

Salmat Limited
Annual General Meeting
11 November 2004

Chairman's Speech

[Slide – Delivering on Commitments]

Salmat prides itself on delivering on the commitments it makes to customers, employees and of course, shareholders. Today, I am pleased to be able to report that Salmat has again delivered on the commitments we made to shareholders for the 2004 results.

On the revenue line, we forecast double digit growth and delivered over 14%.

On the net profit line we forecast growth of between 20% and 25% and we delivered 27%.

We forecast a turnaround in our call centre business and delivered an early EBITDA positive result for the year.

At Salmat we take our commitments seriously and this year is no exception.

There are four main items on the agenda to day.

- I will begin by delivering my report for the year.
- Then I will ask our Joint managing Directors, Phil Salter and Peter Mattick to talk about our results for the last year, how we are currently performing and the outlook for the rest of the year.
- Then I want to show you a short video about Salmat. It contains an insight into the last 25 years of Salmat's business, along with a few laughs at Peter and Phil's expense!
- And finally, after any questions you might have, I will ask you to consider and vote on the resolutions contained in the Notice of Meeting.

[Slide – Shareholder Returns]

For shareholders, it has been a year of strong growth in share price. At last year's AGM, the share price was \$3.25 and we closed yesterday at a price of \$4.45. This represents a capital and dividend return of

37% in the last year – a wonderful return for our investors and well in excess of the returns delivered by the ASX 200 of 22.8%.

Shareholders have also enjoyed increased dividends this year – the final fully franked dividend, which was paid on 30 September 2004, of 7 cents per share was up 27% on last year, and took total dividends for the year to 12 cents, up from 8.5 cents last year.

This increase reflects our commitment to rewarding shareholders with robust dividends whilst maintaining sufficient cash reserves to facilitate the growth of the company.

This year Salmat celebrates 25 years of being in business.

It has been 25 years of successful business development and continued growth in sales and profits. Salmat is a company founded on people. This year we have grown to employing over 2,300 employees and I would like to acknowledge the efforts and dedication of all of our staff in producing the results we have enjoyed this year.

[\[Slide – Performance Summary\]](#)

As I said at the outset, the year has been a great one for Salmat. In a period distinguished by strong double digit growth, we have also maintained our focus on the future. We have invested in new products and services to offer our customers; continued with our cost reduction program; and most importantly, positioned the company to take advantage of future growth opportunities.

In the year to June 2004 we reported a profit after tax of \$21 million, a 27% increase on the prior year's result. This was on the back of a 14.5% increase in revenues to \$327 million, sourced largely organically and not from acquisitions.

Our return on capital employed of 47% - a strong return by any standard - is confirmation that we continue to use financial discipline on capital utilisation.

The success of Salmat this year, and the growth platform that has been created, does not rely upon any single factor. Long term success is all about relationships – with customers, employees, the community in which we operate, and of course, our shareholders. The quality of these relationships underpins a strong drive for Salmat to continue its

success over the years to come as a listed company, just as it did while owned privately by Peter and Phil for most of the last 25 years.

[SLIDE – Growth Prospects]

Salmat has consistently achieved above average growth. We believe Salmat has strong prospects for organic growth and from suitable acquisitions that will create value for shareholders.

And we are also the only company in Australia to provide an integrated platform of customer contact services. We have 25 years of experience in customer communications, and an unrivalled commitment to research, development and innovation.

Salmat's unique culture of combining family values with an attitude of doing whatever it takes to get the job done holds us in an enviable position of strength.

We are so grateful for the loyalty of our people. Anna Degnan was Salmat's first ever employee 25 years ago, and she is with us here today as a clear example of that loyalty.

[Pause to acknowledge Anna]

Anna and some of our other long standing employees are featured inside this year's annual report as a testament to their hard work and dedication. They will be joining us for morning tea, so please don't hesitate to seek them out.

[Slide – Corporate Governance]

Just as Salmat is a market leader, your Board believes Salmat should be a leader in corporate governance.

We are committed to achieving and demonstrating the highest standards of governance and to complying with the best practice recommendations released by the Australian Stock Exchange.

During the year, we have implemented an enterprise wide risk management system, which we have linked in with our existing quality management system. The pragmatic approach we have followed has been aimed at genuinely improving the management and understanding of risks in each of our businesses.

Our Joint Managing Directors and Chief Financial Officer have signed off on the accuracy and completeness of the financial statements and this certification has been expanded to include risk management and assurance practices.

Full details of our corporate governance practices are available in the Annual Report and on our website at www.salmat.com.au.

It is also pleasing to note that as part of our ongoing focus on occupational health and safety, we have gained 5 star ratings from the National Safety Council of Australia for our occupational health and safety systems and practices for 6 sites throughout the country.

