

strategy in context



1

refine strategy

2

build out capabilities



3  
realise our multi-channel service platform vision



\$  
improve shareholder returns



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## RESPONSIBILITIES AND FUNCTIONS OF THE BOARD

Salmat Limited is committed to achieving and demonstrating high standards of corporate governance. Salmat's framework is structured to facilitate compliance with the best practice principles and recommendations released by the ASX Corporate Governance Council as updated on 30 June 2010, which came into effect on 1 January 2011.

The Board of Directors is accountable to shareholders for the performance of Salmat Limited and its subsidiaries (the Salmat Group).

The Board has delegated responsibility for the management of the Group through the Chief Executive Officer to executive management. There is a clear division of responsibilities between those of the Board and of management. The Chief Executive Officer is accountable to the Board for all authority delegated to executive management. The Board has also delegated some of its responsibilities to Committees of the Board. These delegations are outlined in the Board-approved Committee charters.

The composition of the Board is subject to shareholder approval. As the Chairman is not independent due to his shareholding in the company, the Board has resolved to appoint one of its members as Lead Independent Director. The Board will be independent of management and all Directors are required to bring independent judgement to bear in their Board decision-making.

Peter Mattick and Philip Salter were both former joint Managing Directors and founders of Salmat. Following their retirement as joint Managing Directors in October 2009, both Peter Mattick and Philip Salter took up Non-executive Directorships on the Board.

Upon release of the half-year results on 26 February 2013, it was announced that Richard Lee, Salmat's Chairman and a Non-executive Director, would not stand for re-election at the 2013 Annual General Meeting, for these positions he had held since Salmat listed in 2002.

From 1 July, Peter Mattick assumed the role of Chairman. Richard Lee will be Lead Independent Director until the completion of his term, following which John Thorn will assume this role.

Grant Harrod, the former Chief Executive Officer and Managing Director, resigned from the company on 1 July 2013. At this point, Peter Mattick also assumed the role of interim CEO. The Board is conducting an executive search for a new CEO.

The Board currently consists of six members, of which four, being a majority, are independent Non-executive Directors. The Board intends to appoint a new independent Director following the retirement of Richard Lee to maintain a majority of independent Directors. This appointment will be made considering the requisite skills to oversee delivery of the Company's strategy.

During the year, the Board undertook its annual Board performance review. This review considered the contribution made by individual Directors and the Board as a whole to the performance of the Company and sought to identify areas for improvement. The Board considers that an appropriate mix of skills required is in evidence to maximise its effectiveness and contribution to the Company.

The Chairman is responsible for leading the Board; ensuring that Board activities are organised and efficiently conducted; and for ensuring Directors are properly briefed for meetings.

The matters specifically identified and reserved for decision-making by the Board include:

- adoption of the strategic plan of the Group;
- appointment of the Chief Executive Officer and succession planning;
- approval of accounts, operating results, business plans and budgets;
- approval of financial policies and significant capital expenditure;
- monitoring business risk and strategies employed by management;
- monitoring financial performance including approval of the annual and half-year financial reports;
- ensuring there are effective management processes in place and approval of major corporate initiatives;
- ensuring there is an effective 'whistleblower' policy in operation, referred to as 'Doing the Right Thing'; and,
- reporting to shareholders.

The Board has reviewed these responsibilities in conjunction with the latest Board performance review and considers it has discharged these responsibilities. The annual review, led either by an independent adviser or the Chairman, also considers in conjunction with each Director their responsibility to ensure they have sufficient time available to discharge their duties adequately.

The Company has a selection, education and induction process in place for new Directors. This process is tailored for new Directors dependent on their individual skills, background and experience. This program includes site visits, discussions with senior managers, review of strategic documents and presentations by business units. Ongoing participation in activities by individual Directors is tailored to the business needs and current activities of the Company, industry trends, requirements and opportunities as well as the current environment on a regular basis. To ensure the knowledge and education of the individual Board members remains up to date, a number of activities are organised. Board meetings are held at various Salmat sites.

The Board receives presentations focussed upon strategic and operational aspects of the Company to ensure they have an up to date knowledge of products, services and opportunities. During the year there has been a particular focus on the new growth strategy.

Details on the members of the Board, their experience, expertise, qualifications, term of office and independence status are set out in the Directors' report on page 10.

## BOARD AND COMMITTEE MEMBERSHIP OF DIRECTORS

Board member		Appointed Director	Committee member		
			Audit, Risk and Compliance Committee	Remuneration and Compensation Committee	Technology and Innovation Committee
Peter Mattick	Chairman, Director and interim CEO	14/3/1984			•
Richard Lee	Lead Independent Non-executive Director	9/8/2002	•	•	
John Thorn	Independent Non-executive Director	1/9/2003	•	•	
Ian Elliot	Independent Non-executive Director	1/1/2005	•	•	
Philip Salter	Non-executive Director	14/3/1984			•
Fiona Balfour	Independent Non-executive Director	1/1/2010	•	•	•

At the Annual General Meeting, Richard Lee will retire and not stand for re-election. Fiona Balfour will retire by rotation, and being eligible, will offer herself for re-election.

The Company's policies regarding the terms and conditions of remuneration of Board members are determined by the Board after considering independent professional advice. No retirement benefits are paid to Non-executive Directors, nor are they eligible to participate in any Company incentive schemes.

The remuneration and terms and conditions of employment for the Chief Executive Officer and other senior management are reviewed by the Remuneration and Compensation Committee after seeking an independent professional review of these conditions and approved by the Board of Directors. Details of remuneration and the processes undertaken by the Company are included in the remuneration report on page 12.

The executive management prepares strategic plans for each operating activity and the Group. These plans are presented to the Board which then reviews and endorses strategies that are designed to ensure the continued profitable performance and growth of the Group. This process encompasses two formal reviews by the Board of the strategic plan and progress against the plan each year. In addition, an overview of progress against specific strategic objectives and initiatives is reviewed at each Board meeting. Annual operating plans and the budget are based on these approved strategies.

### INDEPENDENCE OF BOARD MEMBERS

Our definition of an Independent Director is one who is independent of management and free from any business or other relationship that could materially interfere with the exercise of independent judgement. It is the Board's view that each of its Non-executive Directors, except for Peter Mattick and Philip Salter, is independent and a resolution to this effect is made at the time of approving the annual accounts.

Materiality for these purposes is determined on both quantitative and qualitative bases.

### ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

Guidelines are in place which provide for each Director to have the right to seek independent professional advice at the Company's expense, subject to the prior approval of the Chairman. Details of the policy are available on the Company's website: [www.salmat.com.au](http://www.salmat.com.au).

### CODE OF ETHICS

Salmat's approach to business continues to be founded on a culture of ethical behaviour. We stress honesty and integrity in everything we do, which flows through to our employees, our customers, our shareholders, the community and to other stakeholders.

The Board has adopted a code of ethics, which imposes on all Directors, employees and consultants the following duties:

- To act honestly, fairly and without prejudice with clients in all commercial dealings and to conduct business with professional courtesy and integrity.

- To act in the interests of the Company, its shareholders and the financial community generally. The Company is committed to safeguarding the integrity of financial reporting and as such will prepare and maintain its accounts fairly and accurately in accordance with the accounting and financial reporting standards.
- To promote a safe, healthy and efficient work environment.
- To comply with all laws, regulations and any applicable awards in all jurisdictions in which the Company operates or sources goods or services.
- Not to knowingly make any misleading statements to any person or to be a party to any improper practice in relation to dealings with or by the Company.
- To ensure that the Company's resources and property are used properly.
- Not to disclose information or documents relating to the Company or its business, other than as required by law, not to make any improper public comment on the Company's affairs and not to misuse any information about the Company or its associates.
- Not to solicit, accept or offer money, gifts, favours, inducements, commissions, facilitation payments or business courtesies that may influence or appear to influence the ability to make an unbiased and objective decision.
- To ensure there is a clear communication process for material items of concern between employees and the Board.

To ensure the code of ethics is embedded in the culture, Salmat has implemented the following mechanisms:

- Salmat's internal communication processes provide direct access to the CEO for staff at all levels.
- Salmat has a privacy email address accessed via its website where contact can be made directly with Salmat's privacy officer on a confidential basis.
- Salmat's *Doing the Right Thing* policy and Whistleblower Hotline provides an external independent and confidential channel for whistleblowers to report improper conduct. Any notifications received under this policy, along with details of the investigation undertaken and subsequent action taken, are reported to the Audit, Risk and Compliance Committee.

The Board has established a number of Committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current Committees of the Board are the Audit, Risk and Compliance Committee; the Remuneration and Compensation Committee; and the Technology and Innovation Committee. Membership of each of these Committees was reviewed and confirmed during the year.

Due to the small number of Directors on the Board, it is considered that a separate Nomination Committee is not required. The functions of a Nomination Committee are carried out by the full Board.

## AUDIT, RISK AND COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee (ARCC) is a Committee of the Board. The ARCC charter adopted by the Board is displayed on the Salmat Limited website: [www.salmat.com.au](http://www.salmat.com.au). The Board reviewed the charter during the year. The ARCC consists of the four independent Non-executive Directors of Salmat Limited.

The ARCC met four times during the 2012/13 year.

The ARCC Chairman is Mr John Thorn. Mr Thorn's experience in the accounting profession along with his other professional commitments complements the financial and commercial experience of the other independent Non-executive Board members. This blend of experience and technical expertise enables this Committee to critically review the financial management and risk profile of Salmat and further develop and improve corporate governance within the Company.

The ARCC's role includes:

- assisting the Board of Directors to discharge its responsibility to exercise due care, diligence and skill in relation to:
  - the Company's financial management and statutory compliance, including liaison with the Salmat Group's external auditor;
  - assessing whether external reporting is consistent with ARCC members' information and knowledge and is adequate for shareholder needs;
  - assessing the management processes supporting external reporting;
  - recommending to the Board the appointment, reappointment or replacement of the external auditor and approving appropriate fees;
  - evaluating the performance of the external auditor, including its independence, effectiveness and objectivity;
  - reviewing and assessing non-audit service provision by the external auditor and giving particular consideration to the potential for the provision of these services to impair the external auditor's judgement or independence in respect of the Salmat Group;
- Providing a structured forum for communication between the Board of Directors and senior management; and
- Providing a structured and unencumbered reporting line for the Group risk and assurance function.

The ARCC's key responsibilities cover asset management, financial information integrity and risk management as follows:

- The controls system established by management effectively safeguards Salmat's business assets.
- Financial records are maintained in accordance with statutory requirements.
- Reliable financial information is provided to shareholders and other stakeholders.
- Adequate risk management practices exist to manage key Salmat business and operational risks.
- Processes that exist to continuously assess and improve internal risk management are evaluated.
- Addressing with management the adequacy of Salmat's group risk control structure including internal compliance and control systems.
- Approving Salmat's risk management plan annually.

The ARCC affirms it has complied with the requirements of its charter.

The ARCC receives formal bi-annual completion certification from management confirming the accuracy and completeness of the financial results of the Company. The certification provides assurance to the Board on the financial report and condition of the Company as well as the operation of risk management in managing material business risks, compliance and the control elements which support the financial statements. The certification is attested to the Board by the Chief Executive Officer and Chief Financial Officer.

The ARCC meets with the Salmat Group's external auditor without the presence of management on a regular basis to receive an independent view on the financial reports and other relevant matters.

The ARCC customarily invites the Chief Executive Officer and Chief Financial Officer to attend the majority of its meetings.

The ARCC uses a combination of internal resources and specialist external resources to undertake the risk assurance function.

## REMUNERATION AND COMPENSATION COMMITTEE

The Remuneration and Compensation Committee is a Committee of the Board. The Committee charter adopted by the Board is displayed on the Salmat Limited website: [www.salmat.com.au](http://www.salmat.com.au). The charter was reviewed by the Board during the year.

Its membership consists of the four independent Non-executive Directors of Salmat Limited.

The Chairman of the Committee is Mr Ian Elliot, who has undertaken those duties since his appointment on 1 January 2005.

The Committee met four times during the 2012/13 year.

The responsibility of the Committee is to:

- review overall remuneration policies and ensure they are in accord with current best practice;
- determine the remuneration arrangements for the Chief Executive Officer and approve the Chief Executive Officer's recommendations for the other senior executives nominated by the Chief Executive Officer;
- set the performance targets for the Chief Executive Officer and review performance against these targets. Review and approve the recommended performance targets for other senior executives;
- determine the long term incentive strategy for the Chief Executive Officer and approve recommendations for other senior staff;
- review succession planning of the Chief Executive Officer and plans for senior executives;
- oversee the Company's compliance with the workplace health and safety legislation in the relevant jurisdictions in which it operates; and
- review and oversee compliance with ASX Corporate Governance Principles and Recommendations on diversity and other relevant regulations.

The Committee affirms it has complied with the requirements of its charter.

The Committee has retained independent advisers who provide information on current best practice (including remuneration levels) for executive and non-executive remuneration. The Committee reviews remuneration levels in the light of this advice and the individual's performance. The Chief Executive Officer attends Committee meetings to review remuneration levels for other staff.

## TECHNOLOGY AND INNOVATION COMMITTEE

The Technology and Innovation Committee is a Committee of the Board. The Committee charter adopted by the Board is displayed on the Salmat Limited website: [www.salmat.com.au](http://www.salmat.com.au).

Its membership consists of three Non-executive Directors of Salmat Limited as well as the Chief Executive Officer and Chief Information Officer.

The Chairman of the Committee is Mrs Fiona Balfour. Fiona's extensive experience in senior information technology roles in major Australian companies, combined with her operational and financial skills, complements the industry expertise of the other Committee members.

The Committee met five times during the 2012/13 year.

The responsibility of the Committee is to optimise the impact of technology and associated services on the Salmat operational businesses, specifically to:

- review and approve management's ICT strategy and architecture;
- oversee all IT projects over \$1 million, including review of all post-implementation reviews performed;
- oversee acquisitions in developing operations and businesses;
- review ICT businesses, products, partnerships and relationships for opportunities from a customer communications perspective;
- review ICT operational performance;
- oversee Salmat's ICT services partnerships;
- maintain a watching brief on ICT and industry-specific developments and opportunities;
- oversee the ICT risk profile for Salmat, including disaster recovery and business continuity planning;
- oversee the Company's innovation framework to ensure regular flow of innovation concepts and ideas; and
- review, incubate and endorse the development of innovative concepts into opportunities for investment.

The Committee affirms it has processes in place to comply with the requirements of its charter.

The Committee will invite external advisors and/or other Salmat executives to attend meetings at the Committee's discretion, where their knowledge or expertise can make a material contribution.

## RISK MANAGEMENT

Salmat is committed to embedding risk management practices in a manner that supports achieving its strategic objectives and to comply with ASX corporate governance requirements.

### Policies

Salmat faces a variety of material risks including (but not limited to) strategic, operational, information technology (IT), financial and regulatory risks. Salmat's Risk Management Policy sets out the organisation's risk management practices, oversight and management responsibilities.

### Responsibility

The Board is responsible for monitoring Salmat's business risks, determining the Company's risk appetite and overseeing Salmat's risk management strategies.

The Audit Risk and Compliance Committee (ARCC), a Board Committee, is responsible for reviewing risk, assessing the adequacy of internal controls and mechanisms, and to address compliance with relevant legislation and guidelines.

All Salmat staff are responsible for managing risk in their business areas. Management is ultimately responsible to the Board for monitoring and reviewing business risks, ensuring risk assessment is appropriate; implementing appropriate internal controls within individual business units; adopting effective risk treatment plans and timely completion of any risk treatment plans.

Salmat has established a management-led Risk Management Committee (RMC), chaired on a rotational basis by business unit CEOs. The RMC directs the implementation and operation of an appropriate risk management framework and culture. The RMC ensures that the Salmat's risk profile is within the Group's risk appetite and tolerance levels, and review changes to the business environment to ensure Salmat's risk strategies are relevant.

Salmat's Group Risk and Assurance (GRA) department, an integral component of the overall risk management framework, provides risk consulting and risk assurance services. GRA is independent of business units and reports directly to the ARCC.

### Framework

Salmat's risk management framework is based on ISO 31000:2009 Risk Management. Risk profiles are developed at Group, divisional and functional levels and are reviewed and updated regularly. Risk assessment is performed by management and reviewed by the Board. Controls are assessed and cost-effective risk treatment strategies are adopted.

Other risk management and risk assurance mechanisms in place include:

- Policies and procedures for managing financial risk and treasury operations including exposures to foreign currencies and interest rate movements.
- Guidelines and limits for the approval of capital expenditure and investments.
- A Group regulatory compliance program supported by approved guidelines and standards covering crisis management, the environment, workplace health and safety, privacy, trade practices, equal employment opportunity, anti-discrimination and sexual harassment.
- Annual internal audit of all sites for workplace health, safety and environmental regulatory compliance.
- Extensive certification programs throughout operations in accordance with ISO 9001:2008 (Quality Management Systems) and AS/NZS ISO/IEC 27001:2006 (Information Security Management Systems).
- A comprehensive insurance program including annual selective risk management surveys conducted by our property insurance underwriters.
- Annual budgeting and monthly reporting systems for all business units to monitor key performance indicators.

Periodically, the risk management framework is independently reviewed and assessed for effectiveness, to drive continuous improvement and enhance instinctive incorporation of risk management into day-to-day activities.

### Assurance

GRA uses a risk-based approach to develop an annual program of reviews designed to cover material risks faced by the company. The ARCC reviews and approves the annual review program. GRA reports the results of its reviews to ARCC. In addition, GRA reports annually on the effectiveness of the risk management and control systems to the ARCC.

## Chief Executive Officer and Chief Financial Officer Declaration

As required by section 295A of the *Corporations Act 2001*, the CEO and CFO have provided an annual statement to the Board confirming that the Company's financial statements give a true and fair view of Salmat's financial position and performance and in accordance with relevant accounting standards. In addition, in accordance with ASX Corporate Governance Recommendation 7.3, the CEO and CFO reported to the Board on the effectiveness of the risk management and control system over material business risks.

To support the CEO and CFO in making the declaration under section 295A of the *Corporations Act 2001* to the Board, senior management completes a bi-annual completion certificate covering material risks and related controls.

## DIVERSITY

In keeping with its history of providing a workplace which is welcoming to people from all backgrounds, Salmat was a finalist in the age component of the 2013 Australian Human Resources Institute annual awards. Salmat had extended superannuation benefits to employees over 70 before the government introduced legislation to make it compulsory. Salmat's oldest employee is aged 80. Reflecting the diverse range of employees, our diversity policy covers gender, age, ethnicity, sexual preference, disability and cultural background.

As part of Salmat's Reconciliation Action Plan (RAP), there has been a concentration on training on indigenous culture in preparation for the implementation of the Indigenous Employment Strategy. We acknowledge the assistance of the Federal Department of Education, Employment and Workplace Relations in running the culture training sessions. The first recruits under the Indigenous Employment Strategy commenced this year. Links with local indigenous communities are being developed as part of the RAP. Salmat is one of a few listed companies to have a RAP.

People with a range of disabilities are employed in call centres in conjunction with Disability Employment Services (a Federal Government initiative) and Vision Australia. Across all the Company activities, people from a broad range of ethnic and cultural backgrounds are employed and, based on diversity survey results, find the workplace accepting of ethnic and cultural differences. The initiatives to encourage diversity are not restricted to Australia.

The Company completed a culture survey during the year which showed an increase in constructive behaviours: the fourth consecutive increase since surveying commenced.

## Gender diversity

This is the third report in accord with Corporate Governance Principle 3.

The Board's support of gender diversity is reflected in the work of Salmat's Women in Leadership Council, which is developing new programs to reinforce the Company's position on gender equality. Following on the results of the 2012 diversity survey, focus groups have been held to refine action areas. A key concentration has been careers for women who, from the survey, show less wish to progress. This is an area in which Salmat is not alone. There is no doubt that the role of women in the workplace has not been settled and may not be for one or two generations. Salmat, through the Women in Leadership Council, is endeavouring to understand and respond to the issues which have created a plateau in career development for women.

The Company's paid parental leave scheme was enhanced during the year to provide more weeks of top up pay and to provide unpaid leave to dads and partners.

Diversity is an agenda item on every Remuneration and Compensation Committee meeting and meetings of the Company's senior leadership team.

The Board has set five measures for reporting on gender diversity under Recommendation 3.2 of Principle 3 of the ASX Corporate Governance Principles:

- Representation of women on short lists for all roles.
- Representation of women on all interview panels.
- Gender percentage on the Board.
- Gender percentage at all levels of the Company using a seven-level scale.
- Certified training undertaken by gender.

The results for the year were:

- Females were represented on 70% of shortlists.
- Females were represented on 86% of interview panels.
- The Board is made up of one woman and five men.
- Gender percentage over seven levels is tabled below:

	2011/12		2012/13	
	Female	Male	Female	Male
Level 7 (most senior)	0%	100%	0%	100%
Level 6	8.3%	91.7%	22.2%	77.8%
Level 5	13.2%	86.8%	17.4%	82.6%
Level 4	28.4%	71.6%	19.5%	80.5%
Level 3	36.8%	63.2%	33.5%	66.5%
Level 2	51.4%	48.6%	55.7%	44.3%
Level 1	51.5%	48.5%	51.1%	48.9%
Overall	46.4%	53.6%	47.6%	52.4%

The figures show an encouraging increase in representation of women at more senior levels

Attendees at certified training sessions were 50.9% female and 49.1% male.

## CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

Salmat is committed to complying with the continuous disclosure obligations of the *Corporations Act 2001* (Cth) and the ASX Listing Rules. Salmat understands and respects the fact that timely disclosure of relevant information is central to the efficient operation of the securities market. The Company has a continuous disclosure policy, which also covers the conduct of investor and analyst briefings and communication with the media. The policy can be found on the Salmat Limited website: [www.salmat.com.au](http://www.salmat.com.au).

### Materiality and disclosure

The Company has a published disclosure policy for timely and accurate release of material events. The policy focuses on continuous disclosure of information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities. As a general guideline, the Board considers that any financial impact which affects Group revenue or profit by more than 10% will be considered material.

All price-sensitive announcements made via the Australian Securities Exchange (ASX) are then immediately posted on the Company's website: [www.salmat.com.au](http://www.salmat.com.au). Similarly, prior to any analyst briefing on aspects of the Group's operations, the material used in the presentation is released to the ASX and subsequently posted on the Company's web site.

### Restrictions on securities dealings

All employees, including our Directors and other officers, are subject to the restrictions under the *Corporations Act 2001* in relation to Salmat shares.

Salmat has a published policy on securities trading, which has been notified to the ASX and is posted on the Salmat website. The policy prohibits Directors and key employees from dealing in Salmat securities for the period 15 days before the end of a reporting period to one day after those results are released to the market, being the embargo period. During non-embargo periods, via an internal notification process, all Directors and key employees are required to advise the Company Secretary of any trade in Salmat securities, in which they have a beneficial interest.

### Shareholder communication

Salmat places considerable importance on effective communication with shareholders.

The Company Secretary is nominated as the person responsible for communication with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules.

All shareholders can receive a copy of the Company's Annual Report. In addition, the Company has made available electronic communication of all price-sensitive announcements for the convenience of all shareholders. All price-sensitive Company announcements and financial reports since our public listing in December 2002 are available on the Company's website: [www.salmat.com.au](http://www.salmat.com.au).

