

***Salmat Limited results for the year ended 30 June 2010***

*Presentation speech, 27 August 2010*

Grant Harrod:

***\*\*Agenda slide 3\*\****

Good morning and welcome to our presentation today covering Salmat's results for the year ended 30 June 2010.

I'm Grant Harrod and I'll be presenting along with our Chief Financial Officer, Chad Barton.

We've got attendees both here in person and on the teleconference line. We'll provide an opportunity for everyone to ask questions at the end of the presentation, so please hold any questions until that time.

Today we are covering Salmat's results for the year ended 30 June 2010; the performance of each of our business divisions and our key areas of focus for future growth.

***\*\*Financial summary slide 5\*\****

Our financial results reflect a strong focus on consolidation and profitable growth, as we worked to bring together the business through the One Salmat strategy and uncover opportunities for streamlining and efficiency.

Normalised sales revenue was \$878.8 million for the year up 1.0%.

EBITA before significant items was up 17.3% on the prior year to \$91.2 million, exceeding our guidance of \$85-90 million.

Net profit after tax but before significant items was up 43.8% to \$47.4 million. Net profit after tax and after significant items was up 42.5% to \$49.1 million. Our improved profitability led to an EPS of 31.1 cents: an increase of 43.3%.

I'm also pleased to report an increase in free cash flow of 14.7% to \$72.0 million.

Our strong position and the Board's confidence in our future outlook has led them to declare a final dividend of 12.5 cents per share fully franked. In light of our consistent growth in earnings during the global financial crisis, our significant debt reduction and our strong cash position, the Board has also declared a special dividend of 10.0 cents per share fully franked. This brings the total dividend for the year to 33.5 cents per share, representing an increase of 67.5% on the previous year.

*\*\*Full year highlights slide 6\*\**

It's been an exciting year and we've posted some significant achievements.

As we've just seen in the financial summary, we've had a very solid result, maintaining the top line and substantially improving the bottom line.

Salmat has delivered growth in dividends year on year since listing, and this year is no exception, with a significant increase on the previous total and a special dividend of 10.0 cents per share.

Our financial position is very positive, with excellent cash flow and plenty of headroom on our finance facilities. During the year, we managed to reduce our debt by more than \$33 million, with net debt standing at \$134.3 million by year end.

A number of programs focussed on cost control, productivity and margin enhancement delivered excellent results during the year, particularly in the Targeted Media Solutions business and Business Process Outsourcing. We are focussing on further business optimisation and several key initiatives are planned for the next twelve months, in areas including site consolidation.

We've also launched some new initiatives in the past year aimed at improving Salmat's standing as an employer of choice and responsible corporate citizen, including programs to promote women in leadership, improved workforce diversity and responsible procurement.

We've made great strides with the One Salmat strategy, which aims to package all our services into an extremely compelling 'one stop' multi-channel communication solution for our clients, substantially improving the return on their marketing investment. We finalised a new senior leadership team late last year and this team has been working hard to reinforce One Salmat through the business and uncover new development opportunities. We have a new sales structure in place to bring One Salmat to the market and the client reaction has been very positive, with interest building across various sectors.

In all, the past year has been one of consolidation: reviewing, strengthening and uniting the business in preparation for the next phase of growth.

*\*\*Business scorecard slide 7\*\**

We outlined four key objectives at the AGM last November and I'm pleased to report that we delivered on the majority.

The integration of the HPA business into our BPO division has delivered great synergy benefits over the past two and a half years, with targets to date all being met or exceeded. As with any integration of this scale, there are still some longer-term programs underway, such as the recent Victorian site merger. As such, we'll continue to seek further benefits in this division.

Targeted Media Solutions had an outstanding year, and I'll go into more detail later in the presentation. Suffice to say, volumes, revenue and EBITA all grew and we also achieved strong margin improvement.

