

SALMAT LIMITED

HALF-YEAR FINANCIAL REPORT

For the six months ended 31 December 2004

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SALMAT LIMITED

(ABN 11 002 724 638)

Appendix 4D

HALF-YEAR REPORT

For the six months ended 31 December 2004

Results for announcement to the market

Revenues from ordinary activities	up	8.2%	to	\$181.6m
Profit from ordinary activities after tax attributable to members	up	35.2%	to	\$14.9m
Net profit for the period attributable to members	up	35.2%	to	\$14.9m

Dividends (distributions)	Amount per security	Franked amount per security
Interim Dividend	6.5c	6.5c
Previous corresponding period – interim dividend	5.0c	5.0c
Record Date for determining entitlements to dividends		7 March 2005
Dividend payment date		28 March 2005

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 2004 Annual Report and any announcements to the market by Salmat Limited during the period.

ASX announcement
21 February 2005

Salmat profit up 35.2%
Full year outlook - profit up 27% - 32%

Australia's leading provider of customer communication solutions, Salmat Limited (ASX: SLM), today announced a net profit of \$14.9 million for the six months to 31 December 2004, up 35.2 per cent on 2003 (\$11.0 million). Earnings per share were 12.8 cents (2003: 9.5 cents), and revenue increased by 8.3 per cent to \$180.8 million (2003: \$167.0 million).

The directors have declared a fully franked interim dividend of 6.5 cents per share (2003: 5 cents), an increase of 30 per cent, payable on 28 March 2005 to shareholders on the register at 7 March.

Results summary for six months to	31 December 2004 \$million	31 December 2003 \$million	% change
Revenue	180.8	167.0	↑8.3
Earnings before interest, tax and amortisation	22.5	18.5	↑21.0
Profit after tax	14.9	11.0	↑35.2
Earnings per share (cents)	12.8	9.5	↑35.2
Interim dividend per share (cents)	6.5	5.0	↑30.0

Salmat's joint managing director Phil Salter said: 'It is great to be able to announce another solid half year profit. Our three divisions have all increased their revenue and made a positive contribution to earnings. We now occupy market leadership positions in all of our businesses and this positions us well for future growth.'

Outlook

Salmat's joint managing director Peter Mattick said: 'Subject to the normal caveats, we are confident of another strong full year result. We expect our rate of revenue growth for the full year to remain at close to first half levels.'

In terms of full year outlook, given the solid first half result, we now anticipate full year net profit growth of 27% - 32%, higher than the previous guidance of 20% - 25% provided at last year's AGM. We expect the Salesforce acquisition to be EPS accretive in the first year of operation.'

Operational review

Targeted Media

Results for six months ended	31.12.04 \$ million	31.12.03 \$ million	% increase
Revenue	91.8	80.6	14.0
Earnings before interest, tax and amortisation	19.8	18.0	10.0

Targeted Media, the market leader in demographic customer targeting, produced a good result as it continued to broaden its customer base with increased revenue from the telecommunications and financial sectors. Its top 20 customers now provide 48 per cent of revenue, compared with 55 per cent at 30 June 2004. Two small distribution businesses were acquired, strengthening the division's national distribution network.

Advertising volumes continued to grow, and 2.1 billion items were delivered during the period, an increase of 11.4 per cent. A new product, MarketDisk, was introduced to reinforce relationships with advertising agencies, which already provide 80 per cent of the division's new business and will become increasingly important as the trend towards direct media continues.

Business Process Outsourcing

Results for six months ended	31.12.04 \$ million	31.12.03 \$ million	% increase
Revenue	68.9	66.9	3.0
Earnings before interest, tax and amortisation	8.1	8.0	1.7

The BPO division, the leading provider of essential mail, produced a solid result as it increased both its sales and earnings in a very competitive market. The Australian business handled 304 million mailpacks during the period, an increase of 4.5 per cent.

Salmat is currently engaged in some significant tender opportunities to provide statement processing services across the Asia Pacific region. These involve Salmat adopting a true "Asia Pacific distributed processing" model to provide the security and control of central data processing, whilst enabling customers to enjoy the cost, time and other benefits of decentralised mail production. The model will demonstrate to major mail producers across the Asia Pacific region that Salmat is able to provide an international multi-site and country solution within the environment of quality and secure, standardised production processes.