The Company's website includes key information on the following:

- **Directors and Management** — providing personal profiles about the current Board of Directors (Governance section) and the members of the senior management team (About Us section).
- **Announcements** — contains all price-sensitive announcements and external presentations that the Company has made since the initial public offering in December 2002 (Investors section).
- **Half-yearly/Annual Reports** — contains a statement of the results as well as a copy of the audited accounts (Investors section).
- **Key Dates** — contains key dates pertaining to the release of the Company's annual results and other key events such as annual general meetings and dividend payments (Investors section).
- **Share Registry** — contains our share registry contact details as well as pertinent information relating to shareholder communications regarding receipt of annual and half-yearly reports and a link to our share registry's website (Investors section).
- **Corporate Governance** — key Salmat policies and information about how Salmat is managed (Governance section).

## EXTERNAL AUDITOR'S APPOINTMENT

The Company's independent external auditor for the year ended 30 June 2013 is Ernst & Young. As a part of their review of the half-year and audit of the full-year results, Ernst & Young confirmed to the Board that it has maintained its independence. The auditor will attend the Company's Annual General Meeting and will be available to answer any shareholder questions.

The Board of Directors has recommended the appointment of PricewaterhouseCoopers as the Company's external auditor for the financial year ending 30 June 2014 and onwards. Shareholder approval for their appointment will be sought at the Company's Annual General Meeting to be held on 21 November 2013. The new auditor from PricewaterhouseCoopers will attend the Company's Annual General Meeting and will also be available to answer any shareholder questions.

It is the intention of the Board that the external audit signing partner will rotate from the Company's audit at least every five years.

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Salmat Limited and the entities it controlled at the end of, or during, the year ended 30 June 2013.

## DIRECTORS

The following persons were Directors of Salmat Limited during the financial year and up to the date of this report:

- Peter Mattick (Chairman and interim Chief Executive Officer)
- Richard Lee (Chairman 1 July 2012 to 30 June 2013)
- Fiona Balfour
- Ian Elliot
- John Thorn
- Philip Salter
- Grant Harrod (resigned 1 July 2013)

## OPERATING AND FINANCIAL REVIEW

The Board presents the 2013 Operating and Financial Review, which has been designed to provide shareholders with a clear and concise overview of the Group's operations, financial position, business strategies and prospects. The review also provides contextual information, including the impact of key events that have occurred during 2013 and material business risks faced by the business so that shareholders can make an informed assessment of the results and prospects of the Group. The review complements the financial report and has been prepared in accordance with the recently released guidance set out in RG247.

### Salmat's operations

#### Principal activities

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

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

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

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

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

#### Key developments

Fiscal year 2013 has been a transformational year for Salmat across all areas of the business, building the platforms for our multi-year strategy as presented on 25 July 2013. Key developments include:

- Completion of the sale of the BPO division to Fuji Xerox for \$375 million, which has transformed the shape of the company and our balance sheet. We are very pleased with the strong value that was driven for BPO, after initiating a number of key strategies to drive maximum earnings velocity. The divestment also successfully addressed a significant structural challenge with BPO's dependence on mail-based communication and the continued decline thereof. This sale has left the Company with some \$90 million in net cash at the end of the year.
- The special dividend of 21 cents per share (\$33.6 million) announced in the year is a return for all shareholders following the successful divestment whilst the Company retains sufficient strength and flexibility on the balance sheet to review a range of initiatives to build out the future, aimed at driving long-term shareholder value.
- Following the divestment the Group has restructured the remaining business into two key divisions, Customer Marketing Solutions (CMS) and Customer Engagement Solutions (CES).
- On 25 July 2013 the Board also confirmed the intention to pay a fully franked dividend of 15 cents per share for fiscal year 2014, following a final dividend of 7.5 cents per share for fiscal year 2013. This dividend was announced to provide certainty to shareholders whilst the Company executes its growth strategy.

In the opinion of the Directors, there were no other significant changes in the state of affairs of Salmat Limited that occurred during the year under review, that were not otherwise disclosed in this report or the financial statements.

## OPERATING AND FINANCIAL REVIEW : CONTINUED

### 2013 Operating Result Summary

\$ million	2013	2012	% change (pcp)
Reported revenue <sup>1</sup>	467.6	507.9	7.9%
<b>EBITDA</b>	<b>36.3</b>	<b>42.4</b>	<b>(14.4%)</b>
Depreciation	(10.5)	(11.1)	5.4%
<b>Underlying EBITA</b>	<b>25.8</b>	<b>31.3</b>	<b>(17.6%)</b>
Underlying EBITA margin	5.6%	6.2%	(60bp)
Amortisation	(2.1)	(3.3)	36.4%
<b>Underlying EBIT</b>	<b>23.7</b>	<b>28.0</b>	<b>(15.4%)</b>
Net interest	(0.4)	(10.3)	96.1%
Tax expense	(6.6)	(5.0)	(32.0%)
<b>Underlying NPAT<sup>2</sup></b>	<b>16.7</b>	<b>12.7</b>	<b>31.5%</b>
Significant items	(10.9)	(1.5)	NMF
<b>NPAT from continuing operations</b>	<b>5.8</b>	<b>11.2</b>	<b>(48.2%)</b>
NPAT from discontinued operations (incl significant items) <sup>3</sup>	34.3	19.1	79.6%
<b>Total statutory NPAT</b>	<b>40.1</b>	<b>30.3</b>	<b>32.3%</b>

1) Continuing operations.

2) Note: Adjusted for significant items. Refer to note 2.

3) Refer to note 6 in the Notes to the Financial Statements.

Reported sales revenue of \$467.6 million (pcp \$507.9m) was down by 7.9% on the pcp. The trading environment during 2013 was difficult and impacted all participants across the Australian retail landscape. Direct Sales was particularly impacted by the current trading conditions with energy retailers leaving the channel. Other reductions in revenue were primarily due to discontinued business within the CES division and the decision to close some non-strategic digital services. Catalogue market share has remained resilient over the period with the market experiencing moderate reductions in volumes.

Underlying EBITA of \$25.8 million (pcp \$31.3m) was down by 17.6% on the pcp. Investment in the growth strategy had an impact of \$4.5 million on the P&L in FY13 and is expected to total \$12 million in FY14. EBITA was also impacted by the reduction of revenue and exited businesses. Some parts of the business – notably contact centres – did achieve strong margin growth on the back of a strategy to pursue value-added, higher margin contracts, however this was offset by other areas such as Direct Sales and catalogues.

Underlying NPAT was \$16.7m (2012: \$12.7m). Underlying NPAT excludes net significant items after tax of \$10.9 million.

Significant items after tax amounted to costs of \$10.9 million (pcp \$1.5m). These related to restructuring and separation costs associated with the BPO sale and an intangibles impairment charge for a number of non-strategic digital businesses that were discontinued during the year.

Profit from discontinued operations represents the gain on sale of the BPO division and the associated transaction and separation costs. It is also inclusive of the discontinued joint ventures.

Statutory Net Profit after Tax (NPAT) was \$40.1 million (2012: \$30.3m).

#### Segment Results

Consumer Marketing Solutions revenue was down 5.3% on the pcp to \$260.8 million, primarily due to exiting some non-strategic services in the digital space and the tough trading environment in retail impacting catalogues that saw some volume reductions. We retained market share in catalogues and are now seeing many retailers return to the category after trialling other media.

Underlying EBITA of \$30.1 million was impacted by reduced volumes as well as investment in the division to support our growth strategy including Universal Catalogue and Influence solutions, which were launched to the market late in FY13.

Customer Engagement Solutions revenue was down 13.4% on the prior year to \$201.0 million, as a result of reduced revenue in the Direct Sales area as well as a number of exited contact centre contracts. Direct Sales was impacted during the year as energy retailers pulled out of the door-to-door segment following pressure from the ACCC about sales tactics. Within contact centres, FY13 saw the cycling out of the last remaining labour-intensive contracts, which impacted revenue but has already improved margins.

Underlying EBITA and margin increased to \$11.2 million on the back of the new value-added technology based contact centre contracts taking a larger share of the mix. This was offset somewhat by investment in platform technology and the cost of supporting two platforms during the transition phase. These costs will be out after FY14.

#### Financial position and cash flows

Following the disposal of BPO and \$56.7 million returned to shareholders via dividend during the year, our balance sheet has been strengthened. Net cash is \$90.0 million at 30 June 2013, compared to net debt of \$241.6 million at 30 June 2012.

The sale of BPO also allowed us to pay down a significant proportion of our debt facility and we are now fully drawn on our debt facility of \$99 million which is due for expiry in December 2014. Our intangibles and liabilities are also significantly reduced compared to prior fiscal year, with net tangible assets per share of \$0.66 (2012: -\$1.11).

Our operating cash flows remain strong with a 118% EBITDA conversion to operating cash flow as well as increased net operating cash flow as a result of more effective working capital usage. Our net cash movement of \$151.7 million is strong given our \$161.0 million net borrowings repayment.

## OPERATING AND FINANCIAL REVIEW : CONTINUED

### Business risks, strategies and prospects

#### Business strategies and prospects

Salmat's core business strategy is to be the leading multi-channel communication and engagement provider in the Australasian marketplace. Consumers are able to access more information, from more sources, than ever before. Brands are no longer able to rely on a single medium to engage with consumers, who are demanding engagement on their terms, across multiple channels. By combining physical and digital assets, Salmat is uniquely positioned to enable its clients to distribute more engaging content, enabling our clients to cost effectively reach and influence their customers and maximise their sales and return on investment.

The divestment of BPO simplifies the Group strategy around this vision and has transformed the balance sheet of the Group to allow investment across our key platforms being:

- **Salmat Universal Catalogue.** Seamless distribution of physical and digital catalogue content is delivered through Salmat's Universal Catalogue platform. By combining the traditional physical catalogue with our digital assets from Lasoo, we are uniquely positioned to enable our clients to distribute more engaging content anytime, anywhere, on any device to drive more sales. By overlaying the data capability we have in our physical distribution business, with the data insights we have in our online business, we can help our clients target the consumer more effectively.
- **Salmat Influence.** Influence is a locally hosted solution that combines Salmat's thought leadership in campaign management and marketing services with Teradata Applications, a leader in integrated marketing management software. Salmat Influence will empower marketing professionals to communicate consistently across digital (email, web and social networks), traditional (direct marketing and call centre) and mobile channels, by utilising data analytics in real-time to deliver highly relevant offers at the right time and through the right channels.
- **Salmat Reach.** As a hosted solution, Salmat Reach is a leading-edge contact centre technology platform that seamlessly integrates all customer communications channels within the cloud. This solution is hosted by Salmat and combines the expertise of Salmat, Australia's largest and most experienced customer contact solutions provider, with the innovation of Avaya, one of the world's best contact centre infrastructure platforms. Salmat Reach makes enterprise class contact centre applications accessible and affordable for organisations of almost any size. This is also the same solution that Salmat uses to support our 60 different contact centres, giving clients the power to use our technology without having to purchase it.

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

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

Salmat will continue to look to accelerate its growth strategy through strategic investments that complement this vision. In considering any future investments, criteria used to evaluate acquisitions will be established businesses with the ability to deliver recurring revenue and profit, with strong intellectual property, capabilities, client base and teams that fit with Salmat's culture.

#### Business risks

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

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

Following the divestment of BPO, the Group has simplified its strategy, however, there remains a significant transition from Salmat's existing data centres that were all located in BPO sites to new data centres. There remains transition risk associated in the information technology transition and new data centre establishment. Salmat is investing heavily into highly scalable systems in the drive to become a technology-centric business. The ability to execute against key strategic projects will be a key enabler of the accelerated growth strategy.

End of the Operating and Financial Review.

## DIVIDENDS – SALMAT LIMITED

Dividends paid to members during the financial year were as follows:

	2013 \$'000	2012 \$'000
Final ordinary dividend for the year ended 30 June 2012 of 10.5 cents (2012 – 12.5 cents) per fully paid share paid on 28 September 2012	16,779	19,975
Interim ordinary dividend for the year ended 30 June 2013 of 4.0 cents (2012 – 8.5 cents) per fully paid share paid on 5 April 2013	6,392	13,583
Special dividend 21 cents (2012 – nil) per fully paid share paid on 5 April 2013	33,561	—
	<b>56,732</b>	<b>33,558</b>

## PERFORMANCE INDICATORS

Management and the Board monitor the Group's overall performance, from its implementation of the strategic plan through to the performance of the Group against operating plans and financial budgets.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Key management monitor KPIs on a regular basis. Directors receive reporting on the critical KPIs for review prior to each monthly Board meeting allowing all Directors to actively monitor the Group's performance.

## ENVIRONMENTAL ISSUES

The Group is committed to the protection of the environment, to the health and safety of its employees, contractors, customers and the public at large, and to the compliance with all applicable environmental laws, rules and regulations in the jurisdictions in which it conducts its business. The Group is not subject to significant environmental regulation in respect of its operations. The Group has set down a rigorous approach to sourcing and working with suppliers that comply with our environmental criteria.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

### Dividends

Since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of \$12.0 million (7.5 cents per fully paid share) to be paid on 19 September 2013 out of retained profits at 30 June 2013.

Except for the matter discussed above, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

## INFORMATION ON DIRECTORS

Upon release of the half-year results on 26 February 2013, it was announced that Richard Lee, Salmat's Chairman and a Non-executive Director, would not stand for re-election at the 2013 Annual General Meeting, the position he had held since Salmat listed in 2002.

From 1 July, Peter Mattick was appointed by the Board into the role of Chairman. Richard Lee will be Lead Independent Director until the completion of his term, following which John Thorn will assume this role.

Grant Harrod, the former Chief Executive Officer and Managing Director, resigned from the Company on 1 July 2013. In the interim, Peter Mattick will be acting Chief Executive Officer.

### Peter Mattick

Chairman and interim Chief Executive Officer

#### Experience and expertise

Peter Mattick co-founded Salmat Limited in 1979 and served as its Joint Managing Director until his retirement from executive duties with Salmat in October 2009. Since that time Mr Mattick has remained as a Non-executive Director of the Company and has been appointed by the Board into the role of Chairman following Richard Lee's decision not to stand for re-election.

Mr Mattick has served as Chairman and Director of the Australian Direct Marketing Association and is a Member of the National Aboriginal Sports Corporation. He is a Fellow of the Australian Society of Certified Practising Accountants and the Australian Institute of Company Directors, a Governor of the Advisory Council for the Institute of Neuromuscular Research and a Board Member of The Shepherd Centre. Mr Mattick was educated at the University of New South Wales where he gained a Bachelor of Commerce degree.

#### Special responsibilities

Chairman of the Board; and  
Member of the Innovation and Technology Committee.

#### Interests in shares and options

36,810,735 ordinary shares in Salmat Limited.

### Richard Lee

Lead Independent Director

#### Experience and expertise

Richard Lee is Chairman of Oil Search Limited and a Director of Newcrest Mining Limited. He is a Fellow and former Chairman of the Australian Institute of Company Directors. He also holds degrees in chemical engineering and economics and is a Rhodes Scholar. Richard is a former Chief Executive of the NM Rothschild Australia Group and a former Director of NM Rothschild and Sons Limited in London, Singapore and Hong Kong.

#### Special responsibilities

Member of Audit, Risk and Compliance Committee; and  
Member of Remuneration and Compensation Committee.

#### Interests in shares and options

392,467 ordinary shares in Salmat Limited.

### Ian Elliot

Non-executive Director (Independent)

#### Experience and expertise

Ian is a Non-executive Director of Hills Industries Limited, former Chairman of Promentum Limited and is currently on the Board of the National Australia Day Council and a Fellow of the Australian Institute of Company Directors. Ian is also a former Chief Executive Officer of George Patterson Bates and a graduate of the advanced management program of the Harvard Business School.

#### Special responsibilities

Member of Audit, Risk and Compliance Committee; and  
Chairman of Remuneration and Compensation Committee.

#### Interests in shares and options

33,435 ordinary shares in Salmat Limited.

### Philip Salter

Non-executive Director

#### Experience and expertise

Philip Salter co-founded Salmat Limited in 1979 and served as its Joint Managing Director until his retirement from his executive duties with Salmat Limited in October 2009. Since that time, Mr Salter has remained as a Non-Executive Director of the Company. Philip entered the real estate business in 1972. In 1979 Philip and Peter Mattick formed Salmat, developing the business into one of Australasia's leading customer communications companies. Philip is a member of the Australian Institute of Company Directors.

#### Special responsibilities

Member of the Technology and Innovation Committee.

#### Interests in shares and options

36,277,238 ordinary shares in Salmat Limited.

## INFORMATION ON DIRECTORS : CONTINUED

### John Thorn

Non-executive Director (Independent)

#### Experience and expertise

John Thorn has been a Non-executive Director of Salmat Limited since September 2003. John is a professional Director and brings expertise to the Board in the areas of accounting, financial services, mergers & acquisitions, business advisory, risk management and general management. He has 38 years of professional experience with PricewaterhouseCoopers (PwC), where he was a Partner from 1982 to 2003 advising major international and Australian companies. He served on the firm's Board, was the Managing Partner of PwC's Assurance and Business Advisory practice and was the National Managing Partner of PwC until 2003. He has experience in Asia having lived and worked in Singapore and Indonesia. John is a Non-executive Director of Amcor Limited (appointed December 2004), National Australia Bank Limited (October 2003) and a former Director of Caltex Australia (June 2004-2013). His Board committee experience includes Audit Committees (Chairman), Human Resources Committees, IT Committees, Nomination Committees and Risk Committees.

#### Special responsibilities

Chairman of Audit, Risk and Compliance Committee; and Member of Remuneration and Compensation Committee.

#### Interests in shares and options

131,101 ordinary shares in Salmat Limited.

### Fiona Balfour

Non-executive Director (Independent)

#### Experience and expertise

Fiona Balfour is an independent Non-executive Director at Metcash Limited (ASX:MTS), TAL Dai-ichi Life Australia and Airservices Australia; she is Treasurer and Councillor of

Knox Grammar School, Chair of the St James' King Street Conservation Appeal and a Member of Chief Executive Women. Fiona is a former Non-executive Director of SITA-SC (Geneva) and former Trustee of the National Breast Cancer Foundation.

Fiona's executive career in information technology culminated with her appointment as Chief Information Officer and Member of the Qantas Executive Committee (2001-06) for the Qantas Group and Chief Information Officer of Telstra (2006-07). She has over 35 years' experience working across a variety of industries including aviation, information services, financial services, telecommunication and distribution and logistics. She was appointed a Fellow of Monash University in 2010. Fiona holds a BA (Hons) from Monash University, a Grad. Dip. Information Management from UNSW and an MBA from the RMIT and is a Fellow of the Australian Institute of Company Directors.

#### Special responsibilities

Member of Audit, Risk and Compliance Committee; Member of Remuneration and Compensation Committee; and Chairman of the Technology and Innovation Committee.

#### Interests in shares and options

35,740 ordinary shares in Salmat Limited.

#### Company Secretary

The Company Secretary is Mr Stephen Bardwell. Mr Bardwell has been Company Secretary since October 2002. He has had over 26 years in senior commercial roles, and joined the Company as Group Financial Controller in 1989, actively participating in the expansion and development of Salmat in both Australia and Asia.

Prior to listing of the Company, he had over ten years experience as secretary of Salmat Group Companies. He has a bachelors degree in accounting and is a Fellow of the Institute of Chartered Secretaries and CPA Australia.

## MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2013, and the numbers of meetings attended by each Director were:

	Meetings of Committees									
	Full meetings of Directors		Audit, Risk and Compliance		Remuneration and Compensation		Technology and Innovation			
	A	B	A	B	A	B	A	B	A	B
Richard Lee	11	11	4	4	4	4	*	*		
John Thorn	11	11	4	4	4	4	*	*		
Ian Elliot <sup>1</sup>	10	11	3	4	4	4	*	*		
Philip Salter <sup>2</sup>	8	11	*	*	*	*	2	5		
Peter Mattick	11	11	*	*	*	*	4	5		
Fiona Balfour	11	11	4	4	4	4	5	5		
Grant Harrod	10	11	*	*	*	*	4	5		

A) Number of meetings attended.

B) Number of meetings held during the time the Director held office or was a member of the Committee during the year.

\* Not a member of the relevant Committee.

1) Ian Elliot was unavailable for one unscheduled Board meeting and one Audit Committee meeting.

2) Philip Salter was granted leave by the Board and T&I Committee.

## REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration;
- B Details of remuneration;
- C Service agreements; and
- D Share-based compensation.

The information provided under headings A – D outlines the Director and executive remuneration of the Group in accordance with the requirements of *Corporations Act 2001* and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 29.4 to Aus 29.7.2 of AASB 124 *Related Party Disclosures*. For the purposes of this report Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent Company.

### A Principles used to determine the nature and amount of remuneration

#### Remuneration policy

The Company policy is to remunerate staff in accordance with market rates in alignment with the individual's duties, responsibilities and performance. The process also assesses comparative market information. At Salmat, we have a team of executives, staff and associates with considerable experience and expertise across our businesses. Our achievements are in no small measure due to their hard work and diligence.

The remuneration strategy is overseen by the Board through the Remuneration and Compensation Committee. The Committee consults directly with external advisers on best practice and appropriate market benchmarks, covering the level of remuneration, split between fixed and variable components and both short and long term incentives.

#### Remuneration and Compensation Committee

The Remuneration and Compensation Committee is a Committee of the Board. The charter adopted by the Board is displayed on the Salmat Limited website [www.salmat.com.au](http://www.salmat.com.au).

Committee membership consists of the four independent Non-executive Directors of Salmat Limited. The Chairman of the Committee is Mr Ian Elliot.

The responsibilities of the Committee are as follows:

- Review overall remuneration policies and ensure they are in accordance with current best practice.
- Determine the remuneration arrangements for the Chief Executive Officer, including his short and long term incentives.
- Review and approve the Chief Executive Officer's recommendations for the other senior executives.
- Set and review the performance targets for the Chief Executive Officer. Review and approve the recommended performance targets for other senior executives.
- Review succession plans of the Chief Executive Officer and senior executives.
- Oversee the Company's compliance with occupational health and safety legislation.
- Oversee the Company's compliance with ASX Corporate Governance Guidelines on Diversity.

The Committee has retained independent advisers to provide information on current best practice (including remuneration levels) for Director and executive remuneration. The Committee reviews this external remuneration advice in light of the various individuals' performance. The Chief Executive Officer attends Committee meetings to review and recommend remuneration levels for other senior staff.

### Non-executive Director remuneration

The remuneration policy for Non-executive Directors is designed to remunerate them at market levels for their time, commitment and responsibilities. The Company is cognisant that it needs to attract and retain well qualified and experienced Directors. In light of the increased time and legal liability imposed upon Directors arising from developments in corporate governance, corporate law and the expectations of shareholders generally, the Remuneration and Compensation Committee uses external advice to set an appropriate level of external Director fees.

Non-executive Directors are paid a Director's fee and prior to the legislative changes around share-based payments introduced in July 2009 participated in a deferred share scheme benefit which vested after serving at least five years as a Non-executive Director of the Company. The Non-executive Directors do not receive any retirement or performance related benefits.

Non-executive Directors' fees are reviewed annually in June.

In 2009, shareholders resolved that the aggregate maximum amount payable to Non-executive Directors would be \$1.2 million per annum. The Board increased the fees for the Chairman and Non-executive Directors by 3% effective 1 July 2012. However, in light of the divestment of the BPO division in October 2012, the Board resolved to decrease individual fees by 10% from 1 January 2013.