Again, I'll discuss the Customer Contact Solutions result in more detail shortly, but briefly, CCS profit growth was the one objective that wasn't realised this year. There were a number of factors that contributed to this result, including softer market conditions, higher sales of lower margin services and new wins that did not translate into revenue before the end of the financial year.

Finally, we also targeted EBITA growth before significant items in the range of \$85-90 million. This was achieved and exceeded, with a result of \$91.2 million.

I'll now hand over to Chad Barton to present our full year financials in more detail.

Chad Barton:

Thanks Grant. Good morning everyone.

*\*\*Group result for year ended 30 June 2010 slide 9\*\**

As previously mentioned, sales increased 1.0% on a like for like basis on prior year whilst being down 1.3% on a reported basis.

EBITDA increased by 11.5% to \$113 million and EBITA increased by 17.3% to \$91.2 million. Our new business wins and focus on efficiency programs throughout the year has seen our EBITA margins expand 170 basis points.

Depreciation expense was 8% lower than the prior year due to lower cash capex and this capex being spent later in the financial year.

Interest expenses were lower due to our significant net debt reduction during the year and our hedged interest rate profile being lower than the prior year.

Tax expense before significant items increased as a result of our higher earnings but is now at an effective 30% tax rate versus 34% in the previous year. On this basis, profit before significant items was \$47.4 million: an increase of 43.8% on the prior year.

The income from significant items derives from the recognition of deferred profit on the sale and leaseback of properties in Sydney and Brisbane in the prior year.

Net profit after tax including significant items was \$49.1 million and reported EPS is 31.1 cents: an increase of 43.3% on 2009.

Including the special dividend, the total dividend for the year was 33.5 cents per share, up 67.5% on the prior year.

*\*\*Underlying revenue growth slide 10\*\**

This slide highlights the key revenue movements for the year ended 30 June 2010.

We have normalised the 2010 revenue growth to more accurately reflect the underlying revenue performance of the business year on year, reducing 2009 revenue by \$21.1m. \$15m of the adjustment relates to pass-through telco revenue in our interactive SMS business, which was impacted by a regulatory change, as we have mentioned in prior results. There was a foreign exchange impact of \$4 million that impacted our BPO revenue in Asia. Also in BPO, we also exited a small creative business – DHQ – which impacted revenue by \$2.3 million.

On this adjusted baseline, revenue has grown 1% to \$879m in 2010. Targeted Media Solutions was the key contributor to underlying revenue growth, supported by Customer Contact Solutions. Grant will discuss the divisional results in more detail shortly.

*\*\*Underlying EBITA (before significant items) slide 11\*\**

EBITA in 2010 has an underlying growth of 18% to \$91.2m. Targeted Media Solutions was also the key contributor to this EBITA growth, thanks to a number of successful programs to increase efficiency and enhance delivery capabilities in addition to new business wins in letterbox and Lasoo.

Business Process Outsourcing also delivered a strong EBITA result, despite its revenue decrease, due to residual synergy benefits from the HPA acquisition plus further cost control.

Customer Contact Solutions EBITA was impacted by costs associated with a major call centre account as well as lower contributions from our speech and learning businesses. Corporate costs were consistent with the previous year.

*\*\*Balance sheet slide 12\*\**

Current assets grew by 7.7% on the prior year to \$187.8 million, driven by an additional \$15 million in cash holdings at year end.

The 16.5% decrease in other assets resulted from the \$10.5 million in annual amortisation on the customer lists intangible, following the HPA acquisition in late 2007.

Current liabilities increased 6.8%, mainly due to increased tax provisions, with non-current liabilities falling by 10.2% due to the decrease in borrowings.

*\*\*Cash flow slide 13\*\**

The group's cash flow continues to be a real strength of Salmat, with net operating cash flow improving a further 5% on the previous year's result, which itself had posted a 33.5% year on year improvement.

Our DSO remains at 32 days.

Free cash flow was up 14.7% to \$72 million as a result of higher earnings, lower capital spend and improved working capital management.