Pricing pressures in the Australian market, which have constrained profitability, are expected to ease gradually, with a consequent improvement in margins.

Customer Contact Solutions

Results for six months ended	31.12.04 \$ million	31.12.03 \$ million	% increase
Revenue	20.1	19.5	2.8
Earnings before interest, tax and amortisation	0.6	(0.7)	182.9

The Customer Contact Solutions business, which provides inbound and outbound call centre services, benefited from its increased scale and built on the initial positive EBITA result recorded in the second half of 2004. Revenue continued to grow, but was lower than forecast primarily due to a reduction in outbound sales campaign work.

The regional call centres in Bundaberg and Wagga Wagga performed well, handling two million calls, and customer satisfaction was high. Victorian operations were centralised in Melbourne. Productivity improved across all sites.

Winning the 2006 Census contract was a significant achievement. The project, which has already begun, will continue until the 2007 financial year.

The acquisition of SalesForce, completed in January 2005, has made Salmat the market leader in the Australian call centre industry, with more than 2,300 seats. It also provides the opportunity to accelerate growth in this area.

ClientLogic Philippines Joint Venture

Results for six months ended	31.12.04 \$ million	31.12.03 \$ million	% increase
Revenue	14.5	8.7	66.7
Profit after Tax (not equity accounted)	0.9	(1.1)	86.8

The group's 49% owned Philippines joint venture call centre business continued to grow strongly, with sales up by 67 per cent and the number of seats increasing to nearly 2,300. The business achieved its first half year profit, enabling Salmat to write back \$2.0 million of provisions previously taken against its loan receivables. The group expects to account for its share of the business' profits during the 2006 financial year.

ClientLogic's growth has resulted largely from attracting business from major US corporates including Dell, MCI, Sony and BellSouth.

Significant Items

The result included as a significant item a write down of software assets of \$2.2 million. Offsetting this was a write back to profit of \$2 million from the release of provisions against loans receivables from ClientLogic Philippines.

Balance sheet and cash flow

The company had an ungeared balance sheet at 31 December, with net cash of \$5.2 million. Since balance date \$64 million has been drawn down from bank facilities to complete the Salesforce acquisition, leaving the company with a debt to equity ratio of around 66%.

Operating cash flow was \$12.9 million, up 33%, resulting primarily from improved profitability. Capital expenditure, at \$9.0 million, was 4.9 per cent of sales, compared with the target 4–4.5 per cent, due to the timing of expenditure on new BPO mail inserters and laser printers.

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For more information about the Salmat Group, please visit Salmat's website at www.salmat.com.au.

For further information, please contact:

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The Directors present their report for the half-year ended 31 December 2004.

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:

Richard Lee
Peter Mattick
Philip Salter
John Thorn
Ian Elliott Appointed 1 January 2005

REVIEW OF OPERATIONS

The consolidated profit of the group for the half-year after providing for income tax amounted to \$14.9 million (2003: \$11.0 million), which represents a 35.2% increase on the prior half-year result.

Earnings before interest, tax and amortisation (EBITA) for the half-year period increased 21.1% to \$22.5 million (2003: \$18.6 million). Consolidated profit before tax for the half-year period was \$20.7 million (2003: \$16.1 million).

The group's revenues from the sale of services increased by 8.6% to \$180.8 million. The business generated operating cashflows of \$12.6 million, with earnings per share of 12.8 cents.

The contribution of each segment to group earnings before interest, tax and amortisation (EBITA) for the half-year period was as follows:

- Targeted Media segment operating revenues increased by 13.9% to \$91.8m (2003: \$80.6m). Segment EBITA improved by 10.0% to \$19.8m (2003: \$18.0m). The segment experienced 11.4% growth in distribution volumes, particularly in areas, which have not historically used catalogue distribution as an advertising medium. The segment benefited from the acquisition of a number of small distribution businesses, which contributed incremental revenues of \$3.4m for the half-year.
- The Customer Contact Solutions segment achieved an increase in operating revenues of 2.8% to \$20.1m (2003: \$19.5m). This segment improved its EBITA result by \$1.3m, generating an EBITA profit of \$0.6m (2003 loss: \$0.7m). EBITA improvement was driven by productivity improvements and cost control in all sites.
- Operating revenues in the BPO segment improved by 3.0% to \$68.9m (2003: \$66.9m). The segment generated EBITA of \$8.1m (2003: \$8.0m). Australian mailpack volumes grew by 4.5%, with Asian business revenues being adversely impacted by the loss of a major customer contract in December 2003.