The remuneration details of the Board for the financial year are as follows:

- Richard Lee in his capacity as Chairman during the year received \$252,960.
- Each of the five other Non-executive Directors received \$131,473.
- In 2013 Peter Mattick, Ian Elliot and Fiona Balfour each received a \$25,000 cash payment in respect of their additional time commitment during the year ended 30 June 2013 for the Group's strategy refresh.
- All Directors' fees are inclusive of superannuation entitlements.

### Senior executive remuneration

The remuneration packages of the Chief Executive Officer and executives are constructed to deliver performance and commitment to the Company whilst being in line with market for the relevant positions.

Each of these packages include the following:

- A fixed component, which may be allocated to cash, benefits (on a fully absorbed cost to Company basis) or superannuation.
- An amount is also allocated to short-term incentives (STIs) based on key performance indicators (KPIs) set for the financial year. The KPIs comprise various measurable goals. The percentage allocated to this component varies according to the relevant position. STIs are generally linked to financial and strategic outcomes aligned with shareholder returns. These are agreed between the executive and their manager to ensure they are in line with the business targets and goals for the period under review.
- A long term incentive (LTI) component via performance rights (prior to 1 July 2012 – deferred shares), as noted below, is another element considered on an annual basis. The LTI grant is to encourage Company growth along with retention of key executives.

## REMUNERATION REPORT (AUDITED) : CONTINUED

In designing the STIs and LTIs, a link is established between the individual's performance and the Company's goals. In the case of STIs, the key performance indicators (KPIs) on which they are measured are set to encourage achievement of the Company's budget and corporate goals. It would be usual for 50% of the KPIs to be based on financial targets over which individuals have influence. The remaining 50% concentrates on the achievement of goals which impact the Company's performance and reputation in different ways such as safety and culture related initiatives which drive productivity. In the case of the LTIs, the performance measures set are aligned to the risks to which shareholders are exposed, namely total shareholder return and earnings per share. For performance rights issued after 1 July 2012, an additional measure on the achievement of Company goals has also been added.

The remuneration packages are determined after taking advice from external remuneration consultants and take into account both short and long-term incentives set to achieve the outcomes required by the Board. As a result of a review, the Board has made changes to the LTI component to apply best practice for the current financial year. The vehicle for LTIs has been reverted to performance rights. This means that recipients will not receive dividends until the rights vest and are converted to shares and the shares will attract dividends only in future periods. Further details are set out later in this report.

The terms of the LTI are as follows:

### Issued prior to 1 July 2012

- All LTI shares do not vest for three years from issue.
- 50% of the shares are subject to achieving a total shareholder return in excess of the constituents of the small industrials index for a three year period.
- 50% of the shares are subject to achieving an earnings per share ('EPS') target set by the Board.

### Issued post 1 July 2012

- All LTI performance rights do not vest for three years from issue.
- 40% of the performance rights are subject to achieving a total shareholder return in excess of the constituents of the small industrials index for a three year period.
- 40% of the performance rights are subject to achieving an earnings per share ('EPS') target set by the Board.
- 20% of the performance rights are subject to achieving key strategic goals.

The former Chief Executive Officer's target remuneration mix for the year comprised 42% fixed remuneration, 32% STI and 26% LTI.

### Other benefits

The fixed component of the executive Directors' and senior executives' salary may be split between base salary, superannuation, motor vehicle on a fully absorbed cost to Company basis including fringe benefits tax, interest cost, amortisation, running costs and other minor allowances. Additional annual leave may be granted. There are no other benefits offered at the expense of the Company.

### Salmat Employee Option Plan

The Salmat Employee Option Plan was initially established following shareholder approval in October 2002. The continuance of this plan was approved by the shareholders at the November 2005 Annual General Meeting, at the October 2008 Annual General Meeting and at the November 2011 Annual General Meeting. The Company's use of the option plan was to offer participation to secure the employment of and retention of key employees whilst aligning their goals with those sought by shareholders.

This plan was not utilised for the purposes of long term incentives from 1 July 2008 to 30 June 2012. The Remuneration Committee of the Board decided that this is the most appropriate vehicle for senior executives' long term incentives and approved the issue of performance rights (also known as zero priced options) under the Salmat Employee Option Plan for the 2012/13 financial year. It is the intention to use this instrument in future years.

The Board oversees the plan in accordance with the plan rules. The terms and conditions of the specific grants to participants are detailed in the plan; refer to part D of this remuneration report.

### Salmat Deferred Employee Share Plan

The Salmat Deferred Employee Share Plan was initially established following shareholder approval in October 2002. The continuance of this plan was approved by the shareholders at the November 2005 Annual General Meeting, at the October 2008 Annual General Meeting and at the November 2011 Annual General Meeting. In the year ended 30 June 2009, the Board decided that long term incentives should be by way of acquisition of shares under Salmat's Deferred Employee Share Plan. As commented above, it is not intended to use this instrument for LTIs in the future.

The Board oversees the plan in accordance with the plan rules. The terms and conditions of the specific grants to participants are detailed in the plan; refer to part D of this remuneration report.

### Securities Trading Policy

The Securities Trading Policy of the Company outlines the responsibilities of all Directors and employees to ensure that any market sensitive information whether about Salmat or any other Company is not used to trade in securities.

The trading of shares issued to participants under any of the Company's employee equity plans is subject to, and conditional upon, compliance with this policy. Executives are prohibited from entering into any hedging arrangements over unvested options or deferred shares issued under the Company's equity plans. The Company would consider any breach of this policy as serious.

### Use of remuneration consultants

The Remuneration and Compensation Committee appointed Ernst & Young as an adviser to assist with remuneration issues. Ernst & Young were engaged by, and reported to, the Remuneration and Compensation Committee. The following key services were provided by Ernst & Young:

- Provision of market practice information concerning the Deferred Employee Share Plan, specifically the performance conditions and performance period.
- Provision of market practice information concerning executive remuneration generally.

During the current financial year no remuneration recommendations, as defined by the *Corporations Act 2001*, were provided by Ernst & Young.

### Voting and comments made at the Company's 2012 Annual General Meeting

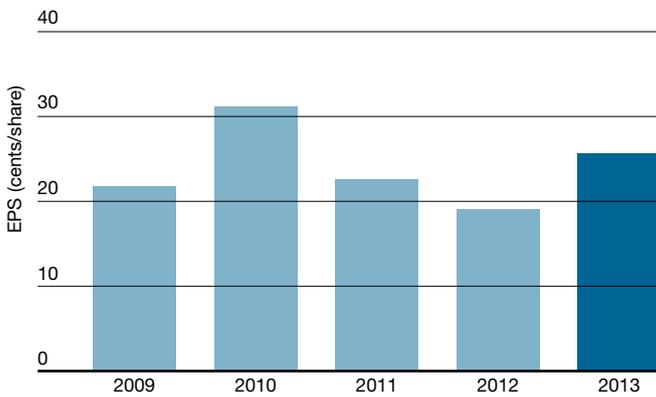
Salmat received more than 90% of 'yes' votes on its remuneration report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

## REMUNERATION REPORT (AUDITED) : CONTINUED

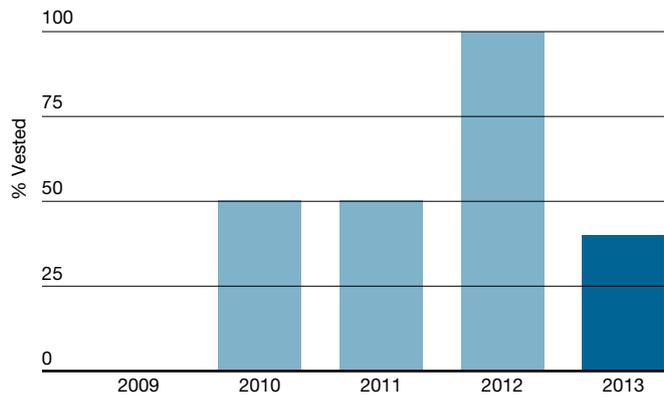
### Performance of Salmat Limited

The graphs below shows the EPS performance of the Group for the past five years and the percentage of LTI shares and options that vested over that same period. The share price of the Group for the last year is presented and a comparison of the group's Total Shareholder Return (TSR) to the median of the TSR for the small ordinaries on the ASX (XSOAI) for the period from 1 July 2010 to 30 June 2013 and the small industrials on the ASX (XSIAI) for the period from 1 July 2011 to 30 June 2013.

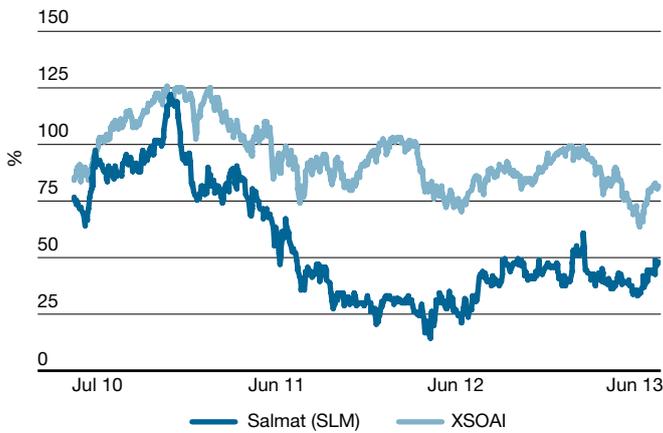
#### Earnings per share chart



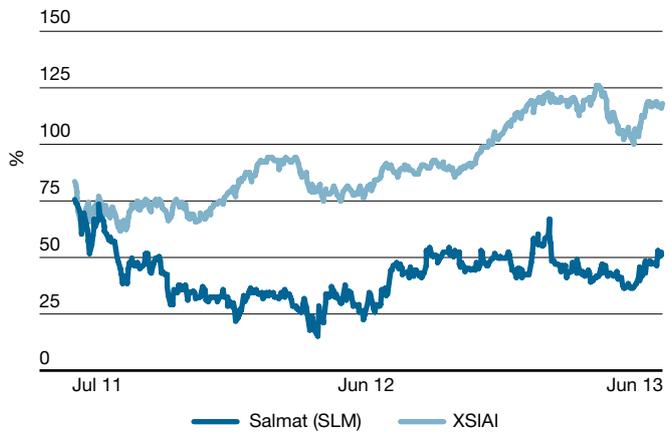
#### LTI shares and options



#### TSR Comparator SLM TSR vs XSOAI 1 July 2010 to 30 June 2013



#### TSR Comparator SLM TSR vs XSIAI 1 July 2011 to 30 June 2013



#### Salmat Share Price



## REMUNERATION REPORT (AUDITED) : CONTINUED

### B Details of remuneration

#### Amounts of remuneration

Details of the remuneration of the Directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and specified executives of Salmat Limited are set out in the following tables.

The key management personnel of Salmat Limited includes the Directors as per pages 10 to 11 above and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- **Peter Anson** Chief Executive Officer – Consumer Marketing Solutions<sup>1</sup>
- **Chad Barton** Chief Financial Officer

- **David Besson** Chief Executive Officer – Customer Engagement Solutions
- **Geoffrey Court** Head of People and Culture (Ceased to be KMP on 17 December 2012)
- **Nick Debenham** Chief Executive Officer – Business Process Outsourcing (Ceased to be KMP on 10 October 2012)
- **David Hackshall** Chief Information Officer (Ceased employment on 8 March 2013)
- **Ian Jones** Head of Sales (Ceased to be KMP on 17 December 2012)
- **Nick Spooner** Chief Executive Officer – Digital (Ceased employment on 16 December 2012)
- **David Webster** Chief Executive Officer – Targeted Media Solutions (Ceased to be KMP on 17 December 2012)

1) Prior to becoming the CEO of Consumer Marketing Solutions on 17 December 2012, Peter Anson was the COO of the Group and was thus part of the key management personnel of Salmat Limited throughout the year.

### Key management personnel of the Group

2013	Short-term employee benefits			Long-term employee benefits	Post-employment benefits	Share-based payments <sup>1</sup>		Total
	Cash salary and fees	Cash bonus <sup>2</sup>	Non monetary benefits	Long service leave	Super-annuation	Shares	Options	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors</b>								
Richard Lee	236,517	—	—	—	16,443	—	—	252,960
John Thorn	120,617	—	—	—	10,856	—	—	131,473
Ian Elliot <sup>2</sup>	120,617	25,000	—	—	10,856	—	—	156,473
Philip Salter	120,617	—	—	—	10,856	—	—	131,473
Peter Mattick <sup>2,3</sup>	120,617	25,000	—	—	10,856	—	—	156,473
Fiona Balfour <sup>2</sup>	120,617	25,000	—	—	10,856	—	—	156,473
<b>Sub total Non-executive Directors</b>	<b>839,602</b>	<b>75,000</b>	<b>—</b>	<b>—</b>	<b>70,723</b>	<b>—</b>	<b>—</b>	<b>985,325</b>
<b>Executive Director</b>								
Grant Harrod <sup>4</sup>	1,516,867	485,335	40,761	(9,309)	16,443	(589,434)	—	1,460,663
<b>Other key management personnel (Group)</b>								
Peter Anson	357,110	154,180	103,510	3,474	22,804	16,986	38,418	696,482
Chad Barton	414,372	238,736	9,416	3,398	25,027	14,780	33,615	739,344
David Besson	418,741	116,953	—	(2,145)	26,085	12,785	27,613	600,032
Geoffrey Court <sup>5</sup>	121,610	29,170	—	1,419	11,562	2,612	6,448	172,821
Nick Debenham <sup>5</sup>	241,892	463,250	—	817	16,776	(27,322)	46,035	741,448
David Hackshall <sup>5</sup>	412,945	112,977	6,449	2,537	16,123	(22,952)	—	528,079
Ian Jones <sup>5</sup>	133,517	59,755	4,360	(53)	7,613	9,415	12,229	226,836
Nick Spooner <sup>5</sup>	463,826	176,000	—	(185)	12,323	(14,100)	—	637,864
David Webster <sup>5</sup>	125,131	27,410	7,339	210	8,660	8,394	8,894	186,038
<b>Total key management personnel compensation (Group)</b>	<b>5,045,613</b>	<b>1,938,766</b>	<b>171,835</b>	<b>163</b>	<b>234,139</b>	<b>(588,836)</b>	<b>173,252</b>	<b>6,974,932</b>

1) The fair value of the share-based payments is calculated as set out in note 41 'Share-based payments' of the notes to the financial statements and is allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the share-based payments recognised in this reporting period. The negative amounts represent the reversal of any expense previously recognised under AASB 2 as the shares have now been forfeited. In valuing the share-based payments, market conditions have been taken into account.

2) Mr Elliot, Mr Mattick and Ms Balfour each received a \$25,000 cash payment in respect of their additional time commitment during the year ended 30 June 2013 for the Group's strategy refresh.

3) Peter Mattick was appointed interim Chief Executive Officer on 1 July 2013 following Grant Harrod's departure. In his capacity as interim Chief Executive Officer Mr Mattick is not paid any salary but continues to receive the Director's fees applicable to his relevant Board appointments. Mr Mattick is not eligible to participate in any incentive plans.

4) On 17 June 2013, the Group advised that the Chief Executive Officer, Grant Harrod, was leaving by mutual agreement on 1 July 2013. Under the terms of his contract, he is to be paid \$679,757.65 in lieu of notice on termination which is included in his remuneration above. His average base salary over the previous three years was \$848,966. Any unvested deferred shares or LTIs were forfeited on 1 July 2013.

5) Remuneration is from the beginning of the financial year until date ceased to be KMP. Ian Jones, Geoffrey Court and David Webster were employed for the full 12 months but ceased to be KMP on 17 December 2012 and their remuneration within this table has been pro-rated accordingly. Nick Debenham ceased to be a KMP following the sale of the BPO division and received a retention bonus of \$463,250 which is included within his cash bonus amount. Nick Spooner ceased employment on 16 December 2012 and received \$165,498 as payment in lieu of notice and redundancy payment, as well as a short term incentive of \$176,000. David Hackshall ceased employment on 8 March 2013 and received \$138,980 as payment in lieu of notice and redundancy payment, as well as a short term incentive of \$112,977.

# Directors' report

30 June 2013

## REMUNERATION REPORT (AUDITED) : CONTINUED

### Key management personnel of the Group

2012	Short-term employee benefits			Long-term employee benefits	Post-employment benefits	Share-based payments		Total
	Cash salary and fees	Cash bonus	Non monetary benefits	Long service leave	Super-annuation	Shares	Options	
Name	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-executive Directors</b>								
Richard Lee	242,041	—	—	—	15,775	—	—	257,816
John Thorn	122,720	—	—	—	11,045	—	—	133,765
Ian Elliot	122,720	—	—	—	11,045	—	—	133,765
Philip Salter	122,720	—	—	—	11,045	—	—	133,765
Peter Mattick	122,720	—	—	—	11,045	—	—	133,765
Fiona Balfour	109,520	—	—	—	24,245	—	—	133,765
<b>Sub total Non-executive Directors</b>	<b>842,441</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>84,200</b>	<b>—</b>	<b>—</b>	<b>926,641</b>
<b>Executive Director</b>								
Grant Harrod	812,941	315,216	28,491	9,309	15,775	583,911	—	1,765,643
<b>Other key management personnel (Group)</b>								
Peter Anson	307,024	179,243	115,671	15,733	22,136	99,398	—	739,205
Chad Barton	398,132	92,298	9,416	2,101	25,775	84,999	—	612,721
David Besson	415,847	114,588	—	27,726	25,391	76,065	—	659,617
Geoffrey Court	226,935	64,717	—	8,543	51,151	31,955	—	383,301
Nick Debenham	307,714	209,184	—	4,316	49,828	42,245	—	613,287
David Hackshall	351,545	89,293	9,416	1,654	15,775	72,465	—	540,148
Andrew Hume <sup>1</sup>	338,826	—	—	(23,807)	3,944	(66,393)	—	252,570
Ian Jones	284,247	90,960	9,416	15,394	15,775	33,011	—	448,803
Nick Spooner <sup>2</sup>	403,777	156,914	—	185	16,042	14,100	—	591,018
David Webster <sup>2</sup>	224,919	95,982	13,650	17,550	16,064	7,004	—	375,169
<b>Total key management personnel compensation (Group)</b>	<b>4,914,348</b>	<b>1,408,395</b>	<b>186,060</b>	<b>78,704</b>	<b>341,856</b>	<b>978,760</b>	<b>—</b>	<b>7,908,123</b>

1) Ceased employment during the year, forfeiting his right to deferred shares. Any share-based payment expense previously recognised under AASB2 in respect of the deferred shares has been reversed. Included within short-term employee benefits (cash salary and fees) is a termination payment of \$269,922.

2) Remuneration is from the date of appointment as a KMP.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk – STI actual		At risk – LTI grant value	
	2013 %	2012 %	2013 %	2012 %	2013 %	2012 %
<b>Executive Director</b>						
Grant Harrod	67	49	33	18	—	33
<b>Other key management personnel of Salmat Group</b>						
Peter Anson	70	62	22	25	8	14
Chad Barton	62	71	32	15	6	14
David Besson	74	71	19	17	7	12
Geoffrey Court	78	75	17	17	5	8
Nick Debenham	35	59	62	34	3	7
David Hackshall	79	69	21	17	—	14
Ian Jones	64	72	26	21	10	8
Nick Spooner	72	71	28	27	—	2
David Webster	76	73	15	26	9	2

## REMUNERATION REPORT (AUDITED) : CONTINUED

### C Service Agreements

#### Chief Executive Officer

The incumbent Chief Executive Officer's contract is evergreen with tenure subject to six months notice for both parties. The Company can choose to make payment in lieu of notice, which would not exceed the average base salary plus STIs paid in the 12 months before termination.

On 17 June 2013, the Company advised that the Chief Executive Officer, Grant Harrod, would leave by mutual agreement on 1 July 2013.

#### Other key management personnel

Remuneration and other terms of employment for other key management personnel are formalised in service agreements. Each of these agreements provides for the provision of performance related cash bonuses.

The Chief Executive Officer – Business Process Outsourcing ceased to be a KMP on 10 October 2012 following the sale of the BPO division. The Company put into place a retention agreement which was conditional on the completion on the sale of the division. The agreement allowed for 44% of his total 2012 remuneration to be paid as a retention bonus, with 50% payable within seven days following completion, 25% payable within seven days of the date three months after completion and 25% payable within seven days of the date six months after completion. In addition 25% of the LTI vested on the first date above, 12.5% on the second date and a further 12.5% on the third date.

Following the sale of BPO, the Company restructured its executive leadership team and subsequently Ian Jones, Geoffrey Court and David Webster were deemed not to be KMP, effective 17 December 2012.

No executives are entitled to receive more than one year's salary on termination. All contracts with executives may be terminated early by either party with three months notice. The key management personnel are not entitled to receive any additional retirement benefits.

### D Share-based compensation

#### Options

The Salmat Employee Option Plan was approved by shareholders at a general meeting in October 2002. The continuance of this plan was approved by the shareholders at the November 2005 Annual General Meeting, at the October 2008 Annual General Meeting and at the November 2011 Annual General Meeting. The Company had a strategy of offering participation in the option plan to aid in the attraction and retention of key employees whilst aligning their goals with that of outcomes in line with that of shareholders. From the year ended 30 June 2009 the strategy was to issue deferred shares for the same purpose. From the year commencing 1 July 2012, the Remuneration Committee of the Board has decided that this is the most appropriate vehicle for senior executives' long term incentives and intends to issue performance rights (also known as zero priced options) under the Salmat Employee Option Plan for the 2013/14 financial year.

The Board oversees the administration of the plan in accordance with the plan rules. The terms and conditions of the specific grants to participants are detailed in the plan. The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

#### Equity grants in year ended 30 June 2013

##### Performance rights granted to senior employees in August 2012

As mentioned above, the Board has decided that future long term incentive arrangements will be through the issue of reported performance rights (also known as zero priced options). These were issued under the Salmat Employee Option Plan.

This change means that recipients will no longer receive dividends which in the opinion of the Board, is in line with best practice. The performance conditions included the addition of a condition related to the Company's business plan for the first time.

##### Performance condition - No 1

40% of the rights granted will vest if Salmat Limited achieves the earnings per share (EPS) hurdle of 7.5% cumulative growth for the financial years ended 30 June 2013, 2014 and 2015. Salmat's cumulative EPS for the three years ending 30 June 2015 would need to equal or exceed 67 cents. A scaled approach for part achievement would apply if:

- 75% of the targeted compound EPS increase is achieved: 50% of shares vest.
- 80% of the targeted compound EPS increase is achieved: 60% of the shares vest.
- 85% of the targeted compound EPS increase is achieved: 70% of the shares vest.
- 90% of the targeted compound EPS increase is achieved: 80% of the shares vest.
- 95% of the targeted compound EPS increase is achieved: 90% of the shares vest.
- 100% of the targeted compound EPS increase is achieved: 100% of the shares vest.

##### Performance condition - No 2

40% of the rights granted will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the constituents of the ASX small industrials index (XSIAI) for the three fiscal years ending 30 June 2015 at the testing date 1 September 2015.