Prior year cash flow had the benefit of \$24 million in cash from the sale of properties.

We repaid a further \$23 million in borrowings during the year, whilst generating a lift of 12.8% in dividend payments. At year end, cash had lifted by \$15 million to \$59 million.

*\*\*Net debt Position slide 14\*\**

During the year, our net debt position improved by \$33.2 million from \$167.5 million to \$134.3 million. This was predominately achieved through strong cash flow – assisted by higher earnings - and working capital management. This compares with our debt reduction of \$51.9 million during the previous year, which was greatly assisted by a one-off net cash inflow of \$24 million from property sales.

Salmat's debt reduction is particularly impressive considering that our gearing has been restored to 31.2% in less than three years from a post HPA acquisition high of approximately 61.5% in November 2007.

Our finance facilities established last December remain in place and it is too early to provide any guidance on our anticipated debt movement for the coming year. The first tranche of our debt facilities do not expire until December 2011.

*\*\*Capital expenditure slide 15\*\**

As a percentage of revenue, total capital expenditure for the year was in line with the trend of the past few years, at 2.4%.

Cash capital expenditure of \$12.9 million was 28.7% lower than the previous year. This was partly due to the strategic decision to fund long term leasehold improvements through finance lease arrangements rather than cash.

Some approved capital expenditure was also postponed to the new financial year due to a change in the timing of recognising capital associated with site relocations and new premises.

We anticipate an increase in capital expenditure next year due to strategic investment in new Business Process Outsourcing print technology; capex associated with new plants in Victoria; and several IT projects. We'll provide an update on capital expenditure at the AGM in November.

*\*\*Key ratios slide 16\*\**

The health of Salmat's underlying business is reflected in the KPI improvements shown here. We have seen improvements across all key ratios over the year.

The EBITDA, EBITA and NPAT margins all grew by more than 150 basis points on the prior year, on the back of profitable growth, cost efficiencies and improved asset efficiency.

With no change to our share base, the EPS accretion this year was entirely due to increased earnings.

Dividend yield with the inclusion of the special dividend is 8.6%, excluding the special dividend the yield was 6%.

ROCE improved 410 basis points to 18.6%, mainly due to higher earnings.

Gearing reduced thanks to our strong cash flow to 31.2%.

This strong cash flow also led to a lower net interest expense, which was down 28% on the previous year. Combined with higher earnings, this delivered a 310 basis points improvement in our interest coverage ratio.

*\*\*Key production volumes slide 17\*\**

Looking at our production volumes, volumes were up across the business barring one exception.

In Targeted Media Solutions over the last year, catalogue volumes have risen by 11% to over 5 billion catalogues delivered, we are now also sending over 150 million emails and 14.7 million SMS' per annum. In Lasoo visits are up 33% to 14 million over the year with product searches jumping 207% to 57 million.

In Business Process Outsourcing, mail pack volumes have reduced by 5% in the year to 1.21 billion mail packs, whilst electronic delivery has risen to 47 million which is 3.7% of mail pack volumes. Grant will discuss these trends further during the BPO update.

In our call centre business, we have averaged 3,500 operators over the year an increase of 7.1%.

I'll now hand back to Grant who will take you through the strategic review for each of our divisions and provide a market update.

Grant Harrod:

Thanks, Chad.

*\*\*Targeted Media Solutions financial performance slide 20\*\**

Looking first at our Targeted Media Solutions area, this division posted increased revenue of 2.1%, or 10.4% when the results are normalised.

EBITA before significant items increased by 44.3% to \$40.3 million. This was largely the result of a comprehensive program of cost control, volume increases in Lasoo, growth in interactive services such as email and the development of new systems to better manage both direct and indirect costs. Within the catalogue distribution business, a new national team structure, enhanced operating systems and new business wins delivered net benefits.

*\*\* Targeted Media Solutions scorecard update slide 21 \*\**

Pleasingly, we've met all of the key objectives set for this division at the beginning of the year.

