

Salmat 2009 Annual General Meeting

AGL Theatre – Museum of Sydney

Corner Bridge and Phillip Streets

SYDNEY NSW 2000

10.00am Thursday 26th November 2009

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 2009 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, both non-executive Directors;
- Ian Elliot, a non-executive, independent Director and Chairman of the Remuneration Committee.
- John Thorn, a non-executive, independent director and Chairman of the Audit Committee.

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

Also in attendance today is Rob Lewis, representing our auditor, Ernst & Young.

As you are no doubt aware, after an impressive 30 year history of building Salmat into the leading organisation that it is today, Philip Salter and Peter Mattick stepped down from their positions as joint Managing Directors of the company in October this year to take up non-executive directorships on the Salmat Board. Extensive planning went into this transition, which saw Grant Harrod commence as Chief Executive Officer in April 2009 and as Managing Director last month.

During the three decades that Peter and Phil spent building the company, they grew Salmat from a small operation in the western suburbs of Sydney with revenues of \$33,000 and three employees to a company which now has over 7000 employees, 20 thousand contractors and revenue of nearly \$900 million.

Peter and Phil prepared the company superbly for leadership succession and intend to maintain a close association through their non-executive roles, supporting Board colleagues and management in guiding the company through its next phase of development.

The Board is now well advanced in its search for an additional independent non-executive director. This will restore the majority of independent directors to the Board and also strengthen its skills and experience.

Since commencing with Salmat, Grant has brought together a well-credentialed senior leadership team and completed an extensive strategic review of the business. The Board fully endorses the outcomes of this review and Grant will provide more detail on this later in the presentation. We are also very confident that Grant and his team will lead the company so that it continues its great history of strong performance.

The past year was one of consolidation for Salmat, as we focused on strengthening the company's position as the clear leader in the various markets in which it operates. A significant part of that process involved the continued integration of the HPA business following its acquisition in November 2007. Our plan was to have this process substantially completed by the end of FY09 and I am pleased to report that this target has been met and over the past year we have realised \$9 million in cost savings through improved efficiencies. FY09 was a year of outstanding achievement on a number of levels and I would like to spend a few minutes reviewing some of the financial highlights.

Salmat has a proud record of year-on-year sales growth and this was maintained in FY09 with revenue increasing 9.7% to \$890.8 million.

Earnings before interest, tax and amortisation increased 34.3% on the prior year to \$78 million.

Net profit after tax but before significant items was up 49.7% to \$33 million while the inclusion of significant items boosted reported net profit by 168.2% to \$34.5 million. As a result earnings per share increased by 141.1% to 21.6 cents.

The inclusion of significant items in reported profit has the potential to create volatility in the bottom line and while a 168% increase is pleasing, we are much more focused on the underlying performance of the business. To put this into context, in 2008 there was a significant item cost of \$9.2 million after tax relating chiefly to integration costs and the investment in Lasoo. In 2009 we reported a \$1.5 million net gain arising from the sale of two properties and some one off property costs in Hong Kong. In addition the investment in Lasoo was treated as an operating item.

In terms of the current financial year it is important to note that as a result of leasing back the two properties sold last year, there will be significant items in 2010 and 2011 which will increase net profit after tax by \$1.7m and \$1.1m respectively. There will be no further one-off costs relating to the Hong Kong property rationalisation.

The strength of balance sheets has been a key focus for boards and management in corporate Australia over the past 18 months. Your board has been no exception and I am pleased to report that over the year to June 2009 we lowered our debt position by \$52 million from \$219 million to \$167 million through a combination of property sales, strong operating cashflow and pre-payments by significant customers. Salmat has a secure source of finance that does not require renewal until late 2010, however negotiations are well underway with our banks to roll current facilities.

In 2008 despite the global unravelling taking place in the financial system, we planned for growth across all of our divisions and this was largely achieved.

Business Process Outsourcing, our largest division, achieved revenue growth of 21.2% to \$370.8 million, mainly due to the full twelve months inclusion of the HPA acquisition together with organic growth. As I mentioned earlier, a key area of focus for the year was integrating HPA into the BPO division. We are on track with our integration projects having now achieved annual savings of \$12 million. As previously advised, we are targeting total savings of \$15 million with the HPA integration. Over the past year this has included the consolidation of operating sites and combining some administrative functions, leading to savings in the order of \$9 million for the year. EBITA for FY09 increased by 37.3% from \$30 million to \$41.2 million

Our Customer Contact Solutions division achieved revenue growth of 6.9% to \$294.2 million. EBITA increased 30.4% to \$21.8 million largely as a result of improved volumes across the portfolio together with cost containment.

