SALMAT

SALMAT LIMITED

HALF-YEAR FINANCIAL REPORT
For the six months ended 31 December 2006

Contents

SALMAT

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

HALF-YEAR REPORT
For the six months ended 31 December 2006

Results for announcement to the market

Revenues from ordinary activities	**Up**	**15.2%**	**to**	**$302.3m**
Profit from ordinary activities after tax attributable to members	**Up**	**168%**	**to**	**$35.1m**
Net profit for the period attributable to members	**Up**	**168%**	**to**	**$35.1m**

Dividends (distributions)	**Amount per security**	**Franked amount per security**
Interim Dividend	**8.0c**	**8.0c**
Special Dividend	**10.0c**	**10.0c**
Previous corresponding period – interim dividend	7.0c	7.0c
Record Date for determining entitlements to dividends		8 March 2007
Dividends payment date		28 March 2007

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 2006 Annual Report and any announcements to the market by Salmat Limited during the period.

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ASX/media release **23 February 2007**

Salmat – Strong Results and Special Dividend

Salmat Limited (ASX: SLM), Australia's leading customer communication group, today announced a net profit after tax of $35.1 million for the six months to 31 December 2006 (FY06: $13.1 million), up 168%. The result benefited from the inclusion of the profit on sale of the company's 49% interest in the ClientLogic joint venture in the Philippines, which has been recognised as a significant item. Net profit before significant items rose 18.8% to $15.8 million (H1 06: $13.3 million).

Revenue increased by 15.3% to $302.1 million (H1 06: $262.0 million), driven by the strong growth from the SalesForce division.

The Board of Directors have declared an interim dividend of 8 cents per share fully franked, up by 14.3% from 2005/6 (7.0 cents), payable on 28 March 2007.

In addition following the significant profit on the sale of the ClientLogic Philippines joint venture, the Board of Directors have declared a special dividend of 10 cents per share, fully franked, payable on 28 March 2007.

Results summary for six months to	31 Dec 2006 $million	31 Dec 2005 $million	% change
Sales revenue	302.1	262.0	15.3
EBITA (Earnings before interest, tax and amortisation)	26.9	22.8	18.0
Net profit before significant items	15.8	13.3	18.8
Significant items	19.3	(0.2)	
Profit after tax	35.1	13.1	167.9
Earnings per share (cents)	29.9	11.2	167.0
Interim dividend per share (cents) – fully franked	8.0	7.0	14.3
Special dividend per share (cents) – fully franked	10.0	0.0	NMF

Salmat's Joint Managing Directors, Peter Mattick and Phil Salter, said: 'This has been a very busy and satisfying half. We've achieved strong double digit growth whilst making positive moves on the strategic front, with the sale of our share of the ClientLogic Philippines Joint Venture and the reinvestment into the high growth areas of interactive digital and speech verifications solutions through the acquisitions of VeCommerce and Dialect Interactive.'

'SalesForce was our standout performer this half, with its very strong results reflecting the substantial organic growth being generated. Targeted Media delivered a lower result, but one which was in line with our expectations in what remains a very competitive market. Business Process Outsourcing registered an encouraging improvement in earnings, with returns now beginning to emerge from our investment in new sites, systems and equipment.'

Commenting on the outlook they said: ‘We expect the seasonally weaker second half to be lower than the comparable period in FY06, reflecting the absence of equity-accounted earnings from ClientLogic (H206: $1.7 million), the modestly dilutive short term impact of recent acquisitions and further investment and restructuring costs. We anticipate a continuation of the individual divisional trends apparent in the first half, although SalesForce’s performance will be tempered by the costs associated with the next phase of expansion as it addresses capacity constraints and introduces new services. Full year profit after tax before significant items is expected to be around last year’s levels.’