During the half-year period, following a substantial improvement in the performance of the Philippine call centre business joint venture (ClientLogic Philippines), the group partially reversed provisions relating to the collectibility of Joint Venture loans. This reversal favourably impacted the result for the half-year by \$2.0m.

The half-year result also includes a significant item relating to the group's software assets. Following a re-assessment of the expected future benefits to be generated, certain assets have been written down by \$2.2 million.

EVENTS OCCURRING AFTER BALANCE DATE

Extension of finance facilities

On 6 January 2005, the company's available loan facilities were increased by \$25.0m through an additional facility provided by one of the company's existing bankers. This increased the total loan facilities available to the group to \$110.0m. All facilities are secured by a deed of negative pledge and guarantee over the assets of certain group companies.

Acquisition of SalesForce

On 21 January 2005, the Salmat Group acquired all of the issued shares in SalesForce Australia Pty Limited, SalesForce Services Pty Limited and SalesForce New Zealand Limited (SalesForce).

SalesForce generated sales revenues of \$92 million for the year ended 30 June 2004, with EBITDA of \$9.5m.

The acquisition is expected to be earnings accretive in the first year. Existing cash and debt facilities were used to finance the acquisition.

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 5.

ROUNDING OF AMOUNTS

The company is an entity to which ASIC Class order 98/100 applies. Accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars.

Signed this 21st day of February 2005 in accordance with a resolution of the Board of Directors.

Peter Mattick
Director

Philip Salter
Director

Richard Lee
Chairman



Auditors' Independence Declaration

As lead auditor for the review of Salmat Limited and controlled entities for the half-year ended 31 December 2004, 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.

WHK Greenwood

David Sinclair

Dated at Sydney on 21st day of February 2005

SALMAT LIMITED
Consolidated Statement of Financial Performance
For the half-year ended 31 December 2004

SALMAT

	Note	Six months to 31 Dec 2004 \$'000	Six months to 31 Dec 2003 \$'000
Revenues from operating activities		180,847	167,048
Revenues from other activities		754	745
Revenue from ordinary activities		181,601	167,793
Employee-related expenses		(63,516)	(57,876)
Borrowing costs		(172)	(9)
Depreciation and amortisation expenses		(10,376)	(8,001)
Freight and distribution		(36,781)	(32,958)
Materials usage		(12,243)	(12,470)
Property related expenses		(5,917)	(5,469)
Equipment related expenses		(12,680)	(12,355)
Other expenses from ordinary activities		(19,216)	(22,582)
Profit from ordinary activities before income tax	2	20,700	16,073
Income tax (expense) relating to ordinary activities		(5,849)	(5,090)
Net profit attributable to members of Salmat Limited		14,851	10,983
Net exchange difference on translation of financial report of self-sustaining foreign operations		207	(538)
Share issue costs		-	(159)
Total expenses and valuation adjustments attributable to members of the parent entity and recognised directly in equity		207	(697)
Total changes in equity from non-owner related transactions attributable to members of Salmat Limited		15,058	10,243
Basic earnings per share (cents per share)	7	12.8c	9.5c
Diluted earnings per share (cents per share)	7	12.4c	9.2c

The consolidated statement of financial performance should be read in conjunction with the accompanying notes

SALMAT LIMITED
Consolidated Statement of Financial Position
As at 31 December 2004