In our letterbox distribution business we implemented several new operational initiatives to improve our network efficiency and engagement with the field. As a result, Salmat consistently achieves a superior service level as acknowledged by retailers based on sales performance and in-store traffic. We've also seen an increasing trend in traditional letterbox clients moving towards a more integrated communication model, incorporating online and interactive channels, thus leveraging our One Salmat model.

Lasoo performed very well during the year, with an exponential increase in revenue and significant growth in visitor numbers and interactions on the site. We continued to innovate the Lasoo offering via improved content and functionality to create the best consumer pre-shop experience in Australia. We will cover Lasoo in more detail later.

Our interactive services portfolio continues to grow in scale and significance, as email, SMS and social media gain popularity as an advertising medium of choice amongst consumers and retailers alike. The ability to intelligently segment and target messages with these channels is a compelling benefit. An investment in the world-leading Strongmail email technology platform assisted a significant uplift in volumes during the year.

Salmat's multi-channel capability is a key component of its One Salmat strategy. We've realigned our sales resources to focus on this integrated service model and have already seen a positive client response to the concept. Recent research clearly indicates the power of new media channels, suggesting that nearly 40% of retail sales will be influenced by the web and cross channels in 2012.

*\*\*Customer Contact Solutions financial performance slide 23\*\**

Customer Contact Solutions revenue was up for the year, both at a prima facie and normalised comparison level. The adjustment in this division is for the Direct Headquarters (DHQ) customer engagement business, which transferred from Business Process Outsourcing into Customer Contact Solutions during the year.

Revenues were up over 7% in the call centre business, exceeding market growth rates, but EBITA and margin were impacted by delays in revenue from new business wins and a higher volume of sales in the lower margin services. We are transitioning the service mix in Customer Contact Solutions to reduce the incidence of commodity work in favour of more premium, higher margin services, but this will take time.

Field sales and speech solutions revenue and earnings were down due to both delays in implementing new contracts won in our speech business and a softer discretionary retail market impacting field sales. Investment in the learning and development solutions area and unfavourable foreign exchange variances also had a bearing.

*\*\* Customer Contact Solutions scorecard update slide 24\*\**

As outlined, we did grow revenue in the call centre over 7% and in our learning and development businesses, but field sales and speech solutions revenue was down on the previous year. With a strong pipeline of new business opportunities and our investment in an expanded sales team, there is significant growth potential in each of these areas. Our unique capabilities present a strong differentiator and competitive advantage.

We remain the leading outsourced call centre service provider in Australia, with a flexible and scalable range of service options, from a dedicated full-service centre to the @Home operator model. While we also offer an offshore service, many clients are trending back to a domestic preference and we have an unmatched capability in the local market.

Our biggest opportunity is to educate the majority of Australian businesses who insource their call centres, not realising the significant benefits in greater efficiency and greater customer experiences by having Salmat manage these activities.

*\*\*Business Process Outsourcing financial performance slide 26\*\**

Business Process Outsourcing revenue was down 7.4% for the full year, or 5.7% when adjusted for the closure of an underperforming direct marketing business and unfavourable foreign exchange movements. The main factor impacting revenue was lower bulk mail volumes, which occurred across the industry. Print and mail volumes decreased as discretionary or direct mail volumes were impacted by the macro environment and essential mail volumes declined on the back of customers in some sectors reducing frequency of statements. Electronic presentment compared with mail delivery increased marginally to 3.7% of total bills and statements produced.

EBITA was up 7.1% for the year to \$44.2 million, reflecting a strong focus on productivity as well as some residual integration benefits. The overall margin increased despite the impact of lower volumes.

*\*\* Business Process Outsourcing scorecard update slide 27\*\**

While print and mail volumes were lower than anticipated, we do not expect the same rate of decrease in the current year and already have a solid line up of new work that supports this view.