Operational review

Targeted Media

Results summary for six months to	**31 Dec 2006 $ million**	**31 Dec 2005 $ million**	**% change**
Revenue	90.8	94.1	(3.5)
EBITA before significant items	17.1	21.4	(20.1)

Targeted Media performed as expected in tough market conditions. Revenues were down only 3.5% with volumes up slightly, demonstrating the good progress made on replacing volume lost as a result of the expiry of a significant advertising catalogue distribution contract in July 2006. EBITA was down 20.1%, and reflects the competitive pricing environment that the business is operating in.

During the half the division focused on innovation, with improvements in its delivery model and targeting tools, and the introduction of new promotional capabilities through the acquisition in December of the leading interactive and communications solution provider, Dialect Interactive. Improvements to the multi-tiered total accountability delivery model have set a new benchmark for accurate, on-time delivery with independent audit figures showing a rate in excess of 94%.

SalesForce

Results summary for six months to	**31 Dec 2006 $ million**	**31 Dec 2005 $ million**	**% change**
Revenue	122.3	83.1	47.2
EBITA before significant items	10.3	3.8	171.1

SalesForce has maintained the momentum of the preceding half with very strong results driven by organic growth from new and existing customers. Revenues and EBITA are both up significantly and total seats now stand at 3,200, compared to 2,744 at 30 June 2006. Utilisation rates are in excess of 90% and margins have increased to 6.5% despite the costs incurred to expand the operation.

Investments in technical capability have strengthened SalesForce’s competitive position, with the acquisition in December of VeCommerce giving the ability to offer customers improved service at a lower cost using technology automation.

The division’s product offering now covers a full range of contact centre services with an absolute focus on improving customer service and providing effective solutions.

Business Process Outsourcing (BPO)

Results summary for six months to	31 Dec 2006 $ million	31 Dec 2005 $ million	% change
Revenue	89.0	84.8	5.0
EBITA before significant items	5.0	4.0	25.0

The performance of BPO, the market leader in essential mail processing, was encouraging with EBITA up 25% on 5% revenue growth. Benefits from our focus on productivity are beginning to flow through, following significant investment in technology and last year's move to new sites in both New South Wales and Hong Kong. Pricing has stabilised in the Australian market and productivity and efficiency gains are key to continued improvement in margins.

Hong Kong delivered a turnaround with an EBITDA positive result driven by new customers coming on line.

Innovation has also been key in this division with enhancements made in the workflow, scanning, imaging and archiving areas, along with a national print-on-demand capability being delivered in Australia.

Net significant items

The result for the half includes the following significant items, which are not included in the segmental results outlined above:-

- The profit on the sale of our share of the ClientLogic Philippines joint venture, of $25.0 million, as announced on 28 September 2006.
- An impairment charge of $4.5 million with regard to goodwill in respect of the Asian operations. The strategic value of the remaining Asian businesses was reviewed following the exit from the company's major investment in the Asian region, ClientLogic Philippines.
- Restructuring and redundancy costs of $1.2 million from the Project Optimise program. This is a long term program which involves a full review and reshaping of all processes, systems, products and services across the company to provide a platform for continued sales and profit growth.

Balance sheet and cash flow

Operating cash flow of $10.0 million was down on last year, largely due to the adverse timing effect of tax payments made during the half, as well as higher working capital required by SalesForce's growth.

Capital expenditure was $8.1 million for the half, which is 2.7% of sales. Increased capital expenditure is expected in the second half, driven by SalesForce's expansion requirements with full year capital expenditure expected to be back within the company's long term target range of 4% - 4.5% of sales.

Salmat's balance sheet remains strong, with equity boosted by the $25.0 million realisation of value from the ClientLogic Philippines joint venture sale. The acquisitions of VeCommerce and Dialect have increased both goodwill and net debt. Gearing (net debt to equity) stood at 76.9% at period end, however adjusting for the ClientLogic sales proceeds received in February, this reduces to 55.6%. Interest cover at the EBITDA level remains comfortable, at around 13 times.

__Salmat__ is Australia's leading customer communication group. We facilitate our customers' contact with their customers – through targeted catalogue distribution, mail-outs or telephone communication.