SALMAT

	As at 31 Dec 2004 \$'000	As at 30 Jun 2004 \$'000	As at 31 Dec 2003 \$'000
Current Assets			
Cash assets	7,240	16,229	12,288
Receivables	41,342	38,552	37,792
Inventories	2,839	3,260	2,324
Other	4,144	2,612	3,349
Total Current Assets	55,565	60,653	55,753
Non-Current Assets			
Receivables	8,681	2,386	274
Other financial assets	9	10	14
Property, plant and equipment	37,102	36,420	35,489
Deferred tax assets	6,262	5,949	4,903
Intangible assets	24,891	26,521	28,204
Total Non-Current Assets	76,945	71,286	68,884
Total Assets	132,510	131,939	124,637
Current Liabilities			
Payables	26,963	32,164	31,758
Current tax liabilities	2,550	4,263	3,237
Provisions	5,586	5,162	5,236
Total Current Liabilities	35,099	41,589	40,231
Non-Current Liabilities			
Payables	1,128	1,605	1,205
Interest bearing liabilities	2,004	2,072	1,546
Deferred tax liabilities	307	385	84
Provisions	5,292	4,907	4,454
Total Non-Current Liabilities	8,731	8,969	7,289
Total Liabilities	43,830	50,558	47,520
Net Assets	88,680	81,381	77,117
Equity			
Contributed equity	30,845	30,478	30,478
Reserves	2,662	2,456	2,358
Retained profits	55,173	48,447	44,281
Total Equity	88,680	81,381	77,117

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

SALMAT LIMITED
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2004

SALMAT

	Six months to 31 Dec 2004 \$'000	Six months to 31 Dec 2003 \$'000
Cash Flows from Operating Activities		
Receipts from customers *	247,937	234,702
Payments to suppliers and employees *	(226,636)	(216,078)
Interest received	176	242
Borrowing costs paid	(12)	(8)
Income tax paid	(8,577)	(9,190)
Net cash provided by operating activities	12,888	9,668
Cash Flows from Investing Activities		
Proceeds from sale of plant and equipment	259	291
Loans (to) related entity	(4,374)	(2,380)
Acquisition of business	(533)	(1,729)
Payment for plant and equipment	(9,254)	(4,503)
Net cash (used in) investing activities	(13,902)	(8,321)
Cash Flows from Financing Activities		
Proceeds from exercise of options	367	-
Proceeds of borrowings	175	-
Dividends paid	(8,131)	(6,389)
Net cash (used in) financing activities	(7,589)	(6,389)
Net (decrease) in cash held	(8,603)	(5,042)
Cash at beginning of the financial year	16,229	17,825
Effects of exchange rate changes on cash	(386)	(495)
Cash at end of the half-year	7,240	12,288

* Includes amounts relating to postage disbursements.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Financial Report Preparation

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual financial report of Salmat Limited as at 30 June 2004. It is also recommended that the half-year financial report be considered together with any public announcements made by Salmat Limited during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(b) Adoption of Australian Equivalents to International Financial Reporting Standards

The group is currently preparing for the introduction of International Financial Reporting Standards (IFRS). The first financial report to be compiled under IFRS will be the half-yearly report for the six months to 31 December 2005. This will, however, require the production of financial data for comparative purposes for the six months to 31 December 2004.

The group's management, along with its auditors, are assessing the significance of these changes and preparing for their implementation. An IFRS team has been established to oversee and manage the group's transition to IFRS. To date, the following works have been carried out:

- A review of each IFRS standard has been completed to determine if the implementation will impact the reported financial performance, financial position, or level of disclosures currently undertaken by the group.
- Where IFRS standards will impact the group, an assessment is in the process of being made of this impact.
- Where IFRS standards will impact the group, work plans have been developed to enable the group to arrive at the final adjustment amounts, incremental disclosure availability, and to implement any necessary changes to group accounting processes prior to the commencement of IFRS on 1 July 2005.
- An expert review will be carried out to validate the findings.
- Work plans are currently being carried out to determine the final IFRS impact on the group.

The following summary outlines the key differences in accounting policies that are expected to arise from adopting IFRS, and the effect on the Salmat Group:

Share-based Payments

Implementation of IFRS is expected to impact on retained earnings at 1 July 2005. This is not expected to have a significant impact on reported earnings for 2005 and 2006 years.

As part of the Initial Public Offering of Salmat Limited shares (2 December 2002), Employee ownership plans were put in place (Deferred Employee Share Plan and Executive Performance Option Plan) whereby certain Directors and Executives received shares and options. The impact of shares awarded was recorded against contributed equity. Under IFRS, the cost attached to these awards of shares / options are to be expensed over the vesting period.