As can be seen from the strong EBITA performance, our focus on integration synergy benefits and wider efficiency gains has reaped rewards. Further benefits will be realised from the major Victorian site merger that has just taken place, as well as a number of other optimisation programs.

Salmat has been developing its traditional scanning and archive services to incorporate more sophisticated workflow processing. This is aimed at developing ongoing, end-to-end solution-based work such as online marking and accounts payable processing. While significantly underway, we intend to expand our presence in these markets further.

Our Philippines infrastructure, established in September 2009, performed very well, providing valuable support services to the BPO division as a whole. We will continue to draw on the capabilities of this facility in the future, as this provides an excellent infrastructure for expanding the outsourced back office services we can now offer our Australian clients.

During the year, the data analytics resources within BPO were merged into a new centre of excellence service in Targeted Media Solutions division. This presented a better strategic fit given the retail focus of the TMS division and its existing geo-demographic profiling capabilities. The team is now developing new offerings to leverage our broad data analytics capability on behalf of our retail clients.

*\*\*Growth strategy slide 29\*\**

Salmat's three year growth plan is based upon a multi-pronged approach.

Firstly, organic growth will be driven by our One Salmat strategy throughout the business. We will target existing and prospective customers with our unique multi-channel one to one communication services. We've aligned our sales teams to focus on the cross-selling of solutions and maximising opportunities within our existing client base and new customers.

Salmat is evolving from a transactional service provider to a solutions provider. Commercial and government organisations servicing B2C markets need targeted customer communication strategies incorporating voice, interactive, mail and/or digital channels to target, acquire and retain customers. With the rapid evolution of technology including smartphones, social media and other interactive applications, these strategies to be effective now need to be incorporated into an integrated multi-channel communication solution.

Salmat is the only communication / marketing services company capable of providing such a truly end to end solution. Rather than just facilitate messages, with our One Salmat focus we are now able to re-engineer a client's total communication environment, by deploying smart processes, outsourced workforce optimisation programs and cloud-based technology solutions, which will substantially maximise the return on their sales and marketing investment.

Secondly, we are seeking to accelerate and increase the scale of our digital businesses. The time is ripe to put some further investment into these areas, so we lead the innovation curve and capture the excellent momentum now occurring in these markets. We'll be reaping the rewards of this strategy in the not too distant future.

Thirdly, we are developing new solution offerings and expanding into new, previously untapped markets for the Salmat business. In BPO for example, the workflow services I mentioned previously offer solutions for sophisticated, multiple-step work, such as accounts payable, claims management and other back office processes. Where we might have previously handled just part of the process, our new offering enables us to take on the end-to-end application and most importantly leverage our existing infrastructure and available resources.

Next, is expanding into new markets including the Small to Medium Enterprise space. While we've traditionally focussed more on the high-volume, large-scale corporates, we are adapting many of our services to better suit the SME client, delivering the same sort of benefits and competitive advantages enjoyed by our larger clients. A great example of this is the upcoming launch of our 'local area marketing' solution, incorporating a self service web portal for SME clients that allows them to access Salmat's suite of multi-channel communication solutions. The web provides an excellent customer engagement platform to service this market, giving us a cost effective access to a broad clientele plus making it much easier for these customers to engage Salmat.

Of course, continuous improvement remains an essential part of the mix. We've had great results from some of our recent efficiency programs - especially in Targeted Media and BPO – and have ramped up our enterprise wide Optimise program and expect to generate further gains in the coming period.

Finally, strategic acquisition activity feeds into all of the strategies just mentioned, and we are actively reviewing a number of opportunities to both strengthen our existing services as well as extend our one to one communication model.

*\*\*Lasoo.com.au slide 30\*\**

We would now like to provide an update on our Lasoo business.

Launched in late 2007, Lasoo today engages more in-store shoppers than any other Australian site, offering the most engaging consumer experience influencing what people buy and from where they buy.