Targeted Media Solutions revenue declined by 2.2% as a result of our decision to exit non-catalogue work in the distribution of newspapers and directories, both of which were low margin activities consuming valuable capacity in our network. Revenue was also impacted by legislative changes that meant we could no longer capture pass through telecommunications revenue from our Interactive division's SMS marketing activities. Adjusting for these factors, the underlying organic revenue growth in Targeted Media Solutions, excluding newspapers, directories and pass-through SMS revenue, was 4.7%.

In FY09 Lasoo was treated as an operating business within Targeted Media Solutions for the first time. Our Lasoo website continues to grow and we are now averaging over 800,000 unique visitors per month to this website. We continue to invest in building the Lasoo brand as the premier pre-shop website, enabling consumers to browse and search for the best retail deals in their local area.

More than 8.5 million unique visitors viewed the Lasoo site in the past 12 months and the volume of traffic is testament to its growing support and recognition. We are now providing content management services both for Lasoo and our Dynamic Catalogue service via our newly established business process outsourcing infrastructure located in the Philippines.

Targeted Media Solutions' EBITA result increased by 6.3% to \$28.2 million despite the drop in revenue and the inclusion of a \$5.8 million loss from Lasoo.

We continue to progress our One Salmat strategy, aimed at highlighting our one-to-one service offering. This enables us to offer our clients a multi-channel communications strategy tailored to meet the needs of each individual consumers' communication preference – whether it be via email, web, unaddressed or personalised mail, SMS or voice-based services. Grant will go into more detail about this strategy later in the presentation.

The Board's confidence in your company's future is reflected in its declaration of a final dividend of 11.0 cents per share fully franked. This brings the total dividend for the year to 20 cents per share, an increase of 8.1% on the previous year.

On behalf of the Board, I would like to take this opportunity to extend my thanks to the entire Salmat team for their contribution and commitment to the business during the year. We are all committed to Salmat's continuing success and look forward to another strong year for the company.

I am now very pleased to invite our Managing Director, Grant Harrod, to provide an overview of the operational performance of each of our business divisions, outline some of their strategies for growth; and to provide an update for the 2010 financial year.

Thank you.

Presentation by Managing Director, Grant Harrod

Good morning ladies and gentlemen.

We are now substantially progressed into our first half for 2010 and each of our business divisions is focused on expanding their presence in key markets. The company is tracking as expected and I will be providing an update on this later in my presentation.

Salmat offers an unmatched range of essential customer communications services with leading market positions in key growth sectors. And as I will discuss, with great people, loyal customers and supportive shareholders, I believe the company has an exciting future.

Our Business Process Outsourcing division is Australia's leading provider of mail, workflow management and imaging services. The business has grown rapidly in the last few years with the successful acquisition of HPA and I am pleased to note that all major clients were retained during the integration of HPA. We are energised by the great people, expanded product offering and enhanced service capability of the enlarged business.

As previously advised, mail volumes for the first quarter have been flat due to the weaker economic environment. Our major client volumes are up, however tier two and discretionary mail client volumes are down.

Scanning and imaging, which are new activities following the HPA acquisition, will provide excellent growth opportunities for our BPO business, as evidenced by the recent announcement of the Healthstream joint venture between Salmat, Civica and Dataract securing NIB's back office management control, with Salmat responsible for all scanning and imaging components.

The shift to electronic presentation of bills and statements continues to develop at a gradual rate, with less than 3% of total mail packs being sent electronically today. While Salmat is a leader in the delivery of printed material via traditional mail, we still play a key role in electronic delivery, managing formatting of clients' data for distribution through either channel.

Our Targeted Media Solutions division incorporates catalogue distribution, digital and interactive services. We are the leading multi-channel communication provider to consumers in the Australian market. Our emerging digital and interactive services made a solid contribution in the first quarter and are up on the prior year. Comparative revenues will remain flat with our decision to exit lower margin directory and newspaper distribution work and the removal of telco pass-through relating to our SMS business.

We continue to invest in our Lasoo.com.au "pre-shop" website, which adds an important web delivery platform to our offering. Following broader take-up by retailers, our product content for the site has doubled compared to the prior corresponding period and we have consolidated our position as the leading pre-shop web portal.