Business Combinations

The systematic amortisation of goodwill, which currently results in a charge being recorded annually against operating results, will not be recorded under IFRS.

Under IFRS, intangible assets with indeterminate effective lives are no longer amortised, but are subject to an ongoing impairment assessment, with carrying values adjusted accordingly.

Goodwill amortisation included in the current half-year result, would not be brought to account as an expense under IFRS.

The group's current practices of assessing impairment relating to its Australian businesses substantially comply with IFRS requirements, and as such no adjustment in the value of goodwill on Australian businesses is expected as a result of IFRS implementation. The group's current practices of assessing impairment relating to its Asian businesses is currently under review, and may need to be altered to comply with IFRS. This change may result in an adjustment to the carrying value of goodwill relating to these businesses. Work is continuing to determine this impact.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax

IFRS is expected to result in potentially new tax assets and liabilities being recognised. In addition, withholding taxes payable on unappropriated profits from Asian businesses will be brought to account in the period in which profits are generated.

A comprehensive balance sheet focused approach to calculating tax expenses, assets and liabilities will be adopted. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its value in a tax-based balance sheet. It is expected that the implementation of IFRS in this area may require the group to carry higher levels of deferred tax assets and liabilities.

In relation to foreign earnings, withholding taxes payable on unappropriated earnings are expected to be brought to account under IFRS. This is not expected to have a material impact on implementation.

Property, Plant and Equipment

Implementation of IFRS is expected to impact on retained earnings at 1 July 2004 through a transfer of amounts currently held in asset revaluation reserves. In addition, an accounting policy change is currently being considered under the provisions of IFRS AASB1, to adopt fair value at transition date for Land and Building assets.

Land and buildings are currently valued at deemed cost. This treatment was adopted under AASB 1041 "Revaluation of Non-current Assets", which was applied from 30 June 1999. Deemed cost includes revaluation adjustments recorded prior to that time. Under IFRS, revaluation amounts are expected to be transferred from reserves to retained earnings.

In addition, the group is considering the impact of adopting the fair value of land and building assets at the date of IFRS transition.

Post-employment Benefits

Implementation of IFRS may lead to recognition of certain surpluses and / or deficits on retirement benefit schemes within the group's Asian operations. This is not expected to have a significant impact on retained earnings.

The Australian businesses within the group provide for the retirement of their employees through contributions to funds of an accumulation benefit type, which will not be impacted by IFRS. Certain Asian businesses provide for the retirement of their employees through defined benefit plans. The actuarial status of these plans is currently being reviewed. However, any adjustment in respect of these plans under IFRS is not expected to be material.

The Effect of Changes in Foreign Exchange Rates

Implementation of IFRS is expected to impact on retained earnings at 1 July 2005 through a transfer of amounts currently held in foreign currency translation reserves. The implementation of IFRS will also reduce volatility of earnings after 1 July 2005 as gains and losses on consolidation of certain Asian businesses, which are currently included in operating results, will be recorded against reserves.

Currently, the group translates foreign subsidiaries on consolidation under both the self-sustaining (adjustment to reserves) and integrated (adjustment to operating results) methods. To comply with IFRS, the balance of the foreign currency translation reserve at IFRS transition date will be adjusted against retained earnings. After that time, all adjustments on translation of overseas subsidiaries will be made against reserves.

Provisions for make-good costs

Under IFRS, present obligations for restoration costs on leased premises will be brought to account.

Group businesses operate from number of leased premises. For premises where there is an expectation of restoration costs on lease termination, an amount will be brought to account on transition to IFRS. Work is continuing to determine this impact.

Impairment testing of assets

All assets will be reviewed under IFRS for indicators of impairment.

Work is continuing in reviewing the group's assets for potential impairment under IFRS standard AASB136.

The above summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS, or of the possible impact of the transition to IFRS on the Salmat group. The company has yet to complete its IFRS plan of works. However, the transition to IFRS is progressing and is on track to enable the company to provide full, quantitative disclosures in the 2005 annual Financial Report.