We have three businesses, all of which are market leaders:

- ***Targeted Media** delivers advertising catalogues to homes throughout Australia and New Zealand. Detailed demographic analysis enables us to target the consumers most likely to buy particular products, helping our customers to maximise their sales.*

- ***Business Process Outsourcing** processes and mails bank and credit card statements, accounts and other customised, bulk mailings in Australia, Hong Kong, Taiwan and the Philippines. We receive customers' electronic data, process it using smart technology, and print and mail statements, providing significant cost savings.*

- ***SalesForce** handles inbound and outbound telephone, fax, email and online communications on behalf of our customers, from facilities in Australia and New Zealand. Inbound services include technical support and customer care; while outbound services include telemarketing, direct sales and customer retention. We also facilitate business-to-business and business-to-consumer conversations through a range of sales support services.*

Over 27 years we have built a 5,000 plus strong team, experienced in contributing to our customers' growth through helping them to communicate effectively with their customers. This experience, together with our proprietary systems and technology and our strong customer relationships, secures Salmat's position as Australia's – and increasingly the region's – leader in customer communication services.

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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:

Peter Mattick	*Philip Salter*	*Ashley Fenton*
Joint Managing Director	*Joint Managing Director*	*Chief Financial Officer*
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The Directors present their report for the half-year ended 31 December 2006.

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 Elliot

REVIEW OF OPERATIONS

Revenue from continuing operations for the half-year was $302.3m, an increase of $40m over the previous corresponding period. Profit before tax for the half year of $42.3m was $22.8m above the previous corresponding period, and included a gain of $18.9m relating to significant items as set out in note 3.

EVENTS OCCURRING AFTER BALANCE DATE

On 23 February 2007, the Directors declared the following dividends:

	Cents	$m
Interim dividend per ordinary share	8.0	9.4
Special dividend per ordinary share	10.0	11.8
	18.0	21.2

The dividends are franked to 100% at 30% corporate tax rate. A record date of 8 March 2007 has been set for the dividends, with the dividends due to be paid on 28 March 2007.

On 1 February 2007, Salmat received the proceeds ($28.3m) for the disposal of its Philippines call centre joint venture company.

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 8.

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 23rd day of February 2007 in accordance with a resolution of the Board of Directors.

Peter Mattick
Director

Philip Salter
Director

Richard Lee
Chairman

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Auditor's Independence Declaration to the Directors of Salmat Limited

In relation to our review of the financial report of Salmat Limited for the half-year ended 31 December 2006 to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Craig M Jackson
Partner
23 February 2007

SALMAT LIMITED
Income Statement
For the half year ended 31 December 2006

	Note	Consolidated Six months to 31 Dec 2006 $000	Consolidated Six months to 31 Dec 2005 $000
Sales revenues		302,145	262,006
Revenues from other activities		199	409
Revenue from continuing operations		**302,344**	262,415
Employee benefits expenses		(147,346)	(117,828)
Depreciation and amortisation expense		(13,599)	(8,086)
Freight and distribution		(54,319)	(51,374)
Materials usage		(26,914)	(24,174)
Property related expenses		(10,715)	(10,304)
Equipment related expenses		(12,454)	(9,746)
Loan provision write-back		-	543
Other expenses from ordinary activities		(18,101)	(19,916)
Finance costs		(2,960)	(2,390)
Share of profits of associates accounted for using the equity method		1,325	400
Profit on disposal of associate accounted for using the equity method		25,048	-
Profit before income tax	3	**42,309**	19,540
Income tax expense		(7,241)	(6,456)
Profit attributable to members of Salmat Limited		**35,068**	13,084
Earnings per share for profit attributable to the ordinary equity equity holders of the company			
Basic earnings per share (cents per share)	6	**29.9 c**	11.2 c
Diluted earnings per share (cents per share)	6	28.7 c	10.8 c