Since its launch in 2007, there have been over 34 million searches conducted on Lasoo and more than 400 million catalogue pages have been viewed, representing yearly growth of 400%. Women aged 30-55 represent 60% of visitors and the average time that each visitor spends on the site is 8 minutes per visit.

During October, over 250,000 retail purchases were a direct result of customers viewing an item on Lasoo, which was 25% higher than in October 2008. The Lasoo site recently won "Best Overall Site" at the SmartCompany Web Awards and was commended for its design, browser usability and attention to detail.

We have successfully implemented an integrated sales offering across the Targeted Media division, with retail and corporate clients increasingly utilising a communications plan encompassing both digital and interactive services.

In the letterbox distribution side of the business, retailers continue to use catalogues as their main form of marketing spend and a crucial tool for connecting with their customers and reinforcing the range and value proposition. Catalogues continue to “cut through” into the household, with high readership having a direct and measurable bearing on sales in-store. We continue to work closely with our clients to help them build brands and excite their customers, utilising a range of communication channels to drive their growth.

Our Customer Contact Solutions division is Australia’s leading voice and non-voice communication solutions specialist. The business is in a growth sector and we have been investing in Australia and offshore to improve our capabilities. New client wins are extending our presence and broadening our skill base, and we are developing a solid operational platform from which to take advantage of this significant market opportunity. We have also won several new clients across our emerging eLearning business and our skills optimiser product was recognised as the best e-learning solution at the 2009 eLearning Industry Association Annual Awards.

In the first quarter, revenues in the business are encouragingly in line with the market growth rate; however margins have been impacted by new business start-up costs associated with training and recruitment in our contact centre business and by client delays in implementing new business in the speech solutions area.

I would now like to move onto some important elements of our growth strategy for 2010 and beyond.

I have been with Salmat for eight months, giving me the chance to develop a solid understanding of the business as it stands today and the opportunities that exist moving forward.

To assist me in leading this company through its next exciting stage of development, I have brought together a very talented senior leadership team with broad ranging skills and experience. Comprising nine members, six already held senior positions within the business and represent collective Salmat experience spanning almost 70 years. In addition, we have made two external appointments - Chad Barton joined us as the company’s new Chief Financial Officer in August, following Colin Wright’s decision to retire at the end of this month. David Hackshall has also just joined us as our Chief Information Officer.

One of the first challenges for the leadership team is to transition our people from a “transaction” to a “solutions” approach in all their business dealings. We see this “One Salmat” strategy as a key company-wide opportunity for improvement.

We aim to offer our existing strong and loyal customer base the full Salmat product range, supporting their increasingly complex communication needs. In many cases our clients are procuring these products elsewhere and are unaware that Salmat can provide them. We have a unique ability to manage all of our customer’s communication requirements through our unmatched access to key channels. This broader approach is expected to assist our customers in winning a greater share of their consumer wallet, supporting Salmat’s growth as a result.

Our leadership team will equip our people with the skills to enhance customer relationships across the Salmat organisation. We believe these integrated solutions will greatly assist our customers, improving efficiency, service levels, engagement and customer satisfaction.

The second element of our growth strategy is to establish a structure that enables us to better serve our customers and at the same time, broaden the utilisation of our services. Aligning our sales teams by industry sector will allow us to provide a more tailored solution to key industries such as retail, telecommunications, banking and financial services, utilities, and government. We are enthusiastic about this opportunity but also appreciate the need to take a measured approach to this change to ensure full customer engagement and minimal implementation risk.

Many of the services that we currently provide are highly valued by small to medium enterprises (SMEs). Salmat’s clients have traditionally been large, blue-chip companies and government organisations but we see considerable scope to tailor our unique solutions for organisations in this next band where we have minimal marketshare today.

Services from within our Targeted Media Solutions division have particular relevance for SMEs, using communication channels such as letterbox, voice, SMS and email, and we intend to develop strategies to address this opportunity accordingly.

Coming off a low base, we expect the SME market to comprise a growing share of our business moving forward. Work has already commenced in this area and we are piloting our Local Area Marketing (LAM) strategy, aimed at incorporating a proprietary service model to facilitate easy access to catalogue distribution, digital and interactive services. This is an exciting growth opportunity which is scheduled to go live in the next quarter.