**Six months to
31 Dec 2004
\$,000**

Six months to
31 Dec 2003
\$,000

2. PROFITS FROM ORDINARY ACTIVITIES

Profit from ordinary activities after related income tax expense includes the following items of expense which, together with other disclosures in this report, are relevant in explaining the financial performance for the half-year:

Significant items included in total expenses

• Reversal of ClientLogic loan provision ^[1]	(2,042)	2,537
• Write-off software assets ^[2]	2,228	-
• Write-off of goodwill	-	1,124

^[1] During the half-year period, following a substantial improvement in the performance of the 49% owned Philippine call centre joint venture (ClientLogic Philippines), the group reversed provisions against its loans due from the joint venture. This reversal (net of the foreign exchange impact) favourably impacted the net profit by \$2.0 million. As the original provision was treated as non-deductible for tax purposes, no tax expense has been brought to account in the half-year result relating to this item.

^[2] Following a re-assessment of the expected future benefits to be generated, certain software assets have been written down by \$2.2 million. A tax benefit of \$0.7 million has been brought to account in the half-year result relating to this item.

3. DIVIDENDS

(a) Dividends paid during the half-year ^[1]

Final fully franked ordinary dividend of 7.0 cents (2003: 5.5 cents) per share	8,131	6,389
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Dividends paid as per Statement of Cash Flows

	8,131	6,389
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(b) Dividends not recognised at the end of the half-year

Since the end of the half-year, the Directors' have recommended the payment of an interim dividend of 6.5 cents per share (2004: 5.0 cents per share). A record date of 7 March 2005 has been set. The aggregate amount of proposed interim dividend which is expected to be paid on 28 March 2005 is: ^[1]

	7,563	5,808
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^[1] All dividends franked to 100% at 30% corporate tax rate.

4. NET TANGIBLE ASSET BACKING

Net tangible asset backing per ordinary share	54.8c	42.1c
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**Six months to
31 Dec 2004
\$,000**

Six months to
31 Dec 2003
\$,000

5. LEGAL PROCEEDINGS

Salmat Document Management Solutions Pty Ltd (SDMS) was charged in March 2004 in the Western Australia court of Petty Sessions with fraud under section 83(1) of the Proceeds of Crime Act (Cth) 1987 against the Australian Postal Commission with respect to lodgements of mail of an SDMS customer in Western Australia between January 1995 and September 1998. Three of its employees have also been charged in being knowingly concerned with the commission of an offence. It is alleged that the financial loss to the Australian Postal Commission was \$281,107. SDMS denies any wrongdoing and will defend the charges vigorously.

On August 4, 2004, SDMS and the three employees entered not guilty pleas to the charges. A status hearing was held in January 2005 and approved the application to have the matter heard in the WA Supreme Court. It is expected that if the matter proceeds to trial, it will not be set down to take place until late 2005.

6. EARNINGS PER SHARE

(a) Reconciliation of Earnings to Net Profit

Net profit after tax attributable to members of Salmat Limited	14,851	10,983
Earnings used in the calculation of diluted EPS	14,851	10,983

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

Weighted average number of shares on issue used to calculate basic EPS	Quantity '000	Quantity '000
Weighted average number of shares on issue used to calculate basic EPS	116,189	116,158
Effect of dilutive securities - weighted average number of options outstanding	3,448	2,805
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS	119,637	118,963

7. EQUITY SECURITIES ISSUED

Issue of ordinary shares during the half-year

	Quantity '000		\$'000	
	31 Dec 2004	31 Dec 2003	31 Dec 2004	31 Dec 2003
Opening balance	116,158	116,158	30,478	30,637
Exercise of options issued under the Salmat Executive Performance Option Plan	175	-	367	-
Issued to Directors in accordance with a resolution passed at the Annual General Meeting in November 2004	25	-	-	-
Transaction costs relating to share issues	-	-	-	(159)
	116,358	116,158	30,845	30,478

8. EVENTS OCCURRING AFTER BALANCE DATE

Extension of finance facilities

On 6 January 2005, the company's available loan facilities were increased by \$25.0m through an additional facility provided by one of the company's existing bankers. This increased the total loan facilities available to the group to \$110.0m. All facilities are secured by a deed of negative pledge and guarantee over the assets of certain group companies.