As I noted earlier, Robert Sutton, one of our non-executive directors, passed away suddenly on 10 June this year. Bob is missed by all of us at Salmat, both on a personal and professional level.

The Board is well advanced in the search for the best person to fill the resulting vacancy. It is expected that a new non-executive director will be appointed early in the new year.

[Slide – Executive Remuneration]

Executive compensation is obviously a hot issue in corporate Australia and around the world at the moment: where greater transparency is justifiably being demanded; and where better alignment of remuneration with performance and shareholder returns is required.

At Salmat, we have designed our remuneration practices and levels to reflect the best practices of companies of similar size in Australia. We have taken independent expert advice and developed a policy which combines an appropriate mix of base salary, short term at risk components and long term incentives. Additionally new, more stringent performance hurdles have been added, which are aligned closely with achievement of our strategy at the corporate level and across the business.

We need to ensure that we attract and retain the best people for the job and therefore our compensation system is performance based with an average of approximately 30% of an executive's compensation at risk.

We consider that it is appropriate to continue a regime of long term performance based compensation for our senior executive team as it is

the best way of aligning the interests of executives and shareholders and reinforces the culture of ownership amongst senior managers.

You will see that we have two resolutions regarding executive compensation to come before this meeting. Peter Mattick and Phil Salter form part of the executive management team. As such they, along with the other members of that team, have a proportion of their compensation based on longer term objectives through the Salmat Employee Option Plan. We believe that the most appropriate long term objective is achieving superior earnings per share growth for shareholders.

To achieve the maximum return on their long term incentives, the Joint Managing Directors will be required to deliver 10% cumulative annual earnings per share growth over the next three years. This measure has been chosen as it is an audited figure that is published on an annual basis that also clearly influences share price performance. It also requires an appropriate level of capital discipline should an appropriate acquisition be found.

If these long term performance objectives are achieved, the Joint Managing Directors and senior executives will be rewarded for their

efforts by being able to exercise their options on or after 11 November 2007. Shareholders will be rewarded with aggregate earnings per share reaching at least 65.6 cents per share over the next three years. This should translate into a substantial increase in shareholder value over that timeframe.

I want to conclude by assuring you that Salmat continues to be focused on the relationships that have made it what it is today. Our customer satisfaction levels are being monitored and continuously improved, our employment practices are designed to foster performance and long term loyalty, and our strategies for growth are being carefully implemented.

I will now ask Phil to take you through our operational performance.

[\[After Peter Finishes\]](#)

We'll now move on to showing you a short video.

This video is a celebration of Salmat's 25 years in business and follows its early days from premises in Regents Park through to its expansion nationally and overseas. It is a lighthearted look at the history and

the evolution of the company, and the people behind it, that I'm sure you'll enjoy.

Joint Managing Director's Speech – Phil Salter

Thank you Rick

It's 25 years since Peter and I and my father, Tom Salter, started this business, in a small 300 m² warehouse in Regent's Park. As I look back, the thing that strikes me most is the commitment of our managers and their ability to reinvent the Company over those years.

And over the years we have used technology and hard work as the platform for our growth.

In the early years we concentrated on expanding the letterbox network. A network that provides Salmat with a national coverage that can reach nearly every household in Australia and New Zealand within three days.

The late 1980's were years of investing in new technology and our BPO business. We understood at the time that if Salmat was to keep ahead of its competitors, we needed to be smart about the way we did

business. We needed to listen to our customers and we also needed to expand our services.

The 1990's were characterised by our overseas expansion. First to New Zealand, then on to the Philippines, Hong Kong and then Taiwan. In order to achieve this expansion, we again had to revisit our technology, and our management structures and ensure that we had solid platforms for the growth that was to come.

And in December 2002, we listed on the ASX with the primary goal of being able to expand the capital base and financial capability of the Company so that we could continue our expansion.

[Slide – Financial Result]

2003/04 has been a tremendous year for us. Our financial result for the year has been outstanding with net profit after tax and earnings per share both up by 27%. This has been achieved as a result of teamwork and focusing on our core values of trust, leadership and proactive flexible solutions.

These results were driven by a number of factors:

- First, our Targeted Media division was our stand out performer this year with an increase in revenues of nearly 19% to \$160 million. We delivered 3.8 billion advertising catalogues and achieved significant inroads into new markets.
- Salmat's Australian Business Process Outsourcing, or BPO, business experienced continued volume growth in 2004, which was achieved in a trading environment that continues to be flat. While our Australian revenues were up 6.6%, EBITA was down 13%. BPO's sales excluding currency were up 3% and the business produced a solid 28% return on capital, in line with last year.
- We won the ANZ essential mail contract for the management of their printing and mailing requirements and we also won a place on Westpac's panel of key suppliers, which makes us the undisputed market leader in the financial services BPO segment.

Overall, we are delighted with the results we've achieved during the year and wish to thank all our employees and our customers who have made it possible.

