SALMAT

25 August 2004

Company Announcements Office
Australian Stock Exchange

Salmat Limited Full Year Results

Salmat Limited advises that the following address was made by the Joint Managing Directors and Chief Financial Officer together with the presentation of its June 30th, 2004 full year results.

Stephen Bardwell
Company Secretary

SALMAT LIMITED
ABN 11 002 724 638
14-16 CHANDOS STREET
ST LEONARDS NSW 2065
TEL (02) 9928 6500
FAX (02) 9928 6652
www.salmat.com.au

Salmat Limited Full Year Results

Speech given by Phil Salter, Ashley Fenton and Peter Mattick

26th August 2004

PHIL SALTER

Slide 1 FULL YEAR RESULTS PRESENTATION

Good morning and welcome. My name is Phil Salter the Joint Managing Director of Salmat.

Thank you for joining us on this conference call.

With me this morning is Peter Mattick and our CFO Ashley Fenton.

During the presentation we'll be referring to the slides we lodged with the ASX this morning. If you haven't got these yet, you can get them on our website at www.salmat.com.au.

I'll start off this morning by taking you through the top line results, Ashley will then take you through the financials in more detail, and finally Peter will talk about what we are going to be focusing on over the next twelve months.

When Pete's finished we'll open the phone lines for questions.

Slide 1 PERFORMANCE SUMMARY

Let me just say this is a standout result.

Lat year we told you we would deliver double digit growth in sales and profit and we have.

What this result also shows is just how strong the move to direct media is.

What's particularly pleasing for us is that 2004 marks Salmat's 25th year in business.

So after all these years …and after two years as a public company…we're still generating double-digit growth.

Looking at the numbers you can see sales were up over 14 per cent and net profit up 27 per cent.

Slide 2 HIGHLIGHTS

We have strongly delivered on our 2004 commitments:

- EPS was 18 cents - up 27 per cent
- Dividend for the year is 7 cents up 27 per cent and

- Cash flow is strong..we generated $27.4 million in operating cash…. with free cashflow of $10.5 million. And net cash at balance date was $14.2 million.

How well are our team doing?

Look at these results:

- Return on capital was 47 per cent
- Targeted media drove sales up nearly 19 per cent
- Our team in our voice business turned it around and put it into the black for the first time
- Our joint venture in the Philippines has really taken off with triple digit sales and EBITA growth
- In a tough market the team at BPO lifted sales but margins are still under pressure

Slide 3 TARGETED MEDIA

The biggest contributor to our 2004 sales growth was Targeted Media.

The team there are not only gaining market share but are working with new industries that are realising the cost efficiencies of directly targeting their customers and potential customers.

We delivered 3.8 billion items this year.

That's 17% up on last year.

The four-year compound average growth rate in catalogue volumes for this business is 15%.

Salmat is the market leader in this low risk but fast growing industry.

We use state of the art technology combined with very well trained people and a strong commitment to great customer service.

During the year, we relaunched our new demographic profiling products “Marketfind” and “Marketmap”. Take-up on these products has been exceptional.

So we have very significant scale, leading edge technology, strong returns, generate good cash, and have low ongoing capex requirements.

Woolworths and Coles, our largest and oldest customers have re-signed with us for another two years.

What is really important to note this year is the new industries starting to take notice of and make increasing use of direct media.

We've seen real growth in non-traditional areas such as financial institutions and telco's

In fact, 45% of our new business is from customers who haven't used catalogues before as a large-scale advertising medium.

Slide 4 CUSTOMER CONTACT SOLUTIONS

As we promised the turnaround of Salmat's call centre business has continued.

The business is profitable for the first time.

EBITDA of $400,000 was ahead of budget.

What drove the turnaround was a combination of the first full-year of operation of our Wagga and Bundaberg call centres, and new business from clients including Medibank Private, Origin Energy, Hewlett Packard and NRMA.

Revenue was up nearly 70% to $37 million.

We have expanded seat capacity to 909 seats, up 40% on last year and we've added 42 more seats in Bundaberg and an additional 93 seats in Sydney.

Slide 5 CLIENTLOGIC JOINT VENTURE

The Philippines Joint Venture call centre operation continues to grow at a staggering rate.

- Sales have grown by 108% to reach AUD $17 million
- We've tripled the number of seats to 1,583 seats and
- We're developing a second site in a regional centre north of Manila.

