash flows of 14.9% (2014 14.7%). The equivalent post tax discount rate is 10.3% (2014 10.3%).

Discount rates reflect the Group's estimate of the time value of money and the risks specific to CES that are not already reflected in the cash flows. In determining appropriate discount rates for CES, regard has been given to the weighted average cost of capital of the Group and business risk specific to that segment. Risk related to operating in different geographic locations has been reflected in the underlying cash flows prior to applying the discount rate.

c) Impact of possible changes in key assumptions

A change in any of the above key assumptions could result in a change in the recoverable amount of CES.

As at 31 December 2014 no circumstances have arisen that indicate that the carrying value of CMS's non-current assets may be impaired. Goodwill allocated to this CGU will be assessed for impairment as part of the Group's annual impairment testing.

8. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(i) Fair value hierarchy

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards.

The contingent considerations payable and put/call options associated with business combinations completed in the prior year are classified as Level 3 financial liabilities.

The Group has no level 1 or level 2 financial liabilities, and no material financial assets requiring fair value measurement.

The carrying value less impairment provision of trade receivables, payables and borrowings are assumed to approximate their fair values due to their short term nature.

(i) Valuation techniques

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.

The fair value for contingent considerations and the put/call options have been calculated using a discounted cash flow model with the key inputs being the discount rate and the expected future earnings growth rate.

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	*Carrying Value/Fair value at 31 Dec 2014* *$'000*	*Unobservable inputs*	*Range of inputs (probability weighted average)*	*Relationships of unobservable inputs to fair value*
Contingent consideration – MicroSourcing	4,042	Discount rate Expected future earnings growth	4.0% 87-161%	A decrease of the discount rate by 100bps and expected future earnings growth increase by 10%, would result in a fair value increase of $718,901
Put/call option - MicroSourcing	31,170	Discount rate Expected future earnings growth	4.0% 236-308%	A decrease of the discount rate by 100bps and expected future earnings growth increase by 10%, would result in a fair value increase of $1,296,354
Contingent consideration – Other acquisitions	5,235	Discount rate Expected future earnings growth	4.0% 37-568%	A decrease of the discount rate by 100bps and expected future earnings growth increase by 10%, would result in a fair value increase of $813,812
Purchase option – Fuse	3,247	Discount rate Expected future earnings growth	4.0% 56-64%	There is a minimum exercise price of $3,360,000. Expected future earnings growth increase of greater than 12% would result in the exercise price exceeding this minimum.

(ii) Valuation process

The finance team of the group performs the valuations required for financial reporting purposes. This team reports directly to the chief financial officer (CFO) and the audit risk and compliance committee (ARCC). Discussions of valuation processes and results are held between the CFO, ARCC and the finance team at least once every six months, in line with the group's half-yearly reporting periods. As part of this discussion the team presents a report that explains the reason for the fair value movements.

The main level 3 inputs used by the group are derived and evaluated as follows:

- Discount rates for financial liabilities are determined using a rate that reflects current market assessments of the time value of money.
- Expected future earnings growth that determine contingent consideration are estimated based on the terms of the sale contract and the entity's knowledge of the business and how the current economic environment is likely to impact it.

9. CONTINGENCIES

The Group has been involved from time to time in various claims and proceedings arising from the conduct of its business.

The Australian Competition & Consumer Commission (ACCC) has commenced proceedings in the Federal Court against Origin Energy, as the energy retailer, and Salesforce Australia Pty Limited as its marketer, for alleged contraventions of the Australian Consumer Law in relation to the activities of door to door sales contractors

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.

10. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 23 February 2015 the Group agreed terms underlying its borrowing facilities. This included a decision to repay $20m of the current borrowings recorded at 31 December 2014, and agreeing terms in relation to a new 2 year facility consisting of a A$22m tranche and a US$10m tranche.

Except for the matter discussed above, no other matter or circumstance has arisen since 31 December 2014 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.

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 3 to 20 are in accordance with the *Corporations Act 2001*, including:

   (a) Comply with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001* and other mandatory reporting requirements, and;

   (b) Give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date.

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

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

Signed this 24th day of February 2015 on behalf of the Board.

Peter Mattick
Chairman

Independent auditor’s review report to the members of Salmat Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Salmat Limited (the Company), which comprises the statement of financial position as at 31 December 2014, the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Salmat Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity’s financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Salmat Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

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

c) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;

d) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

S. Horlin

Susan Horlin
Partner

Sydney
24 February 2015