Salmat's outperformance relative to XSIAI will be determined as per below, with a straight line interpolation between the 50th and 75th percentile applied:

- Salmat's TSR performance compared to XSIAI companies is less than the 50th percentile: 0% of shares vest.
- Salmat's TSR performance compared to XSIAI companies is equal to the 50th percentile: 50% of shares vest.
- Salmat's TSR performance compared to XSIAI companies is at or above the 75th percentile: 100% of shares vest.

##### Performance condition - No 3

20% of rights granted will vest if the Company's key strategic goals are met.

The Board will use its informed judgment to determine the aggregate level of the vesting based on the following performance criteria:

- Achievement of projected revenue targets from the growth strategy.
- Achievement of key milestones in the growth strategy on the approved timelines.
- Increase in constructive behaviours in culture surveys.

##### Service condition

The executive must still be employed by the Salmat Group at the performance condition testing date for the rights to vest, subject to meeting the performance conditions set down.

##### Performance rights granted to Chief Executive Officer and senior employees in December 2012

Vesting conditions are identical to the conditions placed on the August 2012 grant, with 40% of the options dependent on the achievement of an EPS hurdle; 20% dependant on the achievement of certain key strategic goals; 40% dependent on the achievement of a TSR hurdle.

## REMUNERATION REPORT (AUDITED) : CONTINUED

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price \$	Value per option at grant date \$
November 2006	November 2009	November 2011	3.41	0.96 <sup>1</sup>
November 2006	November 2009	November 2011	3.41	0.93 <sup>2</sup>
December 2006	December 2009	December 2011	3.80	1.00 <sup>1</sup>
December 2006	December 2009	December 2011	3.80	0.96 <sup>2</sup>
November 2007	November 2010	November 2012	4.20	0.62 <sup>2</sup>
November 2007	November 2010	November 2012	—	3.12 <sup>1</sup>
November 2007	November 2010	November 2012	—	1.65 <sup>2</sup>
August 2012	September 2015	September 2015	—	2.04 <sup>1</sup>
August 2012	September 2015	September 2015	—	1.45 <sup>2</sup>
December 2012	September 2015	September 2015	—	2.01 <sup>1</sup>
December 2012	September 2015	September 2015	—	1.35 <sup>2</sup>

Options granted under the plan carry no dividend or voting rights.

1) Represents the fair value of the EPS grant as well as the fair value of the key strategic goals grant.

2) Represents the fair value of the TSR grant.

### **Performance rights to be granted to senior employees in August 2013**

#### *Performance condition - No 1*

40% of the rights granted will vest if Salmat Limited achieves the Earnings Per Share (EPS) hurdle of 7.5% cumulative growth for the financial years ended 30 June 2014, 2015 and 2016. Salmat's cumulative EPS for the three years ending 30 June 2016 would need to equal or exceed 35.5 cents. A scaled approach for part achievement would apply if:

- 75% of the targeted compound EPS increase is achieved: 50% of shares vest.
- 80% of the targeted compound EPS increase is achieved: 60% of the shares vest.
- 85% of the targeted compound EPS increase is achieved: 70% of the shares vest.
- 90% of the targeted compound EPS increase is achieved: 80% of the shares vest.
- 95% of the targeted compound EPS increase is achieved: 90% of the shares vest.
- 100% of the targeted compound EPS increase is achieved: 100% of the shares vest.

#### *Performance condition - No 2*

40% of the rights granted will vest based on Salmat Limited's Total Shareholder Return (TSR) relative to the constituents of the ASX small industrials index for the three fiscal years ending 30 June 2016 at the testing date 1 September 2016.

Salmat's outperformance relative to XSIAL will be determined as per below, with a straight line interpolation between the 50th and 75th percentile applied:

- Salmat's TSR performance compared to XSIAL companies is less than the 50th percentile: 0% of shares vest.
- Salmat's TSR performance compared to XSIAL companies is equal to the 50th percentile: 50% of shares vest.
- Salmat's TSR performance compared to XSIAL companies is at or above the 75th percentile: 100% of shares vest.

#### *Performance condition - No 3*

20% of rights granted will vest if the Company's key strategic goals are met.

The Board will use its informed judgment to determine the aggregate level of the vesting based on the following performance criteria:

- Achievement of projected revenue targets from the growth strategy.
- Achievement of key milestones in the growth strategy on the approved timelines.
- Increase in constructive behaviours in culture surveys.

#### *Service condition*

The executive must still be employed by Salmat Group at the performance condition testing dates for the shares to vest, subject to meeting the performance conditions set down.

#### **Plans issued prior to 1 July 2012**

##### **Options granted to senior employees in November 2006**

#### *Non-market vesting conditions*

Options will vest dependent on Salmat Limited achieving a compound 10% per annum increase in earnings per share for the three fiscal years before the first exercise date in total 81.6 cents per share, where earnings per share is determined as basic earnings per share (after tax).

For the former joint Managing Directors at the time, this related to 100% of options granted. For all others it relates to 50% of options granted.

#### *Market vesting conditions*

The options will vest dependent on Salmat Limited achieving a Total Shareholder Return (TSR) in excess of the constituents of the S&P/ASX Small Ordinaries Index for the three fiscal years ended 30 June 2009.

In the case of all recipients with the exception of the former joint Managing Directors, this performance condition relates to 50% of the options granted.

##### **Options granted to senior employees in December 2006**

Vesting conditions are identical to the conditions placed on the November 2006 grant with 50% of the options dependent on the non-market condition and 50% of the options dependent on the market condition.

## REMUNERATION REPORT (AUDITED) : CONTINUED

### Options granted to senior employees in November 2007

For options issued to the former joint Managing Directors at an exercise price of \$4.20, cumulative earnings per share (EPS) for the three years ended 30 June 2010 must equal or exceed 85.31 cents. This represents a compound annual growth rate in earnings per share of 10% p.a.

The zero priced option grants made to other executives had the following performance conditions:

#### Non-market vesting conditions

Earnings per share (EPS) for the three years ended 30 June 2010 must equal or exceed 85.31 cents. This represents a compound annual growth rate in earnings per share of 10% p.a. This performance condition relates to 50% of the options granted.

#### Market vesting conditions

Salmat Limited achieving a Total Shareholder Return (TSR) in excess of the constituents of the S&P/ASX Small Ordinaries Index for the three fiscal years ended 30 June 2010. This performance condition relates to 50% of the options granted.

Details of options over ordinary shares in the Company provided as remuneration to each Director of Salmat Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Salmat Limited. Further information on the options is set out in note 41.

Name	Number of options granted during the year		Number of options forfeited during the year	
	2013	2012	2013	2012
<b>Director of Salmat Limited</b>				
Grant Harrod	314,200	—	314,200	—
<b>Other key management personnel of the Salmat Group</b>				
Peter Anson	74,236	—	—	—
Chad Barton	64,956	—	—	—
David Besson	53,357	—	—	—
Geoffrey Court	26,910	—	—	—
Nick Debenham	51,037	—	25,518	—
David Hackshall	51,037	—	51,037	—
Nick Spooner	70,060	—	70,060	—
David Webster	37,118	—	—	—

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for the options issued during the year ended 30 June 2013 included:

- Share price at date of grant: \$2.58 on 31 August 2012 and \$2.49 on 17 December 2012.
- Options issued have no exercise price.
- Risk free interest rate: 2.50% on 31 August 2012 and 2.77% on 17 December 2012.
- Expected price volatility of the Company's shares: 31%.
- Expected dividend yield: 7.9%.

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	
		2013	2012
<b>Other key management personnel of the Salmat Group</b>			
David Besson	September 2011	—	10,000
Peter Anson	October 2012	10,000	—

## REMUNERATION REPORT (AUDITED) : CONTINUED

### Share-based compensation: Options and deferred employee shares

Further details relating to options and deferred employee shares.

Name	A Share-based remuneration %	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$
<b>Director of Salmat Limited</b>				
Grant Harrod	—	548,593	—	—
<b>Other key management personnel of the Salmat Group</b>				
Peter Anson	8%	133,922	26,200	—
Chad Barton	8%	117,181	—	—
David Besson	7%	96,256	—	—
Geoffrey Court	5%	48,546	—	—
Nick Debenham	3%	92,071	—	—
David Hackshall	—	92,071	—	—
Ian Jones	11%	92,071	—	—
Nick Spooner	—	126,388	—	—
David Webster	8%	66,961	—	—

A) The percentage of the value of remuneration consisting of options and deferred employee shares, based on the value of options and deferred employee shares expensed during the current year.

B) The fair value at grant date of options and deferred employee shares granted during the year as part of remuneration, calculated in accordance with AASB 2 *Share-based Payment*.

C) The value at exercise date of options that were granted as part of remuneration and were exercised during the year, being the intrinsic value of the options at that date.

D) The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

### Shares issued on the exercise of options

Date options granted	Issue price of shares	Number under option
October 2012	\$nil	10,625

### Salmat Limited shares issued under Salmat's Deferred Employee Share Plan

Long term incentives to the Chief Executive Officer and senior managers were made by way grants of deferred shares subject to service and performance conditions under Salmat's Deferred Employee Share Plan. In 2012, the Deferred Employee Share Plan acquired 518,357 shares in Salmat Ltd at a cost of \$1,224,130. These shares will vest to senior management upon satisfying the service and employment conditions. Should the hurdles not be met the rights to the shares are forfeited by the employees. As commented in Section A, it is not intended to use this vehicle for LTIs in the future.

Grant date	Date vested and exercisable	Expiry date	Value per share at grant date \$
April 2009	October 2012	October 2012	3.79 <sup>1</sup>
April 2009	October 2012	October 2012	3.70 <sup>2</sup>
March 2010	September 2012	September 2012	4.24 <sup>1</sup>
March 2010	September 2012	September 2012	2.80 <sup>2</sup>
December 2010	September 2013	September 2013	4.13 <sup>1</sup>
December 2010	September 2013	September 2013	2.95 <sup>2</sup>
March 2011	September 2013	September 2013	3.64 <sup>1</sup>
March 2011	September 2013	September 2013	2.36 <sup>2</sup>
February 2012	September 2014	September 2014	2.32 <sup>1</sup>
February 2012	September 2014	September 2014	1.07 <sup>2</sup>

1) Represents the fair value of the EPS component of the grant.

2) Represents the fair value of the TSR component of the grant.

## REMUNERATION REPORT (AUDITED) : CONTINUED

Details of shares in the Company provided as remuneration to key management personnel of the parent entity and the Group are set out below.

Name	Number of shares granted during the year		Number of shares vested during the year		Number of shares forfeited during the year		% Forfeited	% Vested
	2013	2012	2013	2012	2013	2012	2013	2013
<b>Director of Salmat Limited</b>								
Grant Harrod <sup>1</sup>	—	255,446	—	—	528,670	—	100%	—
<b>Other key management personnel of Salmat Limited</b>								
Peter Anson <sup>2</sup>	—	56,564	12,651	41,725	18,978	—	60%	40%
Chad Barton <sup>2</sup>	—	49,264	10,543	—	15,815	—	60%	40%
David Besson <sup>2</sup>	—	40,142	11,070	17,385	16,606	—	60%	40%
Geoffrey Court <sup>2</sup>	—	18,976	3,795	12,517	5,694	—	60%	40%
Nick Debenham <sup>3</sup>	—	38,316	31,577	—	31,577	—	50%	50%
David Hackshall <sup>2</sup>	—	38,316	10,543	—	15,815	—	60%	40%
Ian Jones <sup>2</sup>	—	38,316	3,795	12,517	5,694	—	60%	40%
Andrew Hume	—	—	—	34,770	—	26,358	—	—
Nick Spooner <sup>3</sup>	—	55,104	—	—	55,104	—	100%	—
David Webster	—	27,370	—	—	—	—	—	—

1) Forfeited the 2011 and 2012 grant on termination of employment.

2) Shares forfeited and vested relate to the 2010 grant.

3) Shares forfeited and vested relate to the 2011 and 2012 grant.

The assessed fair value at grant date of deferred shares granted to individuals is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables. Fair value at grant date is independently determined using a Binomial Approximation Valuation option pricing model and a Monte-Carlo simulation model that takes into account share price at grant date and expected price volatility of the underlying share; exercise price; the expected dividend yield; and the risk free interest for the term of the deferred share.

The model inputs for deferred shares issued during the year ended 30 June 2012 included:

- Share price at date of grant: \$2.32 on 10 February 2012.
- Deferred shares issued have no exercise price.
- Risk free interest rate: 3.53% on 10 February 2012.
- Expected price volatility of the Company's shares: 30%.
- Expected dividend yield: 6.1%.

The terms and conditions of each grant of shares affecting the remuneration in the previous, this or future reporting periods is as follows:

### Plans issued prior to 1 July 2012

#### Shares granted to senior employees in April 2009

##### Performance condition – No 1

- 50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves the Earnings Per Share (EPS) hurdle of 79 cents cumulatively for the financial years ended 30 June 2010, 2011 and 2012.
- 75% of the targeted compound EPS increase is achieved (59.25 cents) = 50% of 50% vest.
- 80% of the targeted compound EPS increase is achieved (63.20 cents) = 60% of 50% vest.
- 85% of the targeted compound EPS increase is achieved (67.15 cents) = 70% of 50% vest.
- 90% of the targeted compound EPS increase is achieved (71.10 cents) = 80% of 50% vest.
- 95% of the targeted compound EPS increase is achieved (75.05 cents) = 90% of 50% vest.
- 100% of the targeted compound EPS increase is achieved (79.00 cents) = 100% of 50% vest.

##### Performance condition – No 2

50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the constituents of the S&P/ASX small ordinaries accumulation index for the three fiscal years ended 30 June 2012 at the testing date 1 September 2012.

##### Service condition

The executive must still be employed by Salmat Group at the performance condition testing dates for the shares to vest, subject to meeting the performance conditions set down.

#### Shares granted to senior employees in March 2010

##### Performance condition – No 1

- 50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves the Earnings Per Share (EPS) hurdle of 79 cents cumulatively for the financial years ended 30 June 2010, 2011 and 2012.
- 75% of the targeted compound EPS increase is achieved (59.25 cents) = 50% of 50% vest.
- 80% of the targeted compound EPS increase is achieved (63.20 cents) = 60% of 50% vest.
- 85% of the targeted compound EPS increase is achieved (67.15 cents) = 70% of 50% vest.
- 90% of the targeted compound EPS increase is achieved (71.10 cents) = 80% of 50% vest.
- 95% of the targeted compound EPS increase is achieved (75.05 cents) = 90% of 50% vest.
- 100% of the targeted compound EPS increase is achieved (79.00 cents) = 100% of 50% vest.

##### Performance condition – No 2

50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the constituents of the S&P/ASX small ordinaries accumulation index for the three fiscal years ended 30 June 2012 at the testing date 1 September 2012.

##### Service condition

The executive must still be employed by Salmat Group at the performance condition testing dates for the shares to vest, subject to meeting the performance conditions set down.

## REMUNERATION REPORT (AUDITED) : CONTINUED

### Shares granted to senior employees in December 2010

#### Performance condition – No 1

50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves the Earnings Per Share (EPS) hurdle of 10% cumulative growth for the financial years ended 30 June 2011, 2012 and 2013.

Salmat's cumulative EPS for the three years ended 30 June 2013 would need to equal or exceed \$1.115.

A scaled approach for part achievement would apply if:

- 75% of the targeted compound EPS increase is achieved: 50% of shares vest.
- 80% of the targeted compound EPS increase is achieved: 60% of shares vest.
- 85% of the targeted compound EPS increase is achieved: 70% of shares vest.
- 90% of the targeted compound EPS increase is achieved: 80% of shares vest.
- 95% of the targeted compound EPS increase is achieved: 90% of shares vest.
- 100% of the targeted compound EPS increase is achieved: 100% of shares vest.

#### Performance condition – No 2

50% of the shares granted will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the constituents of the ASX small industrials index (XSIAI) for the three fiscal years ended 30 June 2013 at the testing date 1 September 2013.

Salmat's outperformance relative to XSIAI will be determined as per below, with a straight line interpolation between the 50th and 75th percentile applied:

- Salmat's TSR performance compared to XSIAI companies is less than the 50th percentile: 0% of shares vest.
- Salmat's TSR performance compared to XSIAI companies is equal to the 50th percentile: 50% of shares vest.
- Salmat's TSR performance compared to XSIAI companies is at or above the 75th percentile: 100% of shares vest.

#### Service condition

The executive must still be employed by Salmat Group at the performance condition testing dates for the shares to vest, subject to meeting the performance conditions set down.

### Shares granted to senior employees in February 2012

#### Performance condition – No 1

50% of the shares granted under the Deferred Employee Share Plan will vest if Salmat Limited achieves the Earnings Per Share (EPS) hurdle of 10% cumulative growth for the financial years ended 30 June 2012, 2013 and 2014.

Salmat's cumulative EPS for the three years ending 30 June 2014 would need to equal or exceed 83 cents.

A scaled approach for part achievement would apply if:

- 75% of the targeted compound EPS increase is achieved: 50% of shares vest.
- 80% of the targeted compound EPS increase is achieved: 60% of shares vest.
- 85% of the targeted compound EPS increase is achieved: 70% of shares vest.
- 90% of the targeted compound EPS increase is achieved: 80% of shares vest.
- 95% of the targeted compound EPS increase is achieved: 90% of shares vest.
- 100% of the targeted compound EPS increase is achieved: 100% of shares vest.

#### Performance condition – No 2

50% of the shares granted will vest if Salmat Limited achieves a Total Shareholder Return (TSR) in excess of the constituents of the ASX small industrials index (XSIAI) for the three fiscal years ending 30 June 2014 at the testing date 1 September 2014.

Salmat's outperformance relative to XSIAI will be determined as per below, with a straight line interpolation between the 50th and 75th percentile applied:

- Salmat's TSR performance compared to XSIAI companies is less than the 50th percentile: 0% of shares vest.
- Salmat's TSR performance compared to XSIAI companies is equal to the 50th percentile: 50% of shares vest.
- Salmat's TSR performance compared to XSIAI companies is at or above the 75th percentile: 100% of shares vest.

#### Service condition

The executive must still be employed by Salmat Group at the performance condition testing dates for the shares to vest, subject to meeting the performance conditions set down.

## INSURANCE OF OFFICERS

Insurance has been undertaken for the financial year ended 30 June 2013 in respect of work performed by current or past principals, partners, Directors and employees.

No indemnification insurance has been undertaken for the auditors of the Company.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Salmat Limited support and have adhered to the principles of Corporate Governance (as described in this Report). The Company's Corporate Governance Statement is published on the Salmat Limited website [www.salmat.com.au](http://www.salmat.com.au).

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

## NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Salmat Group are important.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

## 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 24.

## ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors.



**Peter Mattick**  
Chairman



**Richard Lee**  
Lead Independent Director

Sydney  
20 August 2013



Ernst & Young  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

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## Auditor's Independence Declaration to the Directors of Salmat Limited

In relation to our audit of the financial report of Salmat Limited for the financial year ended 30 June 2013, 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Rob Lewis' in a cursive style.

Rob Lewis  
Partner  
20 August 2013

# Consolidated income statement

For the year ended 30 June 2013

	Notes	Consolidated	
		2013 \$'000	2012 <sup>1</sup> \$'000
<b>Revenue from continuing operations</b>	3	<b>467,579</b>	507,849
Employee benefits expense		<b>(235,472)</b>	(271,570)
Depreciation and amortisation expense	4	<b>(12,669)</b>	(14,376)
Freight and distribution		<b>(145,615)</b>	(151,560)
Materials usage		<b>(470)</b>	(1,748)
Property related expenses		<b>(19,045)</b>	(17,574)
Equipment related costs		<b>(8,565)</b>	(8,589)
Other expenses from ordinary activities		<b>(20,210)</b>	(16,360)
Impairment loss	2	<b>(8,821)</b>	—
Finance costs	4	<b>(6,193)</b>	(10,723)
Share of net gain of associates and joint venture partnership accounted for using the equity method	37	<b>300</b>	204
<b>Profit before income tax</b>		<b>10,819</b>	15,553
Income tax expense	5	<b>(5,043)</b>	(4,336)
Profit from continuing operations		<b>5,776</b>	11,217
Profit from discontinued operations	6	<b>34,366</b>	19,131
<b>Profit for the year</b>		<b>40,142</b>	30,348
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	40	<b>25.4</b>	19.2
Diluted earnings per share	40	<b>25.1</b>	19.0
<b>Earnings per share attributable to the ordinary equity holders of the Company – continuing operations</b>			
Basic earnings per share	40	<b>3.7</b>	7.1
Diluted earnings per share	40	<b>3.6</b>	7.0

The above income statement should be read in conjunction with the accompanying notes.

1) Comparatives restated for discontinued operations. See note 6.

# Consolidated statement of comprehensive income

For the year ended 30 June 2013

	Notes	Consolidated	
		2013 \$'000	2012 <sup>1</sup> \$'000
<b>Profit for the year</b>		<b>40,142</b>	30,348
<b>Other comprehensive income</b>			
<i>Continuing operations</i>			
Items that may be reclassified subsequently to profit or loss			
Changes in the fair value of cash flow hedges	28(a)	<b>(321)</b>	(4,220)
Net change in fair value of cash flow hedges reclassified to profit or loss	28(a)	<b>2,017</b>	1,596
Exchange differences on translation of foreign operations	28(a)	<b>2,750</b>	630
Income tax relating to components of other comprehensive income	5(c)	<b>(511)</b>	787
		<b>3,935</b>	(1,207)
Items that may not be reclassified subsequently to profit or loss			
Actuarial losses on retirement benefit obligation	25(e)	<b>(39)</b>	(1,866)
Sub-total – continuing operations		<b>3,896</b>	(3,073)
<i>Discontinued operations</i>			
Items that may be reclassified subsequent to profit or loss			
Net change in fair value of cash flow hedges reclassified to profit or loss	28(a)	<b>1,201</b>	–
Exchange differences on translation of foreign operations	28(a)	<b>(1,876)</b>	(715)
Income tax relating to components of other comprehensive income		<b>(360)</b>	–
<b>Other comprehensive income/(loss) for the period from discontinued operations</b>		<b>(1,035)</b>	(715)
<b>Other comprehensive income for the year, net of tax</b>		<b>2,861</b>	(3,788)
<b>Total comprehensive income for the year attributable to members of Salmat Limited arises from:</b>		<b>43,003</b>	26,560
Continuing operations		<b>9,702</b>	10,722
Discontinued operations		<b>33,301</b>	15,838
<b>Total comprehensive income for the year</b>		<b>43,003</b>	26,560

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

1) Comparatives restated for discontinued operations. See note 6.