The company is also committed to the growth of our emerging businesses, including digital, interactive, analytics, learning and speech solutions all of which currently have a low share. By continuing to invest in these services, we intend to consolidate our position as the leader in each of these markets.

To support this, we are actively seeking potential bolt-on acquisitions in these emerging businesses. We are examining opportunities that will allow us to build greater scale and capability, so that we can cement our position as the premier choice for managing our customer's communications.

The strategies I've outlined are aimed at leveraging our existing infrastructure and client relationships and capitalising on exciting new markets and growth opportunities. At the same time, we are constantly evaluating our current business to ensure that it operates as efficiently as possible and delivers increased service levels to our customers. We have a dedicated team within the organisation responsible for identifying opportunities to take advantage of our collective capabilities and reduce duplication.

The success of each of the elements of our growth strategy is predicated on our continued strong performance across our existing businesses, our relentless focus on delighting customers so they continue to enjoy the very best possible experience dealing with Salmat, and our efforts to raise the engagement of all our people. The leadership team and Board look forward to updating shareholders on the individual elements of this strategy moving forward.

We'll now turn to the Group profit outlook for fiscal year 2010. After a strong period of growth, and some not insignificant economic challenges, overall group profitability is tracking as expected with some encouraging performances from key businesses. However, while the company has weathered the storm well, the economic environment remains difficult and the level of competition is, as always, intense. In FY2010:

- We expect to fully realise remaining HPA synergies in the BPO business.
- We anticipate a solid Christmas trading period for TMS, supported by retail catalogue activity, and improvements in Lasoo.
- Some of the cost pressures in CCS may continue into the second half but we remain confident of the demand outlook for this business and we are initiating a number of activities to bring profit growth in line with revenue growth.

For the Group in FY2010 we are expecting results in the range of \$85-90 million EBITA, which in our view would be a healthy rate of growth in an uncertain economic environment. These figures are before the expected significant items that have been flagged by the Chairman.

In summary, Salmat is a great company with an exciting future and I would like to take this opportunity to thank our employees, customers and shareholders for their support.

Thank you.

Presentation by Chairman Remuneration Committee, Ian Elliot

Good morning, ladies and gentlemen.

I am pleased to propose adoption of Salmat's remuneration report for the year to 30 June 2009, which is part of the directors' report on pages 7 to 16 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.

The role of the remuneration committee, which consists of the three 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.

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.

Equity based incentives issued to senior executives reflect the similar service and performance conditions as those approved by shareholders.

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. There were no options exercised during the year. At this stage, we have ceased issuing options as long term incentives and are now acquiring deferred shares subject to service and performance conditions.

We have not made any acquisitions to the CEO or senior managers for the 2009/10 year due to the uncertainty of tax implications in the hands of recipients of new issues of share based compensation. The Committee will review its approach once the tax treatment is clarified.

I will outline the vesting conditions for the deferred shares issued as long term incentives during the year ended 30th June 2009.

The Board approved the acquisition of 569,924 shares to be acquired by the Trustee of the Salmat Deferred Share Plan during the year, subject to vesting and performance hurdles as in the past. The issue and conditions were disclosed in the Remuneration Report. I will now outline the conditions of the grants.

Of the deferred shares acquired, 191,660 are held in the name of the Salmat deferred share plan trustee for the chief executive officer. These deferred shares are for a five year period, with an initial exercise date three years from issue, which is in October 2012 following three years of service. If the service and performance hurdles are met they will vest at no cost to the chief executive officer. The service condition is set at employment continuing to October 2012.

The Remuneration Report does not outline the performance conditions and hurdles in relation to the CEOs 191,660 deferred shares. The performance hurdle attaching to these shares will be as follows:

- For 50% of these shares achievement by Salmat shares of Total Shareholder Return in excess of the S&P ASX small ordinaries index for the three (3) years to June 2012, and;
- For 50% of these shares achievement by Salmat shares of an EPS hurdle of at least 79.1 cents for the three years to June 2012.

The balance of the 378,264 deferred shares were acquired by the deferred share plan trustee in the name of senior executives on the following terms.

The performance condition for the senior executive deferred shares is in two parts:

- For 50% of the shares, the performance hurdle is a cumulative EPS for Salmat shares of 66 cents for the three years ending June 2011. 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 ordinaries accumulation index for the three fiscal years ending 30th June 2011.

Non-executive directors' fees are reviewed externally each year. The Board did not increase its fees for the 2008/09 financial year.

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