This growth has been driven by Clientlogic's success in attracting major US corporates to the Philippines, including Dell, MCI, Sony and BellSouth.

The result of this improvement in scale has seen a significant financial turnaround with positive profitability ahead of schedule and EBITDA of $2.4 million, and EBITA of $0.3 million.

Slide 6 BUSINESS PROCESS OUTSOURCING

Our Australian BPO business grew volume, the number of mailpacks produced increased by 7.5% to 570 million.

BPO achieved this growth despite a tough market.

As we flagged at the half-year, market pricing pressures continued to impact margins. Australian revenues were up 6.6%, EBITA was down 13%.

Again at the half we told you we won the tender for ANZ Bank's essential mail. While the business has been gearing up for this work, revenues will only start to flow in the first half of fiscal 2005.

Our Asian BPO businesses had a difficult year, but still contributed 12% of BPO's EBITA. Revenues were impacted by the loss of the largest customer in the Philippines business, and by negative foreign exchange translation movements.

Overall, BPO's sales excluding currency were up 3% and the business produced a solid 28% return on capital, in line with last year.

Slide 7 DELIVERING ON COMMITMENTS

To sum up

This is a standout result.

We've delivered on our commitments to you…commitments that included double-digit growth in sales and profit, and a turnaround in our voice business.

So Salmat

- Is financially stronger
- Is making real progress in turning around the developing parts of our business
- And is positioned for even more growth.

Let me now hand over to Ashley to provide an overview of the financial results for the period.

ASHLEY FENTON

Slide 8 GROUP RESULT

Thanks Phil. Good morning everyone. As Phil said, Salmat has achieved a very solid result for the 2004 financial year.

Sales revenue grew by $41.5 million or 14.5% to $326.9 million, with around 60% of this growth coming from our Targeted Media business.

EBITDA improved by $4.7 million to $46.7 million, with strong results from Targeted Media and Customer Contact Solutions being offset by reduced earnings in BPO. The group was also impacted by higher corporate costs, up 8.7%, with fiscal 2004 being the group's first full year as a public company.

Depreciation fell by 11.7% to $10.9 million, mainly due to the run-off of fully depreciated assets in Asia. With a net capital spend for the year of $10.6 million, the capex re-investment rate of around 3.2% of sales was lower than the group's depreciation charge. We still expect capex levels to be in the range of 4% - 4.5% of sales going forward.

Amortisation charges for the year included a significant item – a goodwill write-off of $1.5 million. $1.1 million of this was reported at the half year and relates to a re-assessment of the carrying value of the group's Philippines BPO business, following the loss of its largest customer. The current year charge also includes the impact of accelerating the write-off period for the balance of this Philippines goodwill (five years down to three), as well as amortisation of goodwill relating to various small Targeted Media acquisitions made during the year which are written off over three years.

Our tax expense benefited from a one off impact of entering into tax consolidation of $1.4 million. Excluding this, the underlying effective tax rate was 33.2%, which is higher than the corporate tax rate mainly due to non deductible goodwill amortisation.

The final dividend declared of 7 cents per share, which is up 27%, takes the full year dividends to 12 cents and gives a payout ratio of 66%.

Slide 9 14.5% REVENUE GROWTH

Our revenues growth was strong, up by $41.5 million or 14.5%, with the largest contributor to growth being Targeted Media.

Total Targeted Media revenues were up 18.6% or $25.1 million, mainly due to the growth from non-traditional sources such as telco's, banks and financial institutions. We continue to benefit from the shift from mass media to direct media, and there's been a notable shift in advertising agency spend towards direct media over the course of this year, as an increasing proportion of advertising budgets are being directed to direct media.

Another pleasing output of the Targeted Media result is a broadening of our customer base. Our top 20 customers now make up 55% of our total revenues, down from 58% last year.

Our second half revenues were stronger than we expected, with sales growth of 20.8%. Activity around Easter, and in the lead-up to the mid-year sales period in June, was particularly strong.

During the year, we acquired seven small distribution businesses to strengthen our national distribution network. The results include revenues of $4.8 million from these businesses, which account for 3.5% of the targeted media revenue growth.

Customer Contact Solutions revenues were up an impressive 69.7% or $15.2 million. This result includes the first full-year contribution from the Wagga Wagga and Bundaberg call centres that provide services to Telstra.