# Consolidated statement of financial position

As at 30 June 2013

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
<b>Current assets</b>			
Cash and cash equivalents	7	189,088	37,382
Trade and other receivables	8	53,129	112,575
Current tax receivable		1,612	—
Inventories	9	1,252	6,953
Other current assets	10	3,010	6,030
<b>Total current assets</b>		<b>248,091</b>	162,940
<b>Non-current assets</b>			
Receivables	11	3,529	2,681
Investments accounted for using the equity method	12	1,701	3,698
Property, plant and equipment	13	18,939	59,786
Deferred tax assets	14	13,781	18,608
Intangible assets	15	151,302	448,404
Other non-current assets	16	79	238
<b>Total non-current assets</b>		<b>189,331</b>	533,415
<b>Total assets</b>		<b>437,422</b>	696,355
<b>Current liabilities</b>			
Trade and other payables	17	59,808	92,162
Borrowings	18	85	4,749
Derivative financial instruments	19	928	2,258
Current tax payable		—	4,800
Provisions	20	13,627	28,107
<b>Total current liabilities</b>		<b>74,448</b>	132,076
<b>Non-current liabilities</b>			
Borrowings	22	99,007	274,274
Deferred tax liabilities	23	1,265	5,619
Provisions	24	4,636	7,358
Retirement benefit obligations	25	96	3,434
Derivative financial instruments	19	—	1,568
Payables	21	—	407
Other non-current liabilities	26	698	698
<b>Total non-current liabilities</b>		<b>105,702</b>	293,358
<b>Total liabilities</b>		<b>180,150</b>	425,434
<b>Net assets</b>		<b>257,272</b>	270,921
<b>Equity</b>			
Contributed equity	27	205,494	205,026
Reserves	28(a)	1,399	(1,113)
Retained earnings	28(b)	50,379	67,008
<b>Total equity</b>		<b>257,272</b>	270,921

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

# Consolidated statement of changes in equity

For the year ended 30 June 2013

Consolidated	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
<b>Balance at 1 July 2011</b>		<b>205,761</b>	<b>267</b>	<b>72,084</b>	<b>278,112</b>
Profit for the year		—	—	30,348	30,348
Other comprehensive income		—	(1,922)	(1,866)	(3,788)
<b>Total comprehensive income for the year</b>		<b>—</b>	<b>(1,922)</b>	<b>28,482</b>	<b>26,560</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividends paid	29	—	—	(33,558)	(33,558)
Cost of share-based payments	41	—	1,031	—	1,031
Employee share scheme	27	(735)	(489)	—	(1,224)
		(735)	542	(33,558)	(33,751)
<b>Balance at 30 June 2012</b>		<b>205,026</b>	<b>(1,113)</b>	<b>67,008</b>	<b>270,921</b>
<b>Balance at 1 July 2012</b>		<b>205,026</b>	<b>(1,113)</b>	<b>67,008</b>	<b>270,921</b>
Profit for the year		—	—	40,142	40,142
Other comprehensive income		—	2,900	(39)	2,861
<b>Total comprehensive income for the year</b>		<b>—</b>	<b>2,900</b>	<b>40,103</b>	<b>43,003</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividends paid	29	—	—	(56,732)	(56,732)
Cost of share-based payments	41	—	(239)	—	(239)
Employee share scheme	27, 28	468	(149)	—	319
		468	(388)	(56,732)	(56,652)
<b>Balance at 30 June 2013</b>		<b>205,494</b>	<b>1,399</b>	<b>50,379</b>	<b>257,272</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated statement of cash flows

For the year ended 30 June 2013

	Notes	Consolidated	
		2013 <sup>1</sup> \$'000	2012 <sup>1</sup> \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		653,297	1,008,242
Payments to suppliers and employees (inclusive of goods and services tax)		(615,610)	(896,211)
		37,687	112,031
Interest received		5,831	449
Interest paid		(11,376)	(21,396)
Income taxes paid		(11,285)	(13,512)
<b>Net cash inflow/(outflow) from operating activities</b>	39	<b>20,857</b>	<b>77,572</b>
<b>Cash flows from investing activities</b>			
Payment for purchase of controlled entities (prior acquisition)		—	(98)
Payment of deferred purchase price (prior acquisition)		—	(406)
Payments for property, plant and equipment		(12,937)	(18,203)
Proceeds from sale of property, plant and equipment		25	679
Payments for investment in associate		(400)	(3,840)
Proceeds from sale of controlled entity	6	363,849	157
Loan to associate		(450)	—
<b>Net cash inflow/(outflow) from investing activities</b>		<b>350,087</b>	<b>(21,711)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	22	(161,035)	—
Payments for shares acquired by the Deferred Employee Share Trust		—	(1,224)
Finance lease payments		(1,471)	(4,324)
Dividends paid to Company's shareholders	29	(56,732)	(33,558)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(219,238)</b>	<b>(39,106)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>151,706</b>	<b>16,755</b>
Cash and cash equivalents at the beginning of the financial year		37,382	20,627
<b>Cash and cash equivalents at end of year</b>	7	<b>189,088</b>	<b>37,382</b>

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

1) The 2013 cash flow statement and its comparatives include cash flows from the BPO division until its divestment on 10 October 2012.

# Notes to the financial statements

30 June 2013

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## CORPORATE INFORMATION

The financial report of Salmat Limited and the entities it controlled for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the Directors on 20 August 2013.

Salmat Limited (the ultimate parent) is a Company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

### Registered Office

Level 3, 116 Miller Street  
North Sydney NSW 2060

The nature of the operations and principal activities of the Group are described in the Directors' report.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Salmat Limited and its controlled entities (together referred to as the Group).

### a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. Salmat Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report has been prepared on a historical costs basis except for derivative financial instruments which are held at fair value.

### i) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### ii) New and amended standards adopted by the Salmat Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 July 2012:

- AASB 2011-9 *Amendments to Australian Accounting Standards*
- AASB101 *Presentation of Items of Other Comprehensive Income*.

The change only relates to disclosures and has no impact to consolidated earnings per share or net income. The changes have been applied retrospectively and requires the Group to separately present those items of other comprehensive income that may be reclassified to profit or loss in future from those that will never be reclassified to profit or loss. These changes are included in the statement of other comprehensive income

### iii) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

- Intangible assets (note 15) – measurement of the recoverable amounts of cash-generating units containing goodwill and other intangible assets.
- Share-based payment transactions (note 41) – the fair value of equity settled transactions with employees is determined by an external valuer using a Binomial Approximation Option Valuation model together with a Monte-Carlo simulation model.
- Defined benefit plans (note 25) – various actuarial assumptions are required when determining the Group's pension obligations.

## b) Principles of consolidation

### i) Subsidiaries

The consolidated financial statements comprise the financial statements of Salmat Limited (the Company) and its subsidiaries (the Salmat Group also referred to as the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies.

A controlled entity is any entity controlled by Salmat Limited. Control exists where Salmat Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Salmat Limited to achieve the objectives of Salmat Limited.

All intercompany balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation (refer to note 1(h)).

Where controlled entities have entered or left the Group during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Investments are held at the lower of cost and recoverable amount.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

### ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' and joint ventures' post acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the Group's entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES : CONTINUED

### c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources.

### d) Foreign currency translation

#### Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

#### Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period end exchange rates. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when the fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

As at the reporting date the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of Salmat Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

#### Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- all resulting exchange differences are recognised in other comprehensive income; and
- on consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

### e) Revenue recognition

Revenue from the rendering of a service is recognised by reference to the stage of completion of a contract or contracts in progress at balance date or upon the delivery of the service to the customer.

When rendering services under contract and both the contract outcome and control of the right to be compensated for the services and the stage of completion can be reliably measured, revenue is recognised on a progressive basis as the costs to complete the service contract are performed.

For significant development contracts, sales revenue is recognised on the percentage of completion in instances where the development solution is sold. In instances where the developed solution is retained and licensed by the Company for a fixed term, revenue is recognised on an accruals basis in accordance with the terms of the relevant agreement (usually on a fee per transaction basis).

Where payment terms extend beyond 12 months, revenue is discounted to its fair value using the future discounted cash flows. Where the outcome of a contract cannot be reliably estimated, contract costs are expensed as incurred. Where it is probable that the costs will be recovered, revenue is only recognised to the extent of costs incurred.

Stage of completion is measured by reference to an assessment of costs incurred to date as a percentage of estimated total costs for each contract. Costs for this purpose, represent costs that are reflective of services performed to date, or services to be performed.

The Group incurs postage on behalf of its clients, which is on-charged to its clients. Salmat Limited has offset all postage costs incurred against postage revenue in the consolidated income statement. This method of disclosure does not result in any effect on profit. For cash flow purposes, the amounts are shown as gross receipts and gross payments.

Dividend revenue is recognised when the right to receive a dividend has been established.

Government grant revenue is recognised when the relevant criteria have been met and there is reasonable assurance that the income will be received. When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal instalments.

Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

### f) Income tax

The charge for income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax is recognised in the income statement except where it relates to items that may be recognised directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES : CONTINUED

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax liabilities are recognised for all taxable permanent differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### Tax consolidation legislation

Salmat Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. The head entity, Salmat Limited, and the controlled entities in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Salmat Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 5. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

### g) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 33). Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

### h) Business combinations

Business combinations are accounted for using the acquisition method. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1r). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified as either equity or a financial liability and subsequently remeasured with changes to equity or profit and loss. Changes in the fair value as at acquisition date of the contingent consideration are measurement period changes and are adjusted against the goodwill previously recognised.

If the business combination is achieved in stages, the acquisition date fair value of the Group's previous held equity interest in the acquiree is remeasured to fair value at the acquisition date through the income statement.

### i) Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indicators exist, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES : CONTINUED

### j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts where a right of offset exists and investments in money market instruments with less than 90 days to maturity.

### k) Trade receivables

Trade receivables are non-interest bearing, generally have 7-45 day terms and are recognised and carried at amortised cost amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

### l) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of fixed and variable overhead expenses.

### m) Investments in associates and joint ventures

The Groups' investment in its associates and joint ventures is accounted for in the financial statements by applying the equity method of accounting. When Salmat has significant influence over an entity that is not jointly controlled, it is deemed an associate. A joint venture entity is one which Salmat jointly controls with one other party in equal proportion.

The investment in the associate and joint venture is carried in the consolidated balance sheet at cost plus post acquisition changes in Salmat's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects Salmat's share of the results of the operations of the associate.

The associate's and joint venture's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

### n) Investments in subsidiaries and other financial assets

#### Related parties

Non-current investments are measured using the amortised cost basis. The carrying amount of non-current investments is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets for the non-listed investments.

All non-current investments were carried at the lower of cost or net recoverable value.

### o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 19. Movements in the hedging reserve in shareholders' equity are shown in note 28. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

### i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within revenue. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expenses.

### p) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES : CONTINUED

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

### q) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

### Depreciation

The depreciation amount of all fixed assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

- Plant and equipment 14.0% to 33.0%
- Leasehold improvements Over term of lease

The assets' residual values, useful lives and amortisation are reviewed, and adjusted if appropriate, at each financial year end.

### Impairment

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell, and value in use.

### r) Intangible assets

#### i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised.

From the date of acquisition, the Group has up to one year to ascertain the fair value of assets acquired and to amend the goodwill initially recorded.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units or group of cash-generating units that are expected to benefit from the combination synergies.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Goodwill is tested at least annually for impairment (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired) and is carried at cost less accumulated impairment losses. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### ii) Intangibles

Intangible assets acquired are capitalised at cost, unless acquired as part of a business combination in which case they are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less provision for impairment.

Other intangible assets include both customer contracts and relationships and costs of acquiring and developing business systems.

Useful lives have been established for all non-goodwill intangible assets. Amortisation charges are expensed in the income statement on a straight line basis over those useful lives. Estimated useful lives are reviewed annually.

The expected useful lives of intangible assets are generally:

- Customer contracts and relationships 5 – 8 years
- Business systems 3 – 5 years

#### iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from three to seven years.

#### s) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables and other payables are non-interest bearing and are normally settled on supplier agreed terms.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES : CONTINUED

### t) Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Make-good provision

A provision has been made for the present value of anticipated costs of future restoration of leased premises. The calculation of this provision requires assumptions such as application of environmental legislation, lease exit dates, available technologies and engineering cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision.

### Surplus lease space

Where premises have been leased on long term contracts and there are no plans to utilise the premises over the remaining life of the lease, the lesser of the obligation for the expected period of vacancy whereby the property cannot be sublet, and the break costs is provided.

### v) Employee benefits

#### i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

#### ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### iii) Retirement benefit obligations

Prior to the sale of the BPO division, the Group operated three defined benefit pension schemes, which required contributions to be made to separately administered funds. Since the divestment the Group has one scheme.

The defined benefit plan expense for the plan is determined separately for each plan by independent actuarial valuations. Actuarial gains and losses are recognised immediately in retained earnings.

The defined benefit asset or liability recognised in the balance sheet represents the present value of the defined benefit obligation, adjusted for unrecognised past service cost, net of the fair value of the plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

#### iv) Share-based payments

##### Employee Option Plan

The fair value of options under the Salmat Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market conditions.

Non-market vesting conditions are included as assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Options are equity settled.

Information in relation to these schemes is set out in note 41.

##### Deferred Employee Share Plan

The fair value of shares under the Salmat Deferred Share Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares. The total amount to be expensed is determined by reference to the fair value of the shares granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market conditions.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES : CONTINUED

Non-market vesting conditions are included as assumptions about the number of shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each period, the Company revises its estimates of the number of shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity. Shares are equity settled.

Information in relation to these schemes is set out in note 41.

### w) Contributed equity

Ordinary shares are classified as equity (note 27).

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### Treasury shares

Shares in the Group held by the Salmat Deferred Employee Share Plan are classified and disclosed as treasury shares and deducted from equity.

### x) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted EPS is calculated as net profit attributable to ordinary equity holders of the parent entity divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### y) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;

- Receivables and payables are stated with the amount of GST included.
- The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.
- Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

### z) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### aa) New accounting standards and interpretations on issue but not effective

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2013, but have not been applied in preparing this financial report. Other new standards and interpretations have been issued but are not considered to have an impact on the consolidated Group's financial statements.

#### i) AASB 10 Consolidated Financial Statements (effective from 1 January 2013)

AASB 10 *Consolidated Financial Statements* establishes a new control model that applies to all entities. It replaces parts of AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

The Group will apply the standard from 1 July 2013. The amendment is not expected to have a significant impact on the entities that the Group currently consolidates.

#### ii) AASB 11 Joint Arrangements (effective from 1 January 2013)

AASB 11 *Joint Arrangements* replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly controlled Entities – Non-monetary Contributions by Ventures*. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

The Group will apply the standard from 1 July 2013. The amendment is not expected to have a significant impact on the current accounting for the Group's investments in joint ventures.

#### iii) AASB 12 Disclosure of Interests in Other Entities (effective from 1 January 2013)

AASB 12 *Disclosure of Interests in Other Entities* includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

The Group will apply the standard from 1 July 2013. The Group currently discloses a list of all subsidiaries, joint ventures and associates in its annual report. The amendment will lead to enhanced disclosure on the Group's joint ventures.

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES : CONTINUED

### iv) AASB 13 Fair Value Measurement (effective 1 January 2013)

AASB 13 *Fair Value Measurement* establishes a single source of guidance under AIFRS for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under AIFRS when fair value is required or permitted by AIFRS. Application of this definition may result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

The Group will apply the standard from 1 July 2013. This amendment is not expected to have a significant impact on the current accounting of these instruments.

### v) AASB 119 Employee Benefits (effective 1 January 2013)

The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revises the method of calculating the return on plan assets.

The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

The change to short-term employee benefits may also result in a change in the measurement of employee provisions.

The Group will apply the standard from 1 July 2013. The change is not expected to have a material impact on the financial statements of the Group.

### vi) AASB 2012-2 amendment to AASB 7 Financial Instruments (effective 1 January 2013)

AASB 2012-2 principally amends AASB 7 *Financial Instruments: Disclosures* to require the disclosure of the effect or potential effect of netting arrangements. This includes rights of set-off associated with the entity's recognised financial assets and liabilities on the entity's financial position, when the offsetting criteria of AASB 132 are not all met.

The Group will apply the standard from 1 July 2013. This amendment is not expected to have significant impact on the Group's financial statements.

### vii) AASB 2011-4 amendment to AASB 124 Related Parties (effective 1 July 2013)

This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

The Group will apply the standard from 1 July 2013. The application will result in the removal of individual KMP disclosures as currently disclosed in note 30 to only show aggregate amounts.

### viii) AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation Parties (effective 1 July 2014)

This amendment addresses inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

The Group will apply the amendment from 1 July 2014. This amendment is not expected to have significant impact on the Group's financial statements.

### ix) AASB9 Financial Instruments (Effective 1 January 2015)

AASB 9 *Financial Instruments* includes requirements for the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption.

The Group is yet to assess its full impact and has therefore not yet adopted AASB9 *Financial Instruments*.

### ab) Parent entity financial information

The financial information for the parent entity, Salmat Limited, disclosed in note 43 has been prepared on the same basis as the consolidated financial statements.

## 2 SEGMENT INFORMATION

### a) Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. In the prior year the Group had three reportable segments. On 27 August 2012 Salmat Limited announced the sale of its Business Process Outsourcing division to Fuji Xerox Asia Pacific Pte Ltd for gross sale proceeds of \$375 million. The sale was completed on 10 October 2012 and the Business Process Outsourcing Segment is reported in these financial statements as a discontinued operation. The Chief Executive Officer has identified two reportable segments which are as follows:

#### Consumer Marketing Solutions (CMS)

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

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

#### Customer Engagement Solutions (CES)

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

#### Corporate costs

Corporate costs are those costs which are managed on a Group basis and not allocated to business segments. They include costs of strategic planning decisions, compliance costs and treasury-related activities.

#### Accounting policies

Segment revenues and expenses are those directly attributable to the segments and include any joint venture revenue and expenses where a reasonable basis of allocation exists.

# Notes to the financial statements

30 June 2013

## 2 SEGMENT INFORMATION : CONTINUED

### Intersegment transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the Group at arms length. These transfers are eliminated on consolidation. As intersegment revenues are considered immaterial no disclosure of these is made below.

### b) Segment result

2013	Consumer Marketing Solutions \$'000	Customer Engagement Solutions \$'000	Corporate Costs \$'000	Total \$'000
<b>Segment revenue</b>				
Sales to external customers	260,750	201,004		461,754
Interest revenue				5,825
<b>Total revenue from continuing operations</b>				<b>467,579</b>
<b>Underlying EBITA from continuing operations before significant items</b>	<b>30,112</b>	<b>11,176</b>	<b>(15,474)</b>	<b>25,814</b>
Amortisation expense continuing operations				(2,119)
Net finance costs continuing operations				(368)
<b>Underlying profit before income tax from continuing operations</b>				<b>23,327</b>
Significant items (note 2c)				(12,508)
<b>Profit before income tax and discontinued operations</b>				<b>10,819</b>
Income tax expense				(5,043)
Profit from continuing operations				5,776
Profit from discontinued operations (note 6)				34,366
<b>Profit attributable to members of Salmat Limited</b>				<b>40,142</b>
<b>2012</b>				
<b>Segment revenue</b>				
Sales to external customers	275,188	232,250		507,438
Interest revenue				411
<b>Total revenue from continuing operations</b>				<b>507,849</b>
<b>Underlying EBITA from continuing operations before significant items</b>	<b>36,510</b>	<b>10,972</b>	<b>(16,127)</b>	<b>31,355</b>
Amortisation expense continuing operations				(3,316)
Net finance costs continuing operations				(10,311)
<b>Underlying profit before income tax from continuing operations</b>				<b>17,728</b>
Significant items (note 2c)				(2,175)
<b>Profit before income tax and discontinued operation</b>				<b>15,553</b>
Income tax expense				(4,336)
Profit from continuing operation				11,217
Profit from discontinued operations (Refer note 6)				19,131
<b>Profit attributable to members of Salmat Limited</b>				<b>30,348</b>

# Notes to the financial statements

30 June 2013

## 2 SEGMENT INFORMATION : CONTINUED

### c) Significant items

The chief operating decision maker assesses the performance of the operating segments based on a measure of underlying EBITA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments such as restructuring costs, costs incurred by the continuing business in separating the BPO business and an impairment charge on intangible assets.

Refer to Note 6b for details on the \$34,366,000 (2012: \$19,131,000) profit from discontinued operations. This profit includes the contribution of the BPO division for the period of ownership to 10 October 2012 and the profit on sale of the division (including the associated transaction and separation costs). Also included in discontinued operations is the result of discontinued joint ventures.

	Consolidated			
	2013 \$'000 Pre Tax	2013 \$'000 Post Tax	2012 \$'000 Pre Tax	2012 \$'000 Post Tax
<b>Significant items included in total expenses</b>				
<i>Continuing operations</i>				
Restructuring costs	2,355	1,649	2,175	1,522
Separation costs following the sale of BPO division	1,332	933	—	—
Impairment charge (note 15)	8,821	8,270	—	—
<b>Significant items from continuing operations</b>	<b>12,508</b>	<b>10,852</b>	2,175	1,522

### d) Geographical information

The following table presents Salmat's segment revenues and assets by geographical area.

	Segment revenues		Segment assets	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Australia	513,502	773,735	412,646	655,762
New Zealand	32,005	24,399	9,601	6,620
Asia	14,251	24,876	855	13,984
Other	560	869	539	1,381
<b>Total</b>	<b>560,318</b>	823,879	<b>423,641</b>	677,747
Deferred tax asset			13,781	18,608
<b>Total</b>			<b>437,422</b>	<b>696,355</b>

Segment revenues are allocated based on the country in which the work is performed. Segment assets and capital expenditure are allocated based on where the assets are located

In 2013 two customers generated 12.9% and 9.2% of total continuing operations revenue. In 2012 no single customer generated revenue greater than 10%.

## 3 REVENUE

	Consolidated	
	2013 \$'000	2012 \$'000
<b>From continuing operations</b>		
Services	461,754	507,438
Interest	5,825	411
<b>Total – continuing operations</b>	<b>467,579</b>	507,849
<b>From discontinued operations (note 6)</b>		
Services	92,733	315,992
Interest	6	38
<b>Total – discontinued operations</b>	<b>92,739</b>	316,030
<b>Total revenue</b>	<b>560,318</b>	823,879

# Notes to the financial statements

30 June 2013

## 4 EXPENSES

	Consolidated	
	2013 \$'000	2012 <sup>1</sup> \$'000
<b>Depreciation</b>		
Plant and equipment	10,550	11,060
<b>Amortisation</b>		
Customer intangibles	1,451	2,305
Other intangibles	668	1,011
<b>Total amortisation</b>	<b>2,119</b>	<b>3,316</b>
<b>Depreciation and amortisation expense</b>	<b>12,669</b>	<b>14,376</b>
<b>Finance costs</b>		
Interest and finance charges	6,193	10,723
<b>Net loss/(gain) on disposal of property, plant and equipment</b>	<b>39</b>	<b>181</b>
<b>Rental expense relating to operating leases</b>		
Minimum lease payments	13,862	12,079
<b>Foreign exchange gains and losses</b>		
Net foreign exchange (gains)/losses	26	(69)
<b>Defined contribution superannuation expense</b>	<b>13,561</b>	<b>15,225</b>
<b>Share based payments expense/(gain)</b>	<b>(239)</b>	<b>1,031</b>

1) Comparatives restated for discontinued operations. See note 6.