Lasoo hosts over 45,000 retail offers per month from 75 regularly featured retailers. Averaging over 1.2 million visitors per month, we achieved our highest number of visitors in July 2010 with over 1.7 million. 10% of these were visitors accessing Lasoo via a mobile device, confirming these devices are driving general access to the internet, particularly on the go.

In October 2009 we launched the Lasoo iPhone app - recognised as one the most popular apps for 2009 - increasing visitors to the site by 15%. In June 2010 we launched the Lasoo iPad app, which was recognised as the most successful app when the iPad was launched, surpassing the likes of 'The Australian' newspaper and other popular aggregated content applications.

These apps enable users to search for a specific product or browse by brand, product or retailer and use the built-in store locator with Google Maps to find store locations and opening hours. Where they have integrated GPS functionality, they can select to see products and promotions available in their nearby area.

In 2010, total site visits increased by 33%, with a 70% increase in our organic traffic.

*\*\*Lasoo investment slide 31\*\**

We previously indicated that Lasoo would break even by the end of 2011. I'm very pleased to confirm Lasoo exceeded this guidance and reported a breakeven result for the month of June 2010. Substantial growth in promotional offers featured from both existing and new retail customers, along with the continued shift to performance pricing, underpinned this result.

'Online' is already the leading influential media on retail purchases. Google research shows that over 50% of consumers in certain product categories will now go online to research their purchases before buying offline in store or online at a retailer site.

Retail marketing investment in the online channel is increasing dramatically, with the Interactive Advertising Bureau confirming \$1.87 billion in online advertising spend for 2009 and forecasting an increase in spending to \$4 billion per annum over the coming years. Most notable is the increase in display and classified advertising, which now represents over 50% of total online advertising spend.

Online channels that offer the strongest value proposition to retailers and consumers will naturally reap the greatest benefit from this growing investment in online advertising.

These compelling online industry trends provide a unique opportunity to position Lasoo as the site of choice for all retail offers, hence we have decided to adjust our current strategy and bring forward investment to accelerate the development of Lasoo. This decision means our previous breakeven guidance will be postponed for a further 12 months to 2012.

Our upgraded strategy will focus on enhancing two key elements: firstly: 'where to buy', and secondly: 'what to buy'.

Our 'where to buy' strategy will include expanding our sales efforts to increase retailer participation on the site, adding e-tailers to the site who previously have been outside our engagement model, and establishing more partnership networks to extend the reach of Lasoo.

Next is our 'what to buy' strategy which includes dramatically expanding the categories currently represented on the site and adding extensive product reviews, product ratings, expanded images, video and product specifications.

In addition, we will also add a range advertising mediums to expand revenue streams; and give retailers broader access to the volume of visitors to the site.

To deliver this upgraded strategy will require additional investment in operating expenditure to cover increased head count in the product content team, site development team and sales team. We will also accelerate brand marketing to capture more traffic and secure the Lasoo brand as the Australian consumer's shopping research site of choice.

Most of the additional resources have now been hired and the marketing campaign will begin once site upgrades have been completed.

We anticipate that successful deployment of this strategy will lead to a 200% increase in site visitors and a two to three-fold increase in retailers featured on the site.

*\*\*Outlook slide 32\*\**

The economic climate remains difficult to forecast, however we anticipate it strengthening into 2011, particularly across many retail categories.

We are well positioned with our diverse portfolio of businesses and - as shown in the past few years – we have a number of resilient businesses providing essential type services.

With our strong cash flow, we are in a prime position to make strategic acquisitions and take full advantage of opportunities that support our innovation and growth agenda around our one to one communication service model. Discussions continue with a number of prospective opportunities.

Our key objectives for the coming year will be to accelerate sales via our One Salmat growth strategy, target further business efficiency opportunities and continue to innovate our unique services portfolio. As is our tradition we will provide more update on some of our specific goals and targets at the AGM later this year.

Thank you for your interest today.

We'll now take questions regarding our results and operations. Please state your name and the organisation you represent before asking your question.