SALMAT LIMITED
Balance Sheet
As at 31 December 2006

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	Note	**Consolidated** As at 31 Dec 2006 $000	As at 30 Jun 2006 $000	As at 31 Dec 2005 $000
Current Assets				
Cash and cash equivalents		9,171	1,464	17,864
Trade and other receivables		128,835	89,016	74,881
Derivative financial instrument		1,120	-	-
Inventories		4,990	3,335	5,080
Other current assets		4,971	3,562	4,641
Total Current Assets		**149,087**	97,377	102,466
Non-Current Assets				
Receivables		1,439	639	7,400
Property, plant and equipment		54,796	53,905	52,647
Intangible assets	8	108,290	84,198	84,269
Deferred tax assets		11,203	8,728	8,665
Investment accounted for using the equity method		-	2,089	399
Total Non-Current Assets		**175,728**	149,559	153,380
Total Assets		**324,815**	246,936	255,846
Current Liabilities				
Trade and other payables		55,742	46,478	46,392
Provisions		15,523	12,793	9,493
Current tax liabilities		2,028	4,424	1,950
Total Current Liabilities		**73,293**	63,695	57,835
Non-Current Liabilities				
Payables		1,949	1,095	4,601
Interest bearing liabilities		111,108	69,378	83,416
Provisions		5,617	5,343	9,589
Retirement benefit obligations		260	671	-
Deferred tax liabilities		43	25	264
Total Non-Current Liabilities		**118,977**	76,512	97,870
Total Liabilities		**192,270**	140,207	155,705
Net Assets		**132,545**	106,729	100,141
Equity				
Contributed equity	7	33,661	32,770	31,832
Reserves		2,119	1,123	728
Retained profits		96,765	72,836	67,581
Total Equity		**132,545**	106,729	100,141

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	Consolidated			
	Contributed Equity $000	Retained Profits $000	Reserves $000	Total $000
Balance at 1 July 2005	31,459	64,995	749	97,203
Currency translation differences	-	-	(333)	(333)
Total income and expense recognised in equity	-	-	(333)	(333)
Profit attributable to members of parent entity	-	13,084	-	13,084
Total recognised income and expense for the period	-	13,084	(333)	12,751
Shares issued during the year	373	-	-	373
Cost of share-based payments	-	-	312	312
Dividends paid	-	(10,498)	-	(10,498)
Balance at 31 December 2005	31,832	67,581	728	100,141
Balance at 1 July 2006	32,770	72,836	1,123	106,729
Currency translation differences	-	-	622	622
Total income and expense recognised in equity			622	622
Profit attributable to members of parent entity	-	35,068	-	35,068
Total recognised income and expense for the period	-	35,068	622	35,690
Shares issued during the year	891	-	-	891
Cost of share-based payments	-	-	374	374
Dividends paid	-	(11,139)	-	(11,139)
Balance at 31 December 2006	33,661	96,765	2,119	132,545

SALMAT LIMITED
Statement of Cash Flows
For the half-year ended 31 December 2006

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	Consolidated	
	Six months to 31 Dec 2006 $'000	Six months to 31 Dec 2005 $'000
Cash Flows from Operating Activities		
Receipts from customers *	339,215	332,252
Payments to suppliers and employees *	(315,113)	(307,525)
Interest received	189	193
Interest paid	(2,953)	(3,632)
Income tax paid	(11,296)	(8,407)
Net cash provided by operating activities	**10,042**	12,881
Cash Flows from Investing Activities		
Proceeds from sale of plant and equipment	13	124
Loans repaid by related entity	4,905	2,090
Acquisition of subsidiary/business	(30,642)	(843)
Payments for plant and equipment	(8,107)	(16,969)
Net cash (used in) investing activities	**(33,831)**	(15,598)
Cash Flows from Financing Activities		
Proceeds from issue of shares and other securities	891	373
Proceeds from borrowings	41,730	16,719
Dividends paid to company's shareholders	(11,139)	(10,498)
Net cash provided by / (used in) financing activities	**31,482**	6,594
Net increase in cash held	**7,693**	3,877
Cash and cash equivalents at the beginning of the financial year	1,464	13,953
Effects of exchange rate changes on cash and cash equivalents	14	34
Cash and cash equivalents at the end of the financial year	**9,171**	17,864

* Includes amounts relating to postage disbursements and is inclusive of goods and services tax.