Our percentage of inbound work is now running at 62%, compared to 51% last year. So good progress has been made on moving towards our three year target of 75 - 80% inbound work. The higher proportion of inbound revenue will provide a more stable revenue and profitability base going forward, as well as increasing barriers to entry, as inbound work is typically more complex, and requires greater technology skills.

BPO continues to operate in an extremely competitive market. Pricing pressures have impacted revenues and operating margins.

Despite this, we still managed to grow the Australian business' revenues by 6.6% up$7.2 million, with volumes up 7.5%.
Our BPO businesses in Asia also experienced difficult trading conditions. The Philippines business, in particular, was impacted by the loss of a major customer, which reduced revenues by $2.6 million. The stronger Australian dollar also reduced revenues on translation by $2.7m. Excluding these two impacts, overall revenues in Asia were flat.

Slide 10 20.8% EBITA GROWTH

The group EBITA performance was strong - a 20.8% improvement. Importantly, the group EBITA margin improved from 10.4% to 10.9%.

Targeted Media again provided the largest incremental contribution of $5.9m, with the benefits of scale and higher revenues from targeting tools partially offset by higher costs associated with expanding the distribution network. The EBITA margin for this business improved by 0.4% to 21.1%.

As Phil mentioned, Customer Contact Solutions made an EBITA profit for the second half of the year. The first half improvement of $1.5m over prior year was followed up by a $1.4 million improvement in the second half, giving a $2.9 million turnaround. The second half result is particularly pleasing as last year we had a major one-off piece of work for the Promina float.

On a full year basis, the business turned EBITDA positive by $0.4million, with the benefits of scale efficiencies coming through. For example, staff overhead costs increased by only 6% despite the 70% increase in sales. We also improved our operating efficiencies, with seat utilisation increasing to 70%.

We've seen a similar turnaround in our Philippines call centre business. It generated positive EBITDA for the year of $2.4 million (most of this in the second half), and made a small EBITA profit for the year. But after interest charges, the JV recorded a small loss – which we don't equity account.

With the fantastic growth in this business, we put in a further $4.3 million of loan funds during the year - $2.4 million in the first half, and $1.9 million in the second half. As reported in February, and as with the previous funding, first half funding was fully provided for.

However, given the marked improvement in the performance of the JV in the second half, we haven't provided against the second half loans. So the total amount provided for the year of $2.4 million was actually down $800k on the prior year.

As expected, BPO's EBITA margins fell – down 2.2% to 13.7%. Pricing pressures in the Australian business were partially offset by cost saving and operational efficiency improvements. For example, mail throughput rates have improved by 14% over the past twelve months. However, development costs relating to new data products and start-up costs for the ANZ contract – in total close to $1 million in costs – impacted results.

The BPO Asian businesses also continue to experience highly competitive markets. The second half was particularly impacted by the non-renewal of the PLDT contract in the Philippines – as a result second half EBITA of $0.5 million was substantially lower than the $1.2 million EBITA generated in the first half.

Slide 11 CASH FLOW

Now lets look at cashflow for the year.

Whilst operating cash generation of $27.4 million was strong, it is lower than the prior year. There are two reasons for this. Firstly, we made higher tax payments in the current year of $7 million, that comes with increased profitability.

Secondly, higher working capital levels were required, as the business has expanded over the past twelve months. With working capital levels still below 1% of sales, the movement merely reflects an adjustment to more normal levels. And debtor days outstanding of 29 days are well within our target range of 30 days.

Our capex of $10.6 million included $3 million in implementing a new financial ERP system, $1 million in upgrading the Targeted Media business system, and $2 million supporting capacity expansion and infrastructure improvement in BPO.

Our free cash flow was a healthy $10.5 million and after dividends we still have an ungeared balance sheet at 30 June, with net cash of $14.2 million. In addition, we have $64 million in undrawn borrowing facilities.

And of course our franking account balance remains healthy at $49 million.

I'll now hand over to Peter who will take you through our focus areas for the coming twelve months.

PETER MATTICK

Slide 12 TARGETED MEDIA

Thanks Ashley.

Lets start with Targeted Media.

We are the market leader, and will continue to protect this position, as we look to grow the market. The good thing is there is still plenty of organic growth available.

We see continuing growth opportunities in the shift to direct media in non-traditional areas. There are still a lot of products and services out there that can be sold more effectively via catalogues. Definitely more than mass media, particularly given the increasing number of media channels that consumers have to choose from.