## 5 INCOME TAX EXPENSE

	Consolidated	
	2013 \$'000	2012 \$'000
<b>a) Income tax expense:</b>		
Current tax	9,560	6,053
Deferred tax	(4,630)	(1,042)
Adjustments for current tax of prior periods	113	(675)
Income tax – continuing operations	5,043	4,336
Income tax – discontinued operations	(2,648)	7,292
<b>Total income tax expense</b>	<b>2,395</b>	<b>11,628</b>
<b>b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit before tax from continuing operations	10,819	15,553
Profit before tax from discontinued operations	31,718	26,423
<b>Total profit before tax</b>	<b>42,537</b>	<b>41,976</b>
Tax at the Australian tax rate of 30% (2012 – 30%)	12,761	12,593
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Accounting profit on BPO divestment	(12,866)	—
Non-allowable deductions	2,507	406
Over provision for income tax in prior year	(113)	(1,657)
Difference in overseas tax rates	(471)	(274)
Share of joint ventures losses not assessable	577	560
<b>Total income tax expense</b>	<b>2,395</b>	<b>11,628</b>
<b>c) Tax expense (income) relating to items of other comprehensive income</b>		
Cash flow hedges	871	787
<b>d) Tax losses</b>		
Gross unused tax losses for which no deferred tax asset has been recognised	—	12,032

All unused tax losses were incurred by overseas entities that are not part of the tax consolidated Group.

# Notes to the financial statements

30 June 2013

## 5 INCOME TAX EXPENSE : CONTINUED

### e) Tax consolidation legislation

Salmat Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated Group entered into a tax sharing agreement, which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Salmat Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Salmat Limited for any current tax payable assumed and are compensated by Salmat Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Salmat Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

## 6 DISCONTINUED OPERATIONS

### a) Description

On 27 August 2012 Salmat Limited announced the sale of its Business Process Outsourcing division to Fuji Xerox Asia Pacific Pte Ltd for gross sale proceeds of \$375 million. The sale was completed on 10 October 2012 and the Business Process Outsourcing segment is reported in these financial statements as a discontinued operation.

Financial information relating to BPO for the period to the date of disposal is set out below.

In the year ended 30 June 2013 the Roamz joint venture was also discontinued and the result of this investment is presented below as part of the result from discontinued operations.

### b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the period 1 July 2012 to 10 October 2012 and the financial year ended 30 June 2012.

	Consolidated	
	2013 \$'000	2012 \$'000
Revenue (note 3)	92,739	316,030
Expenses	(77,737)	(286,683)
Profit before income tax	15,002	29,347
Income tax expense	(3,881)	(7,292)
Profit after income tax of BPO to 10 October 2012 (FY12: full year)	11,121	22,055
Gain on sale of BPO division before income tax (note 6c)	20,207	(730)
Income tax benefit	6,529	—
Gain on sale of BPO division after income tax	26,736	(730)
<b>Profit from discontinued operation (BPO division)</b>	<b>37,857</b>	21,325
Discontinued joint venture losses	(3,491)	(2,194)
<b>Total profit from discontinued operations</b>	<b>34,366</b>	19,131
Net cash inflow/(outflow) from operating activities	(9,391)	47,665
Net cash inflow from investing activities	358,581	(11,200)
Net cash (outflow) from financing activities	(2,376)	(4,200)
<b>Net cash (used in)/generated by discontinued operations</b>	<b>346,814</b>	32,265

# Notes to the financial statements

30 June 2013

## 6 DISCONTINUED OPERATIONS : CONTINUED

### c) Details of the sale of the BPO division

	2013 \$'000
Gross sale proceeds	375,000
Working capital adjustment received	8,159
<b>Total gross sale proceeds</b>	<b>383,159</b>
Less finance lease and other borrowings transferred	<b>(19,302)</b>
Less cash disposed	(8)
<b>Net proceeds recognised in cash flow statement</b>	<b>363,849</b>
Carrying amount of net assets sold (note 6d)	(322,652)
Gain on sale before transaction and separation costs	<b>41,197</b>
Transaction costs and amounts transferred from foreign currency reserve on disposal	(8,810)
Separation costs	(12,180)
<b>Net gain on sale of division before income tax</b>	<b>20,207</b>
Income tax benefit	6,529
<b>Net gain on sale of division after income tax</b>	<b>26,736</b>

### d) Effect of disposal on the financial position of the Group

The following net assets were disposed of as part of the sale of the BPO division:

	2013 \$'000
Property, plant and equipment	(43,437)
Intangible assets	(286,692)
Trade and other receivables	(48,959)
Other assets	(2,326)
Inventories	(4,962)
Net deferred tax asset	(3,281)
Investments accounted using the equity method	(451)
Trade and other payables	27,373
Deferred payments	382
Retirement benefit obligations	3,383
Lease liabilities	17,655
Provisions	18,663
<b>Net assets</b>	<b>(322,652)</b>

## 7 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2013 \$'000	2012 \$'000
Cash at bank	189,070	37,366
Cash on hand	18	16
	<b>189,088</b>	<b>37,382</b>

## 8 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	2013 \$'000	2012 \$'000
<b>Net trade receivables</b>		
Trade receivables	47,262	103,041
Allowance for doubtful receivables (a)	(1,367)	(1,204)
	<b>45,895</b>	<b>101,837</b>
Other receivables	7,234	10,738
	<b>53,129</b>	<b>112,575</b>

# Notes to the financial statements

30 June 2013

## 8 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES : CONTINUED

### a) Impaired trade receivables

As at 30 June 2013 current trade receivables of the Group with a nominal value of \$1,367,000 (2012: \$1,204,000) were impaired. The individually impaired receivables mainly relate to clients, which are in an unexpectedly difficult economic situation.

Movements in the allowance for impairment of receivables are as follows:

	Consolidated	
	2013 \$'000	2012 \$'000
At 1 July	1,204	668
Allowance for impairment recognised during the year	580	1,198
Receivables written off during the year as uncollectible	(196)	(662)
Disposal of BPO division	(221)	—
At 30 June	1,367	1,204

The creation and release of the allowance for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

### b) Past due but not impaired

As of 30 June 2013, trade receivables of \$8,314,000 (2012: \$13,667,000) were past due but not impaired. These relate to a number of independent clients for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2013 \$'000	2012 \$'000
1 – 30 days	5,692	8,564
31 – 60 days	890	3,953
greater than 60 days	1,732	1,150
	8,314	13,667

There are no trade receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired.

Based on the credit history of trade receivables not past due or past due and not impaired, the Group believes that these amounts will be received when due.

The other classes within trade and other receivables do not contain impaired assets and the Group believes that these amounts will be fully recovered.

Outstanding balances are unsecured and are repayable in cash.

### c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 42 for more information on the risk management policy of the Salmat Group and the credit quality of the entity's trade receivables.

## 9 CURRENT ASSETS – INVENTORIES

	Consolidated	
	2013 \$'000	2012 \$'000
<b>Raw materials</b>		
At cost	560	5,360
Provision for obsolescence	(350)	(799)
Raw materials	210	4,561
Work in progress		
At cost	1,042	2,392
	1,252	6,953

### Inventory expense

Inventories recognised as expense from continuing operations during the year ended 30 June 2013 amounted to \$470,000 (2012: \$1,748,000) and are included in 'materials usage' in the consolidated income statement.

# Notes to the financial statements

30 June 2013

## 10 CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated	
	2013 \$'000	2012 \$'000
Prepayments	2,876	5,909
Recoverable deposits	134	121
	<b>3,010</b>	<b>6,030</b>

## 11 NON-CURRENT ASSETS – RECEIVABLES

	Consolidated	
	2013 \$'000	2012 \$'000
Related party receivable joint venture	3,529	2,681

### Fair values

The fair values and carrying values of non-current receivables are as follows:

Group	2013		2012	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Loans to joint ventures	3,529	3,529	2,681	2,681

The loans to joint ventures are classified as a non-current receivable as Salmat does not intend to recall the loans within the next twelve months.

## 12 NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated	
	2013 \$'000	2012 \$'000
Shares in joint venture and associate (note 37)	1,701	3,698

### Shares in joint venture and associate

Investment in joint venture and associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the Group.

## 13 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment \$'000
<b>At 1 July 2011</b>	
Cost	195,428
Accumulated depreciation	(134,003)
Net book amount	61,425
<b>Year ended 30 June 2012</b>	
Opening net book amount	61,425
Additions <sup>1</sup>	22,361
Disposals	(899)
Depreciation charge	(22,927)
Net exchange difference on translation of financial reports of foreign operations	(174)
Closing net book amount	59,786
<b>At 30 June 2012</b>	
Cost	204,351
Accumulated depreciation	(144,565)
Net book amount	59,786

1) During the year, \$4,158,246 of property, plant and equipment was acquired by way of finance lease.

# Notes to the financial statements

30 June 2013

## 13 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT : CONTINUED

	Plant and equipment \$'000
<b>Year ended 30 June 2013</b>	
Opening net book amount	59,786
Additions <sup>1</sup>	13,815
Disposals	(64)
Disposal of BPO division (note 6)	(43,437)
Impairment	(500)
Depreciation charge	(10,550)
Net exchange difference on translation of financial reports of foreign operations	(111)
Closing net book amount	18,939
<b>At 30 June 2013</b>	
Cost	101,594
Accumulated depreciation	(82,655)
<b>Net book amount</b>	<b>18,939</b>

1) Includes non cash additions of \$878,000.

## 14 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated	
	2013 \$'000	2012 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Doubtful debts	410	354
Employee benefits	4,246	9,556
Property, plant & equipment	1,015	1,587
Cash flow hedges	277	1,148
Amortisation of intangibles	398	62
Accruals	1,061	4,857
Other provisions	6,374	1,044
	<b>13,781</b>	<b>18,608</b>
<b>Movements:</b>		
Opening balance at 1 July	18,608	16,823
Credited/(charged) to the income statement	(675)	998
Credited/(charged) to equity	(871)	787
Disposal of BPO division	(3,281)	—
Closing balance at 30 June	13,781	18,608

## 15 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Goodwill \$'000	Other Intangible Assets \$'000	Customer Intangible \$'000	Total \$'000
<b>At 1 July 2011</b>				
Cost	429,869	11,986	63,442	505,297
Accumulated amortisation and impairment	—	(8,330)	(36,450)	(44,780)
Net book amount	429,869	3,656	26,992	460,517
<b>Year ended 30 June 2012</b>				
Opening net book amount	429,869	3,656	26,992	460,517
Acquisition of controlled entity	896	(701)	—	195
Amortisation charge	—	(1,782)	(10,526)	(12,308)
Closing net book amount	430,765	1,173	16,466	448,404
<b>At 30 June 2012</b>				
Cost	430,765	10,392	63,442	504,599
Accumulated amortisation and impairment	—	(9,219)	(46,976)	(56,195)
Net book amount	430,765	1,173	16,466	448,404

# Notes to the financial statements

30 June 2013

## 15 NON-CURRENT ASSETS – INTANGIBLE ASSETS : CONTINUED

	Goodwill \$'000	Other Intangible Assets \$'000	Customer Intangible \$'000	Total \$'000
<b>Year ended 30 June 2013</b>				
Opening net book amount	430,765	1,173	16,466	448,404
Additions	30	—	—	30
Disposal of BPO division	(274,704)	(204)	(11,784)	(286,692)
Amortisation charge	—	(668)	(1,451)	(2,119)
Impairment	(6,987)	(43)	(1,291)	(8,321)
Closing net book amount	149,104	258	1,940	151,302
<b>At 30 June 2013</b>				
Cost	156,091	1,852	12,841	164,844
Accumulated amortisation and impairment	(6,987)	(1,594)	(10,901)	(13,542)
Net book amount	149,104	258	1,940	151,302

### a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

The impairment loss of \$8,321,000 in intangibles is the result of the decision to discontinue non-core businesses within the CMS segment. There is an additional \$500,000 impairment in plant and equipment related to the non-core businesses which has also been written down.

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

	Business Process Outsourcing \$'000	Consumer Marketing Solutions \$'000	Customer Engagement Solutions \$'000	Total \$'000
<b>2013</b>				
Goodwill	—	69,230	79,874	149,104
	—	<b>69,230</b>	<b>79,874</b>	<b>149,104</b>
<b>2012</b>				
Goodwill	274,704	76,187	79,874	430,765
	274,704	76,187	79,874	430,765

The recoverable amount of a CGU is determined based on value in use using discounted cash flow calculations. These calculations use cash flow projections based on financial budgets and forecasts approved by the Board covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates.

### b) Key assumptions

In performing the value in use calculations for each CGU, the Group has applied the following assumptions:

- The rate used to discount the forecast future attributable pre-tax cash flows is 14.3% (2012: 15.5%). The equivalent post-tax discount rate is 10% for 2013 (2012: 10.8%).
- The growth rate used to extrapolate cash flows beyond the five-year period is 2% (2012: 3%).
- Gross margins are based on the following year's budget, which is approved by the Board. These are determined by reference to average gross margins achieved in the year immediately before the budgeted year, then adjusted for expected movements.

The calculations of value in use are sensitive to the discount rates and losses of major clients.

Discount rates reflect the Group's estimate of time value of money and the risks specific to each CGU that are not already reflected in the cash flows. In determining appropriate discount rates for each CGU, regard has been given to the weighted average cost of capital of the Group and specific cash-generating business risk specific to that business segment. The same discount rate for all CGUs is considered appropriate. All CGUs are based on an outsourcing model providing support services to similar customers, hence similar level of market risk. The Group recognises that the actual time value of money may vary to what they have estimated.

The assumption around the loss of a major client is important because as well as using historical trends, the Group expects the Group's market share of each CGU will increase in future periods, but for impairment modelling it is assumed to be stable over future periods. The loss of a significant client in any CGU will impact on the ability of that CGU to maintain expected earnings and cash flow. Each major client would have a different impact on earnings and profits, so it is not appropriate to discuss sensitivity on the loss of major clients. The Group has determined that even if no growth is achieved in the five-year period, all of the CGUs would continue to have valuations in excess of their carrying values. The Group also believes that there is sufficient headroom such that a reasonable possible change in assumptions would not lead to an impairment.

# Notes to the financial statements

30 June 2013

## 16 NON-CURRENT ASSETS – OTHER NON-CURRENT ASSETS

	Consolidated	
	2013 \$'000	2012 \$'000
Recoverable deposits	79	238

## 17 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2013 \$'000	2012 \$'000
Trade payables	5,870	30,188
Accrued expenses	49,104	55,902
Other payables	4,834	6,072
	<b>59,808</b>	<b>92,162</b>

Terms and conditions relating to trade payables, accrued expenses and other payables are referred to in note 1(s) of the accounts.

Outstanding balances at year end are unsecured and interest free.

## 18 CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	2013 \$'000	2012 \$'000
Lease liabilities	85	4,749

## 19 DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated	
	2013 \$'000	2012 \$'000
<b>Current liabilities</b>		
Interest rate swap cash flow hedge	928	2,258
<b>Non-current liabilities</b>		
Interest rate swap cash flow hedge	–	1,568
Total derivative financial instrument liabilities	<b>928</b>	<b>3,826</b>

### Instruments used by the Salmat Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies (refer to note 42).

### Interest rate swap contracts – cash flow hedges

Bank loans of the Group currently bear an average variable interest rate of 5.02% (2012: 5.99%). It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

The fixed interest rates range between 4.8% and 5.5% (2012: 6.63% and 8%).

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. In the year ended 30 June 2013 a loss of \$2,016,865 was reclassified into profit or loss (2012: loss of \$1,595,024) and included in finance costs. There was no material hedge ineffectiveness in the current or prior year.

# Notes to the financial statements

30 June 2013

## 20 CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2013 \$'000	2012 \$'000
Employee benefits – long service leave (a)	4,246	12,516
Provision for surplus lease space	389	–
Employee benefits – annual leave	8,992	15,591
	<b>13,627</b>	<b>28,107</b>

### Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Salmat Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Salmat Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The above amounts reflect leave that is not expected to be taken or paid within the next 12 months.

## 21 NON-CURRENT LIABILITIES – PAYABLES

	Consolidated	
	2013 \$'000	2012 \$'000
Consideration payable	–	407

## 22 NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	2013 \$'000	2012 \$'000
Secured		
Bank loans	98,873	259,679
Lease liabilities	134	14,595
Total secured non-current borrowings	<b>99,007</b>	<b>274,274</b>

### a) Bank loans and bank overdraft

The Group has terminated Tranche B (\$105m) and Tranche A (\$105m) of the Senior Debt Facility following the divestment of BPO. There was no change to the Tranche C (\$99m) Senior Debt Facility maturing December 2014.

The bank loans are unsecured. Credit support is provided through negative pledge contained in the facility agreement and guarantee over the assets of certain Group companies.

The loans have been classified as non-current based on the expiry date of the loan facility agreements.

The carrying amounts of assets pledged as security for non-current borrowings are the full value of the assets held by certain members of the consolidated Group.

### b) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

	Consolidated	
	2013 \$'000	2012 \$'000
<b>Floating rate</b>		
Bank overdraft	10,000	10,000
Loan facilities	99,000	313,735
Lease facilities	10,489	29,424
Guarantee facility	25,000	35,000
	<b>144,489</b>	<b>388,159</b>
<b>Used at balance date</b>		
Bank overdrafts	–	–
Loan facilities	99,000	260,035
Lease facilities	201	19,344
Guarantee facility	5,511	25,365
	<b>104,712</b>	<b>304,744</b>

# Notes to the financial statements

30 June 2013

## 22 NON-CURRENT LIABILITIES – BORROWINGS : CONTINUED

	Consolidated	
	2013 \$'000	2012 \$'000
<b>Unused at balance date</b>		
Bank overdrafts	10,000	10,000
Loan facilities	–	53,700
Lease facilities	10,288	10,080
Guarantee facility	19,989	9,635
	<b>40,277</b>	<b>83,415</b>

The bank overdraft facilities may be drawn at any time.

Non-current interest bearing liabilities recorded in the statement of financial position includes deferred borrowing costs.

The current interest rates on loan facilities are 5.0% to 5.05% (2012: 5.24% to 6.31%); on lease facilities 7.16% (2012: 7.16% to 7.97%).

### c) Fair value

The carrying amounts and fair values of borrowings at balance date are:

Consolidated	at 30 June 2013		at 30 June 2012	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Bank loans	98,873	99,000	259,679	260,035
Lease liabilities	219	219	19,344	19,344
	<b>99,092</b>	<b>99,219</b>	<b>279,023</b>	<b>279,379</b>

## 23 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated	
	2013 \$'000	2012 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Unearned income	–	5
Intangible assets	678	4,966
Share-based payments	587	648
	<b>1,265</b>	<b>5,619</b>
<b>Movements:</b>		
Opening balance at 1 July	5,619	9,067
Charged/(credited) to the income statement	(4,354)	(3,448)
Closing balance at 30 June	<b>1,265</b>	<b>5,619</b>

## 24 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2013 \$'000	2012 \$'000
Employee benefits – long service leave	1,716	3,742
Other provisions – lease make good	2,920	3,616
	<b>4,636</b>	<b>7,358</b>

### a) Lease make good provision

The Group has leased properties in various locations across Australia, Asia and New Zealand. In most instances, Salmat is required to make good the premises to the original state they were in when Salmat signed the lease. Salmat is required to record a provision if it can be reliably estimated and measured.

# Notes to the financial statements

30 June 2013

## 24 NON-CURRENT LIABILITIES – PROVISIONS : CONTINUED

### b) Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Consolidated	
	2013 \$'000	2012 \$'000
<b>Other provisions – lease make good</b>		
Carrying amount at start of year	3,616	3,828
Additional provision recognised	835	189
Discount rate adjustment	–	(94)
Provision utilised	(114)	(307)
Provision disposed on sale of BPO division	(1,417)	–
Carrying amount at end of year	2,920	3,616

## 25 NON-CURRENT LIABILITIES – RETIREMENT BENEFIT OBLIGATIONS

### a) Superannuation plan

The following retirement benefit scheme has been in existence throughout the financial year.

**Philippines** – the Company currently maintains a retirement plan covering regular employees hired prior to 1 January 2006. The plan has a defined benefit format and is financed solely by the Company. The plan provides lump sum benefits upon retirement, death, total and permanent disability, involuntary separation (except for cause) or voluntary separation after completion of at least five years of service. The benefits are based on the employee's final monthly covered salary and service with the Company. The plan is closed to new employees.

The Group contributed to the following retirement benefit schemes up until the sale of the BPO division on 10 October 2012:

**Taiwan** – the Company currently maintains a retirement plan covering regular employees. The plan has a defined benefit format and is financed solely by the Company. The plan provides lump sum benefits upon retirement, disability and voluntary separation after completion of at least five years of service. The benefits are based on the employee's final monthly covered salary and service with the Company. The plan is closed to new employees.

**Government Printing Service** – the Pooled Fund holds in trust the investments of the closed NSW public sector superannuation schemes. These schemes are all defined benefit schemes at least a component of the final benefit is derived from a multiple of member salary and years of membership. All the Schemes are closed to new members.

There are no defined benefit superannuation plans attributable to the parent entity.

### b) Statement of financial position amounts

The amounts recognised in the statement of financial position are determined as follows:

	Consolidated	
	2013 \$'000	2012 \$'000
Present value of the defined benefit obligation	213	7,030
Fair value of defined benefit plan assets	(22)	(3,463)
	191	3,567
Unrecognised actuarial (gains)/losses	(84)	(133)
Unrecognised transitional liability	(11)	–
<b>Net liability in the statement of financial position</b>	<b>96</b>	<b>3,434</b>

The Group has no legal obligation to settle this liability with an immediate contribution or additional one off contributions. The Group intends to continue to contribute to the defined benefit plans in line with the actuary's latest recommendations.

### c) Categories of plan assets

The major categories of plan assets are as follows:

	Consolidated	
	2013 \$'000	2012 \$'000
Cash	–	680
Equity instruments	–	1,729
Debt instruments	22	312
Property	–	272
Other assets	–	470
	22	3,463

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

# Notes to the financial statements

30 June 2013

## 25 NON-CURRENT LIABILITIES – RETIREMENT BENEFIT OBLIGATIONS : CONTINUED

	Consolidated	
	2013 \$'000	2012 \$'000
<b>Reconciliation of the present value of the defined benefit obligation, which is partly funded:</b>		
Balance at the beginning of the year	7,030	5,199
Current service cost	45	138
Interest cost	9	248
Contributions by plan participants	—	19
Actuarial (gains) and losses	38	1,596
Foreign currency exchange rate changes	—	13
Benefits paid	(20)	(183)
Disposal of BPO division	(6,889)	—
Balance at the end of the year	213	7,030
<b>Reconciliation of the fair value of plan assets:</b>		
Balance at the beginning of the year	3,463	3,543
Expected return on plan assets	1	283
Actuarial gains and (losses)	1	(267)
Foreign currency exchange rate changes	—	5
Contributions by Group companies	19	29
Contributions by plan participants	—	19
Benefits paid	(19)	(149)
Disposal of BPO division	(3,443)	—
Balance at the end of the year	22	3,463

### d) Amounts recognised in consolidated income statement

The amounts recognised in the income statement are as follows:

Current service cost	45	138
Interest cost	9	248
Expected return on plan assets	(1)	(283)
Net actuarial losses/(gains) recognised in year	2	3
Total included in employee benefits expense	55	106
Actual return on plan assets	3	4

### e) Amounts recognised in other comprehensive income

Actuarial (gain)/loss recognised in the year	39	1,866
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### f) Principal actuarial assumptions

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated	
	2013 %	2012 %
<b>Philippines</b>		
Discount rate	5.8	6.9
Expected return on plan assets	6.0	6.0
Future salary increases	4.0	3.0
<b>Taiwan</b>		
Discount rate	—	1.8
Expected return on plan assets	—	2.0
Future salary increases	—	2.5
<b>Australia</b>		
Discount rate	—	3.1
Expected return on plan assets	—	8.6
Future salary increases	—	2.5

Employer contributions to the defined benefit section of the plan are based on recommendations by the plan's actuary. Actuarial assessments are made at no more than three yearly intervals, and the last such assessment was made as at 30 June 2013.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution, which is expected to be a constant percentage of members' salaries over their working lifetimes.