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This general purpose financial report for the interim half-year reporting period ending 31 December 2006 has been prepared in accordance with Accounting Standard AASB134 *Interim Financial Reporting* and the *Corporations Act 2001* and other mandatory professional 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 2006 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 are consistent with those of the previous financial year and corresponding interim reporting period. New Australian Accounting Standards and UIG interpretations effective 1 July 2006 have been reviewed and determined to have no material impact on the Group.

2. SEGMENT INFORMATION

(a) Business Segments

The Salmat Group delivers communications solutions to its customers through the following three businesses:

Targeted Media delivers advertising catalogues to homes throughout Australia and New Zealand. Detailed demographic analysis enables us to target the consumers most likely to buy particular products, helping our customers to maximise their sales.

Business Process Outsourcing processes and mails bank and credit card statements, accounts and other customised, bulk mailings in Australia, Hong Kong, Taiwan and the Philippines. We receive customers' electronic data, process it using smart technology, and print and mail statements, providing significant cost savings.

Sales Force handles inbound and outbound telephone, fax, email and other online communications, speech verification and IVR services from facilities in Australia, New Zealand, United Kingdom, USA and the Philippines. Inbound services include technical support and customer care; while outbound services include telemarketing, direct sales and customer retention. We also facilitate business to business and business to consumer conversations through a range of sales support services.

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2. SEGMENT INFORMATION (Continued)

(b) Financial Performance by Business Segment

Six months to 31 Dec 2006	**Business Process Outsourcing**	**Targeted Media**	**Sales Force**	**Corporate**	**Economic Entity Total**
	$000	**$000**	**$000**	**$000**	**$000**
Total Revenue	**89,002**	**90,820**	**122,323**	**-**	**302,145**
EBITA before significant items and equity accounted profits	**5,034**	**17,114**	**8,961**	**(5,530)**	**25,579**
Integration, restructure and redundancy costs (note 3)	(183)	-	-	(1,536)	(1,719)
Profit on disposal of associated company (note 3)	-	-	-	25,048	25,048
Equity accounted profits	-	-	1,325	-	1,325
EBITA segment result	**4,851**	**17,114**	**10,286**	**17,982**	**50,233**
Amortisation expense					(675)
Impairment of goodwill (note 3)					(4,478)
Net interest expense					(2,771)
Tax					(7,241)
Net Profit after tax					**35,068**

Six months to 31 Dec 2005	**Business Process Outsourcing**	**Targeted Media**	**Sales Force**	**Corporate**	**Economic Entity Total**
	$000	**$000**	**$000**	**$000**	**$000**
Total Revenue	84,834	94,057	83,115	-	262,006
EBITA before significant items and equity accounted profits	4,017	21,426	3,386	(6,466)	22,363
Significant items (note 3)	(1,036)	-	-	543	(493)
Equity accounted profits	-	-	400	-	400
EBITA segment result	2,981	21,426	3,786	(5,923)	22,270
Amortisation expense					(675)
Net interest expense					(2,055)
Tax					(6,456)
Net Profit after tax					13,084

	Six months to 31 Dec 2006 $000	Six months to 31 Dec 2005 $000

3. PROFIT BEFORE INCOME TAX

Profit from ordinary activities before related income tax expense includes the following items of expense/(income) 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

	Six months to 31 Dec 2006 $000	Six months to 31 Dec 2005 $000
• Reversal of ClientLogic loan provision [1]	-	(543)
• Integration, restructure and redundancy costs [2]	1,719	1,036
• Impairment of Asia goodwill [3]	4,478	-
• Profit on disposal of shares in associated company [4]	(25,048)	-

[1] Reversal of loan provision – In the prior period, the group reversed provisions against its loans due from the Philippine call centre joint venture (ClientLogic Philippines).