Acquisition of Salesforce

On 21 January 2005, the Salmat Group acquired all of the issued shares in Salesforce Australia Pty Limited, Salesforce Services Pty Limited and Salesforce New Zealand Limited (SalesForce) for consideration of \$64.0m.

SalesForce generated sales revenues of \$92 million for the year ended 30 June 2004, with EBITDA of \$9.5m.

The acquisition is expected to be earnings accretive to Salmat in the first year. Existing cash and debt facilities were used to finance the acquisition.

9. SEGMENT INFORMATION

(a) Business Segments

The economic entity delivers its customer communications services to its clients through its Business Process Outsourcing and Customer Contact Solutions divisions as set out in the following table.

Business Process Outsourcing	Document Management and Data Solutions <ul style="list-style-type: none"> • Electronic digital printing • Mail processing and inserting • Data formatting and analysis • Archiving and retrieval of data • Data management and segmentation
Targeted Media	Customer Targeting and Delivery <ul style="list-style-type: none"> • Distribution of leaflets, brochures and catalogues • Demographic/socio-economic profiling and customer targeting • Database analysis
Customer Contact Solutions	Call Centre Operations <ul style="list-style-type: none"> • Inbound and outbound teleservices • Outsourced call centre operation

(b) Financial Performance by Business Segment

Six months to 31 Dec 2004	Business Process Outsourcing \$'000	Targeted Media \$'000	Customer Contact Solutions \$'000	Admin \$'000	Eliminations \$'000	Economic Entity Total \$'000
REVENUE						
External sales	68,406	91,462	20,077	-	902	180,847
Other segments	527	375	-	-	(902)	-
Total Sales Revenue	68,933	91,837	20,077	-	-	180,847
Other revenue	-	-	-	495	-	495
Gross proceeds – sale of fixed assets	199	51	9	-	-	259
Total Revenue from Ordinary Activities	69,132	91,888	20,086	495	-	181,601

RESULTS

Earnings before interest, tax and amortisation

Controlled entities	8,096	19,803	573	(8,053)	-	20,419
ClientLogic ^[2]						2,042
						22,461
Amortisation expense						(2,091)
Net interest income						330
Tax						(5,849)
Profit after tax						14,851

^[1] The segment result for ClientLogic represents provision reversals and unrealised foreign exchange movements.

9. SEGMENT INFORMATION (continued)

Six months to 31 Dec 2003	Business Process Outsourcing	Targeted Media	Customer Contact Solutions	Admin	Eliminations	Economic Entity Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
REVENUE						
External sales	65,904	79,104	19,534	-	2,506	167,048
Other segments	1,004	1,502	-	-	(2,506)	-
Total Sales Revenue	66,908	80,606	19,534	-	-	167,048
Other revenue	-	-	212	242	-	454
Gross proceeds – sale of fixed assets	-	-	-	291	-	291
Total Revenue from Ordinary Activities	66,479	80,556	19,746	533	-	167,793
RESULTS						
Earnings before interest, tax and amortisation						
Controlled entities	7,957	18,008	(691)	(4,180)	-	21,077
ClientLogic						(2,537)
						18,540
Amortisation expense						(2,695)
Net interest income						228
Tax						(5,090)
Profit after tax						10,983

The Directors declare that the attached financial statements and notes, set out on pages 10 to 19:

- (a) Comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the company's and consolidated entity's financial position as at 31 December 2004 and of their performance, as represented by the results of their operations and their cash flows, for the half-year ended on that date.

In the Directors' opinion:

- (a) The financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Signed this 21st day of February 2004 of behalf of the Board.

Peter Mattick
Director

Philip Salter
Director

Richard Lee
Chairman

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF SALMAT LIMITED**

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Salmat Limited and its controlled entities for the half-year ended 31 December 2004. The consolidated entity comprises Salmat Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- Inquiries of company personnel, and
- Analytical procedures applied to financial data.

When this review report is included in a document containing information in addition to the financial report, our procedures include reading the other information to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Salmat Limited and its controlled entities:

- Do not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Salmat Limited and its controlled entities at 31 December 2004 and of its performance for the half-year ended on that date, and
- Is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 1029: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

WHK Greenwoods

David Sinclair

Dated at Sydney on 21st day of February 2005