[Slide – Targeted Media]

Moving to the year ahead.

Our strategy in Targeted Media involves the continuing development of our relationships with non-traditional customers, convincing them of the value of targeted media as a powerful marketing tool.

But also we now intend to focus on advertising agencies and we are working to make our products and services more accessible to this important segment.

We will also continue to develop our targeting tools so that we can offer our customers the most up to date solutions for their businesses and deliver them the best possible returns for their advertising dollar.

[Slide – Business Process Outsourcing]

Our BPO strategies centre around growing the market for BPO and achieving margin growth over the long term. Our sales strategies

involve promoting our products and services to existing customers, customers from our other businesses, and new customers.

We will continue to invest in new technology so we can continually provide expanded product and service ranges to our customers, particularly in the data area.

A major achievement in the BPO business has been our accreditation as a Bulk Mail Partner of Australia Post.

Becoming a Bulk Mail Partner involves gaining certification in bulk mail lodgment practices and demonstrates our commitment to making efficiency savings. Salmat is now the only mail house in Australia that has Bulk Mail certification in every site of its operations throughout the country.

Across BPO, we will continue to work on achieving cost efficiencies through the introduction of new technology and management tools.

The ANZ work came fully on line in October and this will assist in achieving our revenue growth targets. Additionally we picked up some

non-recurring Australian Electoral Commission work as a result of the federal election. However BPO continues to operate in a competitive pricing environment. Margins have been under pressure, but we do feel that the market has stabilised. It is going to take some time for margins to improve.

I will now hand over to Peter Mattick to talk more about our call centre business, and the outlook for the year.

Joint Managing Director's Speech – Peter Mattick

Thanks Phil

[Slide – Customer Contact Solutions – Turnaround Continues]

Customer Contact Solutions had a great result last year with the business moving into positive cash flow for the first time. The business delivered an earlier than scheduled full year EBITDA positive result on the back of revenues that were up 70% to \$37 million.

The main driver of this turnaround was the increased scale of the business with the full year impact of our Bundaberg and Wagga Wagga

call centres coming through and new business from clients such as Medibank Private, Origin Energy and NRMA.

We have also continued to improve the mix of inbound to outbound work, with inbound now running at 62% compared to 51% last year – good progress towards our three year target of 75% - 80% inbound.

[Slide – Customer Contact Solutions – Increasing Scale]

We have now proven our model and developed sufficient scale and we are confident about the future of this business

The Australian call centre market still holds plenty of potential for growth with only 11% of the total market being outsourced. We believe that Australian corporates will follow the US trend and move to outsourcing of call centres as their next major step towards gaining cost savings and improved customer service levels in their businesses.

We are now in a position to clearly demonstrate our full service capabilities to prospective clients, and this gives our sales force better opportunities to gain new business in this area.

With our Philippines joint venture we can offer our customers the choice of Australian metropolitan and regional call centre solutions as well as our international capabilities to best fit their needs.

The Philippines call centres continue to expand with a total capability now of over 2,000 seats over two sites – a quadrupling of capacity since last year. This increased work is largely inbound customer service for US customers and has been driven by new contracts such as Sony, BellSouth, MCI and Dell.

Our increased scale has allowed operational efficiencies to be achieved with this business generating an impressive EBITDA positive result of \$2.4 million last year.

With all of these positive signs in our call centre operations, we expect both our Australian and our Philippines businesses to deliver a full year EBITA positive result.

[Slide – FY05 guidance]

Let me now move on to our results guidance for the Company for the upcoming year.

We have started the year well with solid performance in line with our budgeted numbers. However, as we said in our annual results announcement, we do not expect to achieve the same rate of revenue growth that we achieved in the corresponding period last year.

In BPO our revenues have been affected by the delay in getting the ANZ contract on line and by the loss last year of PLDT, a major customer in the Philippines. Additionally, whilst strong, the rate of growth in Targeted Media and Customer Contact Solutions are not expected to be as high as the exceptional levels experienced last year. As such, we are expecting total Company revenue growth for the first half in the range of 9% - 11% above the prior corresponding half.

We anticipate the net profit growth rate for the first half will be in the range of 22% - 26%. This rate of growth includes the comparable benefits of the one off expenses incurred in the corresponding prior half year, comprising a provision against loan funding made to the Philippines call centre business of \$2.4 million and a write down of goodwill of \$1.1 million.

At the time of the annual results, we provided full year guidance of net profit growth in the range of 15% - 20%. Given that our results for the year so far have been traveling well against budget, and we do not anticipate any significant change in market conditions, we are confident of achieving net profit growth for the full year in the range of 20% - 25%.

This will be again reviewed following the release of the half year results in February.

Ladies and gentlemen, thank you for your support as shareholders and I will now hand back to Rick Lee.