[2] Integration, restructure and redundancy costs.

[3] Impairment of Asia goodwill - Following the sale of the ClientLogic joint venture, management has reassessed the strategic value of the remaining Asian businesses and determined that a write down in the goodwill carrying value is required. The impairment loss has been recognised in the income statement in the line item "depreciation and amortisation."

[4] Profit on disposal of associated company - In September 2006, Salmat announced the disposal of its Philippine call centre Joint Venture, ClientLogic Philippines. The disposal resulted in a profit of $25m being recognised in the period. This profit on disposal is exempt from tax.

4. DIVIDENDS

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

	Six months to 31 Dec 2006 $000	Six months to 31 Dec 2005 $000
Final fully franked ordinary dividend of 9.5 cents (2005: 9.0 cents) per share	11,139	10,498
Dividends paid as per Statement of Cash Flows	**11,139**	**10,498**

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

	Six months to 31 Dec 2006 $000	Six months to 31 Dec 2005 $000
Since the end of the half-year, the Directors' have recommended the payment of an interim dividend of 8.0 cents per share (2006: 7.0 cents per share) and a special dividend of 10.0 cents per share (2006: nil) A record date of 8 March 2007 has been set. The aggregate amount of the proposed interim dividend and special dividend which are expected to be paid on 28 March 2007 is: [1]	**21,167**	**8,178**

[1] All dividends franked to 100% at 30% corporate tax rate.

5. NET TANGIBLE ASSET BACKING

	Six months to 31 Dec 2006	Six months to 31 Dec 2005
Net tangible asset backing per ordinary share	**20.6c**	**13.6c**

6. EARNINGS PER SHARE

	Six Months to 31 Dec 2006 $000	Six Months to 31 Dec 2005 $000
(a) Reconciliation of Earnings to Net Profit		
Net profit after tax attributable to members of Salmat Limited	35,068	13,084
Earnings used in the calculation of diluted EPS	**35,068**	**13,084**
(b) Weighted average number of ordinary shares used in the calculation of basic EPS	**Quantity '000**	**Quantity '000**
Weighted average number of shares on issue used to calculate basic EPS	117,205	116,622
Effect of dilutive securities - weighted average number of options outstanding	5,058	4,460
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS	**122,263**	**121,082**

7. EQUITY SECURITIES ISSUED

Issue of ordinary shares during the half-year

	Quantity '000		**$000**	
	31 Dec 2006	31 Dec 2005	**31 Dec 2006**	31 Dec 2005
Opening balance	117,245	116,635	32,770	31,459
Exercise of options issued under the Salmat Executive Performance Option Plan	350	168	891	373
Issued to Directors in accordance with a resolution passed at the Annual General Meeting	-	19	-	-
Closing Balance	**117,595**	**116,822**	**33,661**	**31,832**

8. INTANGIBLES

	Consolidated			
	Goodwill $000	**Other Intangible Assets** $000	**Customer Intangible** $000	**Total** $000
Balance at 1 July 2005	81,112	97	3,291	84,500
Acquisition of a subsidiary/business	444	-	-	444
Amortisation charge	-	(17)	(658)	675
Impairment charge	-	-	-	-
Balance at 31 December 2005	81,556	80	2,633	84,269
Balance at 1 July 2006	82,160	63	1,975	84,198
Acquisition of a subsidiary/business	28,540	705	-	29,245
Amortisation charge	-	(17)	(658)	(675)
Impairment charge (see note 3)	(4,478)	-	-	(4,478)
Balance at 31 December 2006	106,222	751	1,317	**108,290**

9. BUSINESS COMBINATIONS

During the half-year the following businesses were acquired which provided additional capabilities and revenue streams to the group:

VeCommerce Limited

VeCommerce is a leading provider of voice self-service and speaker verification solutions. On 19 October 2006 (acquisition date), having attained 90.3% acceptance, Salmat declared its offer for 100% of the issued shares of VeCommerce Limited free of all conditions. 100% ownership was gained on 1 December 2006.