# Notes to the financial statements

30 June 2013

## 25 NON-CURRENT LIABILITIES – RETIREMENT BENEFIT OBLIGATIONS : CONTINUED

Using the funding method described above and the abovementioned actuarial assumptions as to the plan's future experience, the plan's actuary has not recommended that additional contributions beyond the current contribution level be made.

	2013 \$'000	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000
Defined benefit plan obligation	(213)	(7,030)	(5,199)	(5,048)	(4,559)
Plan assets	22	3,463	3,543	3,415	3,203
Surplus/(deficit)	(191)	(3,567)	(1,656)	(1,633)	(1,356)

## 26 NON-CURRENT LIABILITIES – OTHER NON-CURRENT LIABILITIES

	Consolidated	
	2013 \$'000	2012 \$'000
Deferred profit	698	698

The deferred profit relates to profit on sale of a subsidiary's business to an associated entity Reach Media NZ Limited. This profit will be recognised on acquisition, disposal or impairment of the investment in Reach Media NZ Limited.

## 27 CONTRIBUTED EQUITY

		Consolidated		Consolidated	
	Notes	2013 Shares '000	2012 Shares '000	2013 \$'000	2012 \$'000
<b>a) Share capital</b>					
Ordinary shares	(b),(c)				
Fully paid		159,813	159,802	210,882	210,882
Treasury shares	(d)	(1,545)	(1,725)	(5,388)	(5,856)
		158,268	158,077	205,494	205,026

### b) Movements in ordinary share capital:

Date	Details	Notes	Number of shares '000	\$'000
1 July 2011	Opening balance		159,780	210,882
	Exercise of options under the Salmat Executive Performance Option Plan	(f)	22	—
<b>30 June 2012</b>	<b>Balance</b>		<b>159,802</b>	<b>210,882</b>
1 July 2012	Opening balance		159,802	210,882
	Issue of shares under the Deferred Employee Share Scheme	(f)	—	—
	Exercise of options under the Salmat Executive Performance Option Plan	(f)	11	—
<b>30 June 2013</b>	<b>Balance</b>		<b>159,813</b>	<b>210,882</b>

### c) Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regards to the Company's residual assets.

### d) Treasury shares

Treasury shares are shares in Salmat Limited that are held by the Salmat Executive Performance Option Plan and are deducted from equity (see note 41 for further information).

Date	Details	Number of shares '000	\$'000
1 July 2011	Opening balance	1,353	5,121
	Acquisition of shares by the Trust	518	1,224
	Employee share scheme issue	(146)	(489)
<b>30 June 2012</b>	<b>Balance</b>	<b>1,725</b>	<b>5,856</b>
1 July 2012	Opening balance	1,725	5,856
	Employee share scheme vesting & issue	(180)	(468)
<b>30 June 2013</b>	<b>Balance</b>	<b>1,545</b>	<b>5,388</b>

# Notes to the financial statements

30 June 2013

## 27 CONTRIBUTED EQUITY : CONTINUED

### e) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 41.

### f) Options

Information relating to the Salmat Executive Performance Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 41.

### g) Capital management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the Group and the parent entity monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

At 30 June 2013 the Company had a net cash position of \$89,996,000. The gearing ratio at 30 June 2012 was as follows:

	Consolidated
	2012 \$'000
Total borrowings	279,023
Less: cash and cash equivalents (note 7)	(37,382)
Net debt	241,641
Total equity	270,921
Total capital	512,562
Gearing ratio	47.1%

## 28 OTHER RESERVES AND RETAINED EARNINGS

	Consolidated	
	2013 \$'000	2012 \$'000
<b>a) Other reserves</b>		
Hedging reserve – cash flow hedges	(652)	(2,678)
Share-based payments reserve	4,488	4,876
Foreign currency translation reserve	(2,437)	(3,311)
	<b>1,399</b>	<b>(1,113)</b>
<b>Movements:</b>		
<i>Hedging reserve – cash flow hedges</i>		
Balance 1 July	(2,678)	(841)
Revaluation gross	(321)	(4,220)
Reclassification to profit or loss – gross	3,218	1,596
Deferred tax	(871)	787
Balance 30 June	(652)	(2,678)
<b>Movements:</b>		
<i>Share-based payments reserve</i>		
Balance 1 July	4,876	4,334
Shares and options expense	(239)	1,031
Treasury shares vested and issued	(149)	(489)
Balance 30 June	4,488	4,876
<b>Movements:</b>		
<i>Foreign currency translation reserve</i>		
Balance 1 July	(3,311)	(3,226)
Currency translation differences arising during the year	874	(85)
Balance 30 June	(2,437)	(3,311)

# Notes to the financial statements

30 June 2013

## 28 OTHER RESERVES AND RETAINED EARNINGS : CONTINUED

	Consolidated	
	2013 \$'000	2012 \$'000
<b>b) Retained earnings</b>		
Balance 1 July	67,008	72,084
Net profit for the year	40,142	30,348
Actuarial gains/(losses) on defined benefit plans recognised directly in retained earnings	(39)	(1,866)
Dividends	(56,732)	(33,558)
Balance 30 June	50,379	67,008

### c) Nature and purpose of other reserves

#### i) Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1(o). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

#### ii) Share-based payments reserve

The share-based payments reserve is used to recognise the amortised portion of the fair value of options issued but not exercised.

#### iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d). The reserve is recognised in the income statement after disposal of the net investment.

## 29 DIVIDENDS

	Consolidated	
	2013 \$'000	2012 \$'000
<b>a) Ordinary shares</b>		
Final ordinary dividend for the year ended 30 June 2012 of 10.5 cents (2011: 12.5 cents) per fully paid share paid on 28 September 2012	16,779	19,975
Interim ordinary dividend for the year ended 30 June 2013 of 4.0 cents (2012: 8.5 cents) per fully paid share paid on 5 April 2013	6,392	13,583
Special dividend 21 cents (2012: nil) per fully paid share paid on 5 April 2013	33,561	—
	56,732	33,558
Paid in cash	56,732	33,558

### b) Dividends not recognised at the end of the reporting period

In addition to the above dividends, since year end the directors have recommended:

The payment of a fully franked final dividend of 7.5 cents per fully paid ordinary share (2012: 10.5 cents)	11,986	16,779
	11,986	16,779

### c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits.

Franking credits available for subsequent financial years based on a tax rate of 30% (2012: 30%)	52,361	65,343
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The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the end of each reporting period; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the end of each reporting period.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

# Notes to the financial statements

30 June 2013

## 30 KEY MANAGEMENT PERSONNEL DISCLOSURES

### a) Key management personnel compensation

	Consolidated	
	2013 \$	2012 \$
Short-term employee benefits	7,156,214	6,508,803
Long-term benefits	163	78,704
Post employment benefits – defined contribution fund contributions	234,139	341,856
Share-based payments	(415,584)	978,760
	<b>6,974,932</b>	<b>7,908,123</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 12 to 22. Included within short-term employee benefits is a termination payment of \$679,757 (2012: \$269,922).

### b) Equity instrument disclosures relating to key management personnel

#### i) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Salmat Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2013						
Name	Balance at start of the year	Granted during the year as compensation	Exercised	Balance at end of the year	Vested and exercisable	Unvested
<b>Other key management personnel of the Salmat Group</b>						
Peter Anson	10,000	74,236	(10,000)	74,236	—	74,236
Chad Barton	—	64,956	—	64,956	—	64,956
David Besson	—	53,357	—	53,357	—	53,357
Geoffrey Court <sup>1</sup>	—	26,910	—	26,910	—	26,910
Ian Jones <sup>1</sup>	—	51,037	—	51,037	—	51,037
David Webster <sup>1</sup>	—	37,118	—	37,118	—	37,118

2012						
Name	Balance at start of the year	Exercised	Forfeited <sup>1</sup>	Balance at end of the year	Vested and exercisable	Unvested
<b>Other key management personnel of the Salmat Group</b>						
Peter Anson	50,000	—	(40,000)	10,000	10,000	—
David Besson	10,000	(10,000)	—	—	—	—

1) Ian Jones, Geoffrey Court and David Webster ceased to be KMP on 17 December 2012.

# Notes to the financial statements

30 June 2013

## 30 KEY MANAGEMENT PERSONNEL DISCLOSURES : CONTINUED

### ii) Share holdings

The numbers of shares in the Company held during the financial year by each Director of Salmat Limited and other key management personnel of the Salmat Group, including their personally related parties, are set out below.

#### 2013

Name	Balance at the start of the year	Granted during the year as compensation	Received during the year on the exercise of options	Other acquisition and disposal of shares	Balance at the end of the year
<b>Directors of Salmat Limited</b>					
<i>Ordinary shares</i>					
Richard Lee	413,467	—	—	—	413,467
John Thorn	131,101	—	—	—	131,101
Ian Elliot	33,435	—	—	—	33,435
Philip Salter	36,277,238	—	—	—	36,277,238
Peter Mattick	36,810,735	—	—	—	36,810,735
Fiona Balfour	35,740	—	—	—	35,740
Grant Harrod	720,330	—	—	—	720,330

### Other key management personnel of the Salmat Group

<i>Ordinary shares</i>					
Peter Anson	184,094	—	10,000	(18,978)	175,116
Chad Barton	107,912	—	—	(15,815)	92,097
David Besson	201,889	—	—	(48,266)	153,623
Geoffrey Court <sup>1</sup>	83,230	—	—	(5,694)	77,536
Ian Jones <sup>1</sup>	118,958	—	—	(5,693)	113,265
David Webster <sup>1</sup>	38,529	—	—	—	38,529

1) Ian Jones, Geoffrey Court and David Webster ceased to be KMP on 17 December 2012.

#### 2012

### Directors of Salmat Limited

Richard Lee	418,467	—	—	(5,000)	413,467
John Thorn	131,101	—	—	—	131,101
Ian Elliot	33,435	—	—	—	33,435
Philip Salter	36,140,772	—	—	136,466	36,277,238
Peter Mattick	36,446,213	—	—	364,522	36,810,735
Fiona Balfour	35,740	—	—	—	35,740
Grant Harrod	464,884	255,446	—	—	720,330

### Other key management personnel of the Salmat Group

Peter Anson	127,530	56,564	—	—	184,094
Chad Barton	58,648	49,264	—	—	107,912
David Besson	157,473	40,142	10,000	(5,726)	201,889
Geoffrey Court	59,254	18,976	—	5,000	83,230
Nick Debenham	200,990	38,316	—	—	239,306
David Hackshall	51,196	38,316	—	—	89,512
Andrew Hume	85,966	—	—	—	85,966
Ian Jones	80,642	38,316	—	—	118,958
Nick Spooner	—	55,104	—	—	55,104
David Webster	11,159	27,370	—	—	38,529

# Notes to the financial statements

30 June 2013

## 31 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Group and its related practices:

	Consolidated	
	2013	2012
	\$	\$
<b>Amounts received, or due and receivable, by Salmat's auditor, Ernst &amp; Young (Australia) for:</b>		
Audit and half year review of the financial reports	363,000	438,000
Other services		
– assurance related	129,192	104,005
– tax compliance	–	–
	<b>492,192</b>	<b>542,005</b>
<b>Member firms of Ernst &amp; Young in relation to subsidiaries of Salmat for:</b>		
Audit and half year review of the financial reports	38,470	32,198
Other services		
– assurance related	–	1
– tax compliance	14,818	43,892
	<b>53,288</b>	<b>79,090</b>

It is the Group's policy to employ Ernst & Young on assignments additional to their statutory audit duties where Ernst & Young's expertise and experience with the Group are important.

## 32 CONTINGENT LIABILITIES

### a) Legal and regulatory proceedings

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

The Australian Competition & Consumer Commission (ACCC) has been increasingly active in investigating and prosecuting energy industry participants in the last financial year, particularly relating to their field sales activities. As at the date of this report the ACCC has been investigating an energy retailer that Salmat contracts with to do field sales. By inference if there was to be a claim on the retailer, Salmat may be included, however, no legal proceedings have been commenced against Salmat and Salmat has cooperated with the ACCC requests for information.

There are currently no claims or proceedings, either individually or in aggregate, which are likely to have a material effect on the Group's financial position. The Group maintains insurance cover to minimise the potential effects of such claims, and where appropriate, provisions have been made.

### b) Guarantees

	2013	2012
	\$	\$
Guarantees in respect of performance under contracts and premise leases	5,511	25,365
	<b>5,511</b>	<b>25,365</b>

These guarantees may give rise to liabilities in the Salmat Group if the subsidiaries do not meet their obligations under the terms of the leases or overdraft subject to the guarantees.

# Notes to the financial statements

30 June 2013

## 33 COMMITMENTS

### Lease commitments : Group as lessee

#### i) Non-cancellable operating leases

The Group leases various offices and warehouses under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	2013 \$'000	2012 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	14,642	25,020
Later than one year but not later than five years	37,848	83,302
Later than five years	12,165	22,619
	<b>64,655</b>	<b>130,941</b>

#### ii) Finance leases

The Group leases various plant and equipment under finance lease expiring within five years.

Commitments in relation to finance leases are payable as follows:

Within one year	144	6,116
Later than one year but not later than five years	86	16,483
Minimum lease payments	230	22,599
Future finance charges	(11)	(3,255)
Recognised as a liability	219	19,344
Representing lease liabilities:		
Current (note 18)	85	4,749
Non-current (note 22)	134	14,595
	<b>219</b>	<b>19,344</b>

## 34 RELATED PARTY TRANSACTIONS

### a) Parent entities

The ultimate parent entity within the Group is Salmat Limited.

### b) Subsidiaries

Interests in subsidiaries are set out in note 35.

### c) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

	Consolidated	
	2013 \$	2012 \$
Peter Mattick or related entities: provision of printing services to the Group	17,901	760,528

### d) Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	Consolidated	
	2013 \$	2012 \$
<b>Non-current receivables (loans)</b>		
Joint venture – Reach Media NZ Limited	2,929,000	2,681,000
Joint venture – Online Media Holdings Limited	600,000	—
<b>Current payables (purchases of goods)</b>		
Peter Mattick or related entities	—	13,233

### e) Terms and conditions

All transactions with key management personnel and entities related to them were made on normal commercial terms and conditions and at market rates.

# Notes to the financial statements

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## 35 SUBSIDIARIES

### Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b).

			Equity Holding <sup>1</sup>	
			2013 %	2012 %
Salmat Document Management Solutions Pty Limited <sup>2</sup>	Australia	Ordinary	—	100
Local Direct Network <sup>3</sup>	Australia	Ordinary	100	100
Salmat MediaForce Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
Letterbox Distribution Network Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
Salmat Salesforce Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
SalesForce Australia Pty Ltd <sup>3</sup>	Australia	Ordinary	100	100
Pardrive Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
SalesForce Services Pty Ltd <sup>3</sup>	Australia	Ordinary	100	100
Salmat International Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
Salmat Asia Limited <sup>2</sup>	Hong Kong	Ordinary	—	100
Salmat Asia Pacific Pte Limited	Singapore	Ordinary	100	100
Salmat (China) Limited	Hong Kong	Ordinary	100	100
SalesForce New Zealand Limited	New Zealand	Ordinary	100	100
VeCommerce Limited <sup>3</sup>	Australia	Ordinary	100	100
Salmat Digital <sup>3</sup>	Australia	Ordinary	100	100
VeCommerce (NZ) Limited	New Zealand	Ordinary	100	100
VeCommerce (UK) Limited	UK	Ordinary	100	100
Scitec Americas Inc	USA	Ordinary	100	100
Salmat Print on Demand Pty Limited <sup>2</sup>	Australia	Ordinary	—	100
Roamz Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
Lasoo Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
SalesForce Global Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
SalesForce Direct Sales Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
HPAL Limited <sup>2</sup>	Australia	Ordinary	—	100
Direct Headquarters Pty Limited <sup>2</sup>	Australia	Ordinary	—	100
Hermes Precisa Pty Limited <sup>2</sup>	Australia	Ordinary	—	100
HPA Unit Trust <sup>2</sup>	Australia	Ordinary	—	100
SalesForce Contact Centres SDN BHD	Malaysia	Ordinary	100	100
Salmat HPA Pty Limited <sup>2</sup>	Australia	Ordinary	—	100
A.C.N. 233 915 321 Pty Limited <sup>2</sup>	Australia	Ordinary	—	100
Print & Electronic Solutions <sup>2</sup>	Australia	Ordinary	—	100
Salmat Businessforce Pty Limited <sup>2</sup>	Australia	Ordinary	—	100
Salmat Services Inc	Philippines	Ordinary	100	100
BeInteractive Holdings Pty Limited	Australia	Ordinary	100	100
C4 Communication Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
C4 Live Pty Limited	Australia	Ordinary	100	100
The Population Pty Limited	Australia	Ordinary	100	100
MessageNet Pty Limited <sup>3</sup>	Australia	Ordinary	100	100
Returnity Pty Limited	Australia	Ordinary	100	100
Mailforce Document Solutions Pty Limited <sup>2</sup>	Australia	Ordinary	—	100

1) The proportion of ownership interest is equal to the proportion of voting power held.

2) These entities were part of the BPO division which was divested on 10 October 2012.

3) These subsidiaries have been granted relief from the necessity to prepare financial report in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 36.

# Notes to the financial statements

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## 36 DEED OF CROSS GUARANTEE

Salmat Limited and the following controlled entities are parties to a deed of cross guarantee under which each Company guarantees the debts of the others.

- Local Direct Network Pty Limited
- Salmat MediaForce Pty Limited
- Salmat SalesForce Pty Limited
- SalesForce Australia Pty Ltd
- Online Media Holdings Pty Limited
- VeCommerce Limited
- Salmat Digital Pty Limited
- SDS Data Insights Pty Limited
- Pardrive Pty Limited
- SalesForce Services Pty Ltd
- Salmat International Pty Limited
- Lasoo Pty Limited
- SalesForce Global Pty Limited
- SalesForce Direct sales Pty Limited
- C4 Communication Pty Limited
- MessageNet Pty Limited

The following entities were party to the deed of cross guarantee up until their disposal as part of the divestment of the BPO division.

- Salmat Document Management Solutions Pty Limited
- Mailforce Document Solutions Pty Limited
- Direct Headquarters Pty Limited
- Salmat BusinessForce Pty Limited
- Salmat HPA Pty Limited
- HPAL Limited
- Salmat Print on Demand Pty Limited
- Hermes Precisa Pty Limited

By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and Directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

### a) Consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Salmat Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated income statement and a summary of movements in consolidated retained earnings for the year ended 30 June 2013 of the Closed Group. The prior year comparatives have been restated for those entities which left the Closed Group as part of the Group's divestment of the BPO division.

	2013 \$	2012 \$
<b>Consolidated income statement</b>		
Profit before income tax	553	2,752
Income tax benefit	2,804	431
Profit from continuing operations	3,357	3,183
Profit from discontinued operations	15,016	26,808
<b>Profit for the year</b>	<b>18,373</b>	<b>29,991</b>
<b>Consolidated statement of comprehensive income</b>		
<i>Profit for the year</i>	<b>18,373</b>	29,991
<i>Other comprehensive income</i>		
Cash flow hedges	2,897	(2,624)
Actuarial (losses)/gains on retirement benefit obligation	—	(1,866)
Income tax relating to components of other comprehensive income	(871)	787
<b>Other comprehensive income for the year, net of tax</b>	<b>2,026</b>	<b>(3,703)</b>
<b>Total comprehensive income for the year</b>	<b>20,399</b>	<b>26,288</b>
<b>Summary of movements in consolidated retained earnings</b>		
<i>Retained earnings at the beginning of the financial year</i>	<b>85,056</b>	90,489
Profit for the year	<b>18,373</b>	29,991
Actuarial gains/(losses) on retirement benefit obligation	—	(1,866)
Dividends provided for or paid	<b>(50,694)</b>	<b>(33,558)</b>
<b>Retained earnings at the end of the financial year</b>	<b>52,734</b>	<b>85,056</b>

# Notes to the financial statements

30 June 2013

## 36 DEED OF CROSS GUARANTEE : CONTINUED

### b) Statement of financial position

Set out below is a consolidated statement of financial position as at 30 June 2013 of the Closed Group.

	2013 \$	2012 \$
<b>Current assets</b>		
Cash and cash equivalents	183,812	30,089
Trade and other receivables	53,229	129,407
Current tax liabilities	1,926	—
Inventories	1,003	6,625
Other current assets	3,959	7,503
<b>Total current assets</b>	<b>243,929</b>	<b>173,624</b>
<b>Non-current assets</b>		
Receivables	118,959	198
Other financial assets	2,193	9,178
Property, plant and equipment	18,052	56,085
Deferred tax assets	13,690	17,616
Intangible assets	150,596	446,461
<b>Total non-current assets</b>	<b>303,490</b>	<b>529,538</b>
<b>Total assets</b>	<b>547,419</b>	<b>703,162</b>
<b>Current liabilities</b>		
Trade and other payables	56,929	88,565
Borrowings	85	4,635
Derivative financial instruments	928	2,258
Current tax liabilities	—	4,481
Provisions	12,086	26,893
<b>Total current liabilities</b>	<b>70,028</b>	<b>126,832</b>
<b>Non-current liabilities</b>		
Payables	120,120	424
Borrowings	99,007	269,481
Derivative financial instruments	—	1,568
Provisions	5,220	7,668
Retirement benefit obligations	—	2,921
Deferred tax liabilities	1,265	5,619
<b>Total non-current liabilities</b>	<b>225,612</b>	<b>287,681</b>
<b>Total liabilities</b>	<b>294,640</b>	<b>414,513</b>
<b>Net assets</b>	<b>251,779</b>	<b>288,649</b>
<b>Equity</b>		
Contributed equity	202,362	208,380
Reserves	(3,317)	(4,787)
Retained earnings	52,734	85,056
<b>Total equity</b>	<b>251,779</b>	<b>288,649</b>

# Notes to the financial statements

30 June 2013

## 37 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

### a) Carrying amounts

Information relating to joint ventures and associates is set out below.

Name of Company	Principal activity	Ownership interest		2013 \$'000	2012 \$'000
		2013 %	2012 %		
<b>Unlisted</b>					
Reach Media NZ Limited, New Zealand (Joint Venture)	Unaddressed mail distribution	50	50	1,701	1,415
Online Media Holdings Pty Ltd (Associate)	Online location based services	60	60	—	1,703
Conceive Productions Pty Ltd (Joint Venture)	Television production and merchandising	—	50	—	340
Digital Post Australia Pty Ltd (Joint Venture)	Digital mail service	—	40	—	240
				<b>1,701</b>	<b>3,698</b>

The reporting date of the above entities is 30 June.

There were no capital commitments or contingent liabilities relating to the joint venture.