And we believe the trend towards advertising agencies using more direct advertising will continue. In fact, we will be actively looking to build our level of agency-based business in the coming year, and are re-positioning our sales force to achieve this.

To support this growth, we will continue to strengthen our national distribution network through the acquisition of local distributors throughout Australia. And of course we will continue to invest in our targeting technology to give customers cost effective solutions.

We expect continuing growth from this business, though not at the same levels as 2004.

Slide 13 CUSTOMER CONTACT SOLUTIONS

Turning to CCS. The key to improving profitability in this business is scale. We will continue to vigorously pursue outsourcing opportunities as they arise. And we think that these opportunities will become more frequent as more and more companies understand the absolute benefits of outsourcing. We remain confident that the level of call centre outsourcing will increase from around 10% where it is today, to eventually reach overseas levels of 70% plus.

The mix of work we are currently chasing is predominantly inbound work, which will move us closer to our three-year target of achieving an 75 - 80% inbound mix. And, as Ashley said, inbound will allow us to build a more sustainable and profitable business.

The Telstra relationship is extremely important to us, and we will continue to strive to meet and exceed all customer service expectations. We are looking to build on, and expand, this relationship.

In terms of technology, we will be investing over the coming year to support the growth of this business, and ensure that we have appropriate services and systems products for our customers.

Financially, we expect this business will grow and trade profitably for the full year of 2005, and provide an increasing return on the capital invested over the past few years.

In the Philippines, we'll be working with our JV partner to increase the number of US inbound customers and drive operational efficiencies. A key focus will be bringing our new second site into full operational capability, with potential for an additional 700 + seats. This expansion will require further funding from Salmat in the order of $4 million. Providing the business continues to perform as expected, we don't plan to provide against these loans.

Again, financially we expect that this business will generate a profit in 2005. However, Salmat's share of any profit will be offset against previously unrecognised losses.

Slide 14 BUSINESS PROCESS OUTSOURCING

In BPO Australia, we have market leadership in essential mail reflecting our superior data management capabilities, quality focus, and systems. We will continue to protect this position. And we are particularly strong in the financial services area, with contracts with all top-five major banks.

We expect that organic growth in the Australian market will continue, and that pricing pressures will still be a factor in 2005. It will take some time for margins to show any recovery.

We will continue to broaden and deepen our range of data products to enhance our offerings and improve our customers' business.

Within our capex re-investment target, we will be refreshing our laser printing and mail inserting platforms. This will provide additional capacity to support volume growth and enable us to realise efficiency improvements.

In Asia, the approach is two-pronged. We have recently appointed country nationals to manage our Hong Kong and Taiwan businesses This will provide more “locally connected” leadership. At the same time, we are also increasing the divisional sales and product support to leverage our Asia Pacific relationships.

As we’ve said before, we take a long-term view to growing our Asian presence and that requires patience.

In summary, we expect the BPO business to continue to grow in 2005, albeit with only gradual margin improvement.

Slide 15 GROUP OUTLOOK

Moving to Group Outlook.

In terms of group outlook we have enjoyed exceptional sales growth over the past 12 months. However, we don’t expect this level of growth to be maintained in the year ahead.

We do expect double-digit growth in profits in the range of 15 – 20% and will provide more specific results guidance at our upcoming AGM to be held on 11 November.

We are looking to grow our business in two ways.

Our primary focus will be to continue to grow our businesses organically, which we have successfully achieved in the past.

And we'll also continue to look for acquisitions that are the right fit for our organisation – either as a bolt-on to one of our existing businesses, or a new business which complements our existing offering to customers. In either case, the business must meet our strict financial criteria, and be capable of cultural integration.

In closing, we are well positioned in all our businesses, and have plenty of opportunities for growth in the year ahead.

I'll now open the call to questions.

Disclaimer

Company announcements and presentations can contain forward-looking statements. Words such as "believe", "anticipate", "plan", "expect", "intend", "target", "estimate", "project", "predict", "forecast", "guideline", "should", "aim" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to: competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with, and possible changes in, environmental and health and safety laws; dependence on cyclical markets; the supply and cost of materials; exposure to environmental or other legal proceedings; and risks of conducting business internationally. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those contained in forward-looking statements. Forward-looking statements speak only as of the date they are made.