Dialect Interactive Services

On 5 December 2006, Salmat acquired the business of Dialect interactive Services, a provider of hosted mobile, voice and digital communication services.

Digital Documents

On 17 November 2006, Salmat acquired the business of Digital Documents, a provider of Print On Demand services.

Janhope and Willandon

On 30 October 2006 and 3 November 2006, Salmat acquired the letterbox delivery services of Janhope and Willandon respectively.

9. BUSINESS COMBINATIONS (continued)

	VeCommerce $'000	Other $'000	Total $'000
Purchase consideration:			
Cash paid	29,583	5,598	35,181
Deferred cash settlement	-	1,130	1,130
Costs associated with the acquisition	847	143	990
Total consideration	**30,430**	**6,874**	**37,301**
Fair value of net identifiable assets acquired (refer below)	7,725	1,036	8,761
Goodwill arising on acquisition	22,705	5,838	28,540
The net cash outflow on acquisition is as follows:			
Net cash acquired	5,529	-	5,529
Cash paid, including costs	(30,430)	(5,741)	(36,171)
Net cash outflow	**(24,901)**	**(5,741)**	**(30,642)**
Fair value of net identifiable assets acquired			
Cash and cash equivalents	5,529	-	5,529
Trade and other receivables	1,810	51	1,861
Inventories	3,199	-	3,199
Plant and equipment	247	1,124	1,371
Deferred tax assets	727	60	787
Intangibles - Project development costs	705	-	705
Trade and other payables	(3,433)	-	(3,433)
Provisions	(1,059)	(199)	(1,258)
Net identifiable assets acquired	**7,725**	**1,036**	**8,761**

The amounts recognised on acquisition above represent provisional assessments of the fair value of identifiable assets and liabilities acquired acquisition purposes. These amounts will be finalised within twelve months from the respective date for each acquisition.

VeCommerce Limited contributed revenue of $1.8m and net loss of $0.2m to the Group for the period from acquisition to 31 December 2006. The other businesses acquired have been integrated into the respective Salmat divisions. It would be impracticable to attempt to estimate the additional revenue and net profit provided by these acquisitions.

If all the above acquisitions had occurred on 1 July 2006, the estimated consolidated revenue and consolidated profit for the half-year ended 31 December 2006 may have been $312m and $35m respectively.

The key factors contributing to the goodwill recognised for VeCommerce relate to the company's strong position in the speech technology market and synergies expected to arise upon integration. The key factors contributing to the goodwill recognised for the other businesses acquired relate to expected future returns from the acquired businesses and also synergies expected to be achieved as a result of combining these businesses with the rest of the Salmat Group.

10. CONTINGENCIES

The Salmat Group has been involved from time to time in various claims and legal proceedings arising from the conduct of its business. The Company does not consider the outcome of any proceedings, either individually or in aggregate, are likely to have a material effect on its financial position. The Company maintains insurance cover to minimise the potential effects of such claims, and where appropriate, provisions have been made.

11. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As announced to the ASX in September 2006, Salmat disposed of its Philippines call centre joint venture company. The proceeds ($28.3m) were received on 1 February 2007.

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 18:

    (a) Comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

    (b) Give a true and fair view of the economic entity's financial position as at 31 December 2006 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 23rd day of February 2007 on behalf of the Board.

Peter Mattick
Director

Philip Salter
Director

Richard Lee
Chairman

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Independent auditor's review report to members of Salmat Limited

We have reviewed the accompanying half-year financial report of Salmat Limited and the entities it controlled during the half-year, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the half year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Auditing Standard on Review Engagements ASRE 2410 Review of an Interim 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 2006 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 and other mandatory financial reporting requirements in Australia. As the auditor of Salmat Limited and the entities it controlled during the half year, 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. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Salmat Limited and the entities it controlled during the half year is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half year ended on that date; and

  (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Craig M Jackson
Partner
Sydney
23 February 2007