	Consolidated	
	2013 \$'000	2012 \$'000
Carrying amount at the beginning of the financial year	3,698	1,724
Amount invested in current year	400	3,840
Share of losses recognised, after income tax	(1,174)	(1,866)
Impairment charge recognised	(772)	—
Disposed with BPO division	(451)	—
Carrying amount at the end of the financial year	<b>1,701</b>	<b>3,698</b>

### b) Movements in carrying amounts

### c) Summarised financial information of associates

The Salmat Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

	Company's share of:				
	Ownership Interest %	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(Loss) \$'000
<b>2013</b>					
Reach Media NZ Limited, New Zealand (Joint Venture)	50	5,766	3,954	13,878	300
Online Media Holdings Pty Ltd (Associate)	60	158	490	44	(955)
Conceive Productions Pty Ltd (Joint Venture)	—	—	—	4	(330)
Digital Post Australia Pty Ltd (Joint Venture)	—	—	—	—	(189)
		<b>5,924</b>	<b>4,444</b>	<b>13,925</b>	<b>(1,174)</b>
<b>2012</b>					
Reach Media NZ Limited, New Zealand (Joint Venture)	50	5,227	3,836	13,746	204
Online Media Holdings Pty Ltd (Associate)	60	727	104	—	(1,050)
Conceive Productions Pty Ltd (Joint Venture)	50	96	21	41	(260)
Digital Post Australia Pty Ltd (Joint Venture)	40	139	134	—	(760)
		<b>6,189</b>	<b>4,095</b>	<b>13,787</b>	<b>(1,866)</b>

# Notes to the financial statements

30 June 2013

## 38 EVENTS OCCURRING AFTER THE REPORTING PERIOD

### Dividends

Since 30 June 2013 the Directors have recommended the payment of a final ordinary dividend of \$12.0 million (7.5 cents per fully paid share – fully franked) to be paid on 19 September 2013 out of profits at 30 June 2013.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- i) the Group's operations in future financial years, or
- ii) the results of those operations in future financial years, or
- iii) the Group's state of affairs in future financial years.

## 39 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2013 \$'000	2012 \$'000
Profit for the year	40,142	30,348
Depreciation and amortisation	12,669	35,235
Impairment loss	8,821	—
Borrowing costs	229	—
Non-cash employee benefits expense/(benefit) share based payments	(239)	1,031
Net loss/(gain) on sale of non-current assets	41	220
Net gain on sale of subsidiary	(41,197)	(498)
Share of losses/(profits) of associates not received as dividends or distributions	1,946	1,866
<b>Change in operating assets and liabilities, net of effects from purchase of controlled entities</b>		
Decrease/(Increase) in trade and other receivables	10,240	1,869
Increase/Decrease in inventories	739	880
Decrease/(Increase) in other assets	853	896
Decrease/(Increase) in deferred tax assets	(2,313)	(998)
Increase/(Decrease) in trade and other payables	(4,758)	6,252
Increase/(Decrease) in provision for income taxes payable	(6,412)	2,562
Decrease/Increase in provision for deferred income tax	(1,365)	(3,448)
Decrease/Increase in other provisions	1,461	1,357
Net cash inflow/(outflow) from operating activities	20,857	77,572

# Notes to the financial statements

30 June 2013

## 40 EARNINGS PER SHARE

	Consolidated	
	2013	2012
<b>a) Basic earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the parent	3.7	7.1
From discontinued operations	21.7	12.1
Total basic earnings per share attributable to ordinary equity holders of the Company	25.4	19.2
<b>b) Diluted earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the parent	3.6	7.0
From discontinued operations	21.5	12.0
Total diluted earnings per share attributable to ordinary equity holders of the Company	25.1	19.0

### c) Reconciliation of earnings used in calculating earnings per share

	Consolidated	
	2013 \$'000	2012 \$'000
<b>Basic earnings per share</b>		
Profit for the year attributable to the ordinary equity holders of the parent entity used in calculating basic earnings per share	40,142	30,348
<b>Diluted earnings per share</b>		
Profit for the year attributable to the ordinary equity holders of the parent entity used in calculating diluted earnings per share	40,142	30,348

### d) Weighted average number of ordinary shares used in the calculation of basic EPS

	Consolidated	
	2013 Quantity \$'000	2012 Quantity \$'000
Weighted average number of shares on issue used to calculate basic EPS	158,264	158,073
Effect of dilutive securities – weighted average number of options outstanding	1,545	1,736
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS	159,809	159,809

### e) Information concerning the classification of securities

Options granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 41.

# Notes to the financial statements

30 June 2013

## 41 SHARE-BASED PAYMENTS

### a) Employee Option Plan

The Salmat Executive Performance Option Plan allows the Company to grant options over shares to key executives. The Board may offer options to purchase shares to eligible executives having regard to actual and potential contribution to the Company, as determined by the Board from time to time. The consideration for options is an amount equal to the exercise price, but payment is deferred until the options are exercised. Options generally may not be transferred. Quotation of options on the ASX will not be sought. However, the Company will apply for official quotation of shares issued on the exercise of options. Shares issued on the exercise of options will rank equally with other shares of the Company.

The exercise price applicable to the option shall, at the discretion of the Directors, be determined by reference to:

- In the case of options issued prior to the Company being listed on ASX, the price at which shares are offered under the Prospectus dated 18 October 2002; or
- In other cases, the weighted average market price of shares during the five trading days up to and including the date of grant of the option or such other date or period as the Board considers appropriate.

An option may only be exercised by a date to be determined by the Board from time to time but not exceeding 10 years after the date the option is granted, subject to applicable performance hurdles and other exercise restrictions.

An unexercised option will lapse on the earlier of the expiry of 10 years (or such earlier date as determined by the Board) from the date of its issue to the eligible executive, or the date six months after the eligible executive dies, retires, is made redundant or becomes disabled, or the date one month after the eligible executive ceases to be employed by Salmat for any other reason.

Share options do not carry any voting rights or the right to dividends. Further terms and conditions are set out in the remuneration report. Instruments referred to as options granted since 1 July 2012 are actually performance rights (or zero priced options).

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Exercised during the year	Balance at end of the year	Vested and exercisable at end of the year
			Number	Number	Number	Number	Number	Number
<b>Consolidated 2013</b>								
Aug 12	Sept 15	—	—	701,712	(198,117)	—	503,595	—
Dec 12	Sept 15	—	—	331,227	(314,200)	—	17,027	—
Nov 07	Nov 12	—	10,625	—	—	(10,625)	—	—
<b>Total</b>			<b>10,625</b>	<b>1,032,939</b>	<b>(512,317)</b>	<b>(10,625)</b>	<b>520,622</b>	<b>—</b>
Weighted average exercise price			—	—	—	—	—	—
<b>Consolidated 2012</b>								
Nov 06	Nov 11	\$3.41	45,000	(45,000)	—	—	—	—
Dec 06	Dec 11	\$3.80	20,000	(20,000)	—	—	—	—
Nov 07	Nov 12	—	32,500	—	(21,875)	—	10,625	10,625
Nov 07	Nov 12	\$4.20	—	—	—	—	—	—
<b>Total</b>			<b>97,500</b>	<b>(65,000)</b>	<b>(21,875)</b>	<b>—</b>	<b>10,625</b>	<b>10,625</b>
Weighted average exercise price			\$2.35	\$3.53	—	—	—	—

Options may only be exercised within the limitations imposed by the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules. Under the Australian Securities Exchange Listing Rules, options may not be issued to Company Directors under an employee incentive scheme without specific shareholder approval.

The market price of the Company's shares at 30 June 2013 was \$1.94 (2012: \$2.25).

### Fair value of options granted

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for the options issued during the year ended 30 June 2013 included:

- Share price at date of grant: \$2.58 on 31 August 2012 and \$2.49 on 17 December 2012.
- Options issued have no exercise price.
- Risk free interest rate: 2.50% on 31 August 2012 and 2.77% on 17 December 2012.
- Expected price volatility of the Company's shares: 31%.
- Expected dividend yield: 7.9%.

# Notes to the financial statements

30 June 2013

## 41 SHARE-BASED PAYMENTS : CONTINUED

Details of performance rights in the Company provided as remuneration to key management personnel of the parent entity and the Group are set out below:

	2013 Number of options \$'000	2012 Number of options \$'000
<b>Exempt Employee Share Plan</b>		
Opening balance	—	—
Issues	1,032	—
Cancellations	(509)	—
Closing balance	523	—

### b) Employee share plan

#### Exempt Employee Share Plan

The Salmat Exempt Employee Share Plan is open to all full time or permanent part time Australian employees with more than three months service and allows for the purchase of up to \$1,000 worth of shares per annum per eligible employee.

Participants will not be permitted to dispose of their shares until three years after the date of acquisition unless they leave the Company. Ordinary shares carry one vote per share and carry the right to dividends.

#### Deferred Employee Share Plan

The Salmat Deferred Employee Share Plan allows invited eligible employees (including Directors) to receive shares as a bonus/incentive or as a remuneration sacrifice.

Participants will not be permitted to dispose of their shares unless any pre specified hurdle conditions are satisfied. Participants may forfeit their shares if they cease to be an employee at a time when any vesting or performance criteria have not been satisfied.

Ordinary shares carry one vote per share and carry the right to dividends.

Long-term incentives to the Chief Executive Officer and senior managers are made by way of grants of deferred shares subject to service and performance conditions under Salmat's Deferred Employee Share Plan. In 2012 the Deferred Employee Share Plan acquired 518,357 shares in Salmat Ltd at a cost of \$1,224,130.

Further terms and conditions are set out in the remuneration report.

Grant date	Date vested and exercisable	Expiry date	Fair value per share at grant date
April 2009	October 2012	October 2012	\$3.79
April 2009	October 2012	October 2012	\$3.70
March 2010	September 2012	September 2012	\$4.24
March 2010	September 2012	September 2012	\$2.80
December 2010	September 2013	September 2013	\$4.13
December 2010	September 2013	September 2013	\$2.95
March 2011	September 2013	September 2013	\$3.64
March 2011	September 2013	September 2013	\$2.36
February 2012	September 2014	September 2014	\$2.32
February 2012	September 2014	September 2014	\$1.07

The assessed fair value at grant date of deferred shares granted to individuals is allocated equally over the period from grant date to vesting date and the amount is included in the remuneration tables. Fair value at grant date is independently determined using a Binomial Approximation Valuation option pricing model and a Monte-Carlo simulation model that takes into account share price at grant date and expected price volatility of the underlying share, exercise price, the expected dividend yield and the risk free interest for the term of the deferred share.

The model inputs for deferred shares issued during the year ended 30 June 2012 included:

- Share price at date of grant: \$2.32 on 10 February 2012.
- Deferred shares issued have no exercise price.
- Risk free interest rate: 3.53% on 10 February 2012.
- Expected price volatility of the Company's shares: 30%.
- Expected dividend yield: 6.1%.

# Notes to the financial statements

30 June 2013

## 41 SHARE-BASED PAYMENTS : CONTINUED

Details of shares in the Company provided as remuneration to key management personnel of the parent entity and the Group are set out below.

	2013 Number of shares \$'000	2012 Number of shares \$'000
<b>Exempt Employee Share Plan</b>		
Opening balance	532	522
Transfers/disposals	(383)	(96)
Acquisitions	135	106
<b>Closing balance</b>	<b>284</b>	<b>532</b>
<b>Deferred Employee Share Plan</b>		
Opening balance	1,955	1,751
Transfers/disposals	(626)	(328)
Acquisitions	174	532
<b>Closing balance</b>	<b>1,503</b>	<b>1,955</b>

### c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	Consolidated	
	2013 \$'000	2012 \$'000
Options issued under employee option plan	315	—
Shares issued under deferred employee share scheme	(554)	1,031
	<b>(239)</b>	<b>1,031</b>

## 42 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. There has been no significant change in the Group's risk profile from the prior year. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks; and aging analysis for credit risk.

Risk management is carried out in accordance with ageing policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk; interest rate risk; credit risk; use of derivative financial instruments and non-derivative financial instruments; and investment of excess liquidity.

The Group holds the following financial instruments:

	Consolidated	
	2013 \$'000	2012 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	189,088	37,382
Trade and other receivables	56,658	115,256
Other financial assets	213	359
	<b>245,959</b>	<b>152,997</b>
<b>Financial liabilities</b>		
Trade and other payable	59,808	92,162
Borrowings	99,092	279,023
Derivative financial instruments	928	3,826
	<b>159,828</b>	<b>375,011</b>

# Notes to the financial statements

30 June 2013

## 42 FINANCIAL RISK MANAGEMENT : CONTINUED

### a) Market risk

#### i) Foreign exchange risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than in the respective functional currencies of the Salmat entities. The Group's income and operating cash flows are not materially exposed to any particular foreign currency.

The Group has set up a policy requiring Group companies to manage their foreign exchange risk against their functional currency. The Group companies are required to hedge their foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities using forward contracts transacted with Group Treasury.

Forward contracts, transacted with Treasury, are used to manage foreign exchange risk. Treasury is responsible for managing exposures in each foreign currency by using external forward currency contracts.

All borrowings are in the functional currency of the borrowing entity.

The Group's exposure to foreign currency risk at the reporting period was as follows:

	30 June 2013		30 June 2012	
	USD \$'000	GBP \$'000	USD \$'000	GBP \$'000
Trade receivables	—	—	—	1

#### ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's treasury policy requires interest rate swaps to be entered into to manage cash flow risks associated with borrowings with variable interest rates. The current policy is for between 70% to 100% of borrowings to be hedged for 12 months, 30% to 100% to be hedged for second year and 20% to be hedged for third year. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

At 30 June 2013 the Group had interest rate swaps with a notional principal of \$48 million covering the period to 1 July 2013 and interest rate swaps with a notional principal of \$69 million covering the year ended 30 June 2013.

As at the reporting date, the Group had the following variable rate borrowings:

Consolidated	30 June 2013		30 June 2012	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Bank overdrafts and bank loans	5.02%	99,000	5.99%	260,035
Interest rate swaps (notional principal amount)	5.25%	(68,539)	5.28%	(142,726)
Net exposure to cash flow interest rate risk		30,461		117,309

#### Sensitivity

At 30 June 2013, if interest rates had changed by  $\pm 100$  basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$0.21 million lower/higher (2012: change of 100 bps – \$0.82 million lower/higher), mainly as a result of higher/lower interest expense on borrowings. Equity would have been \$0.21 million lower/higher (2012: \$0.82 million lower/higher).

### b) Credit risk

Credit risk is the risk of financial loss if a client or counterparty to a financial instrument fails to meet its contractual obligations.

Salmat has a Credit Policy which provides the guidelines for the management of credit risk. The guidelines provide for the manner in which the credit risk of clients is assessed and the use of credit ratings and other information in order to set appropriate account limits. Clients that do not meet minimum credit criteria are required to pay up front. Clients who fail to meet their account terms are reviewed for continuing credit worthiness.

Credit risk on derivative contracts is minimised by principally dealing with large banks with an appropriate credit rating. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 68. As at 30 June 2013, the Group's exposure to clients with a balance greater than \$1 million totalled \$13.5 million (2012: \$25.6 million). The Group does not consider that there is any significant concentration of credit risk.

### c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available with a variety of counterparties. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

# Notes to the financial statements

30 June 2013

## 42 FINANCIAL RISK MANAGEMENT : CONTINUED

### Maturities of financial liabilities

The tables below analyse the Group's and the parent entity's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying Amount assets/ liabilities
At 30 June 2013	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Non-derivatives</b>							
Non-interest bearing	59,808	—	—	—	—	59,808	59,808
Fixed rate	72	72	86	—	—	230	220
Variable rate	—	—	99,000	—	—	99,000	99,000
<b>Total non-derivatives</b>	<b>59,880</b>	<b>72</b>	<b>99,086</b>	<b>—</b>	<b>—</b>	<b>159,038</b>	<b>159,028</b>
<b>Derivatives</b>							
Net settled (interest rate swaps)	276	1,021	—	—	—	1,296	928
<b>At 30 June 2012</b>							
<b>Non-derivatives</b>							
Non-interest bearing	92,162	—	—	—	—	92,162	92,162
Fixed rate	3,058	3,058	6,593	9,890	—	22,599	19,344
Variable rate	—	—	214,735	45,300	—	260,035	260,035
<b>Total non-derivatives</b>	<b>95,220</b>	<b>3,058</b>	<b>221,328</b>	<b>55,190</b>	<b>—</b>	<b>374,796</b>	<b>371,541</b>
<b>Derivatives</b>							
Net settled (interest rate swaps)	700	1,513	1,568	—	—	3,781	3,826

### d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

# Notes to the financial statements

30 June 2013

## 42 FINANCIAL RISK MANAGEMENT : CONTINUED

### e) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Salmat Group's assets and liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2012.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>At 30 June 2013</b>				
<b>Assets</b>				
<i>Liabilities</i>				
Derivatives used for hedging	—	928	—	928
<b>Total liabilities</b>	—	928	—	928
<b>At 30 June 2012</b>				
<b>Assets</b>				
<i>Liabilities</i>				
Derivatives used for hedging	—	3,826	—	3,826
<b>Total liabilities</b>	—	3,826	—	3,826

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Salmat Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

# Notes to the financial statements

30 June 2013

## 43 PARENT ENTITY FINANCIAL INFORMATION

### a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent Entity	
	2013 \$'000	2012 \$'000
<b>Statement of financial position</b>		
Current assets	<b>180,283</b>	36,232
Non-current assets	<b>128,944</b>	504,041
<b>Total assets</b>	<b>309,227</b>	540,273
Current liabilities	<b>30,609</b>	52,031
Non-current liabilities	<b>102,030</b>	256,384
<b>Total liabilities</b>	<b>132,639</b>	308,415
<b>Shareholders' equity</b>		
Contributed equity	<b>210,882</b>	210,882
Reserves	<b>(737)</b>	(5,676)
Retained earnings	<b>(33,557)</b>	26,652
	<b>176,588</b>	231,858
Profit or loss for the year	<b>(3,476)</b>	35,403
<b>Profit or loss for the year</b>	<b>(3,476)</b>	35,403
<b>Total comprehensive income</b>	<b>(3,476)</b>	35,403

### b) Guarantees entered into by the parent entity

The parent entity has entered into a deed of cross guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the deed of cross guarantee and the subsidiaries subject to the deed are disclosed in note 36.

### c) Contingencies and commitments

For information about contingencies and commitments contracted by the parent entity please see notes 32 and 33.

# Directors' declaration

30 June 2013

In the Directors' opinion:

- a) the financial statements and notes set out on pages 25 to 72 are in accordance with the *Corporations Act 2001*, including:
  - i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date, 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, and
- c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed Group identified in note 36 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 36.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chairman in his capacity as interim Chief Executive Officer and the Chief Financial Officer as required by section 295A of the *Corporations Act 2001*.

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



**Peter Mattick**  
Chairman and interim Chief Executive Officer



**Richard Lee**  
Lead Independent Director

Sydney  
20 August 2013



Ernst & Young  
680 George Street  
Sydney NSW 2000 Australia  
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555  
Fax: +61 2 9248 5959  
ey.com/au

## Independent auditor's report to the members of Salmat Limited

### Report on the financial report

We have audited the accompanying financial report of Salmat Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit 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.



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working world

## Opinion

In our opinion:

- a. the financial report of Salmat Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Salmat Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Rob Lewis  
Partner  
Sydney  
20 August 2013

# Shareholder information

As at 30 August 2013

## SHARES AND OPTIONS

Shares on issue	159,812,799
Performance rights on issue	483,040

## DISTRIBUTION OF SHAREHOLDINGS AS AT 30 AUGUST 2013

Range	Total holders	Units	% issued capital
1 to 1,000	1,327	538,885	50.135
1,001 to 5,000	1,437	3,816,622	1.195
5,001 to 10,000	407	3,136,646	0.98
10,001 to 100,000	306	7,413,154	2.32
100,001 and Over	34	144,907,492	45.365
Total	3,511	159,812,799	100.00

There were 403 holders of less than a marketable parcel of shares.

## TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AS AT 30 AUGUST 2013

Name	Units	% issued capital
TEAMNEWS PTY LIMITED	34,917,120	21.85%
TEAMDATE PTY LIMITED	29,756,874	18.62%
J P MORGAN NOMINEES AUSTRALIA LIMITED	16,521,926	10.34%
NATIONAL NOMINEES LIMITED	11,171,480	6.99%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	11,062,052	6.92%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,996,032	6.25%
CITICORP NOMINEES PTY LIMITED	8,806,576	5.51%
MR PHILIP JOHN SALTER	5,099,113	3.19%
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	4,251,719	2.66%
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	2,739,507	1.71%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <MBA A/C>	1,633,547	1.02%
BT PORTFOLIO SERVICES LIMITED <SALTER FAMILY S/FUND A/C>	1,128,109	0.71%
SANDHURST TRUSTEES LTD <SISF A/C>	1,020,953	0.64%
BKI INVESTMENT COMPANY LIMITED	970,100	0.61%
PACIFIC CUSTODIANS PTY LIMITED SLM PLANS CTRL A/C	741,563	0.46%
PACIFIC CUSTODIANS PTY LIMITED <DEFERRED ESP TST A/C>	731,654	0.46%
MATTICK FAMILY RETIREMENT & PENSION FUND PTY LTD <MATTICK FAM S/FUND NO1 A/C>	531,826	0.33%
DARRELL JAMES HOLDINGS PTY LTD <SUPERANNUATION FUND A/C>	500,000	0.31%
MONTAGE CAPITAL PTY LIMITED	390,000	0.24%
TEAMNEWS PTY LTD <MATTICK FAMILY A/C>	364,522	0.23%

## SUBSTANTIAL SHAREHOLDERS AS AT 30 AUGUST 2013

Name	Units	% issued capital
TEAMNEWS PTY LIMITED	34,917,120	21.85%
TEAMDATE PTY LIMITED	29,756,874	18.62%
J P MORGAN NOMINEES AUSTRALIA LIMITED	16,521,926	10.34%
NATIONAL NOMINEES LIMITED	11,171,480	6.99%
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	11,062,052	6.92%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,996,032	6.25%
CITICORP NOMINEES PTY LIMITED	8,806,576	5.51%

## SALMAT LIMITED

ABN 11 002 724 638

## REGISTERED OFFICE

Level 3, 116 Miller Street  
North Sydney NSW 2060

Phone: (02) 9928 6500

Fax: (02) 9928 6652

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## DIRECTORS

**Peter Mattick** Chairman and interim CEO

**Fiona Balfour** Non-executive Director (Independent)

**Ian Elliot** Non-executive Director (Independent)

**Richard Lee** Non-executive Director (Independent)

**Philip Salter** Non-executive Director

**John Thorn** Non-executive Director (Independent)

## COMPANY SECRETARY

**Stephen Bardwell**

## AUDITORS

**EY**

680 George Street

Sydney NSW 2000

## BANKERS

**Australia and New Zealand Banking Group Limited**

**National Australia Bank**

**Westpac Banking Corporation**

## SHARE REGISTRY

**Link Market Services**

Locked Bag A14

Sydney South NSW 1235

Phone: 1300 554 474 or (02) 8280 7111

International: +61 2 8280 7111

Fax: (02) 9287 0303

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## STOCK EXCHANGE LISTING

Salmat Limited shares are listed  
on the Australian Securities Exchange.

ASX code: SLM

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at:

10.00am Thursday 21 November 2013

**Museum of Sydney**

Corner Bridge and Phillip Streets

Sydney NSW 2000

Please refer to the formal Notice of Meeting for full details.

## KEY DATES

**Final dividend payment** 19 September 2013

**Annual General Meeting** 21 November 2013

**Half year results** February 2014

**Interim dividend** April 2014

**Full year results and dividend announcement** August 2014

The Australian Securities Exchange  
will be notified of any changes to these dates.



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