**PHIL SALTER**

**Slide 1 HALF YEAR RESULTS PRESENTATION**

Good morning and welcome to this presentation of Salmat's results.

Thanks for joining us on this conference call.

I'm Phil Salter, the Joint Managing Director of Salmat. Joining me this morning is Peter Mattick, my colleague and Joint Managing Director, and Ashley Fenton, our CFO.

During the presentation we'll be referring to the slides that were lodged with the ASX this morning. They're available on our website at www.salmat.com.au for anyone who doesn't have them yet.

I'll start the presentation by taking you through the highlights for the half. Ashley will then take you through the financials in more detail, and then Peter and I will talk about our individual businesses, what we are going to be focusing on over the coming six months and the full year outlook.

When Pete's finished we'll be happy to take questions.

**Slide 2 FINANCIAL HIGHLIGHTS**

Let me begin by saying this. The half year result is another solid one with revenue and earnings increases in all our businesses.

Let's begin with the financial highlights.

Sales revenue grew by $13.8 million or 8.3% to $180.8 million, with the main contributor again being our Targeted Media business.

Our profit after tax of $14.9 million, was up 35.2% on the prior year result. EPS is up in line with this.

On the back of this solid result the Board has declared a fully franked interim dividend of 6.5 cents, up 1.5 cents or 30% on the prior half. This will be paid on 28 March.

Our return on capital was again impressive at 53% - up from 47% at 30 June - and demonstrates continued evidence of our efficient use of capital and the benefits of our call centre turnaround.

**Slide 3 OPERATIONAL HIGHLIGHTS**

We've also had a busy half operationally with the most significant event being the acquisition of SalesForce, and we'll talk more about that later.

Another major achievement for the half was the ongoing impressive turnaround of our existing call centre business.

At the same time we also managed a small improvement in our Australian BPO margins, which is an encouraging sign.

Our results were also positively affected by the outstanding performance of our 49% owned call centre JV, ClientLogic Philippines which achieved its first half year bottom line profit.

In summary we have again delivered a robust result and pleasingly, have made good progress in our key strategic focus areas.

I will now hand over to Ashley to provide an overview of the financial results for the period.

**ASHLEY FENTON**

**Slide 4 GROUP RESULT**

Thanks Phil. Good morning everyone. As Phil just mentioned, the group has achieved a very solid result for the first half of 2005.

Sales revenues of $181 million were up by 8.3%. As we told you at the AGM, we expected our sales to continue to grow, but at a slower rate than the standout result we achieved last year. Our sales have come in slightly lower than our forecast growth figure of 9% - 11%. Key factors contributing to this were:

- a slower than expected take up in the BPO ANZ contract implementation, (which started in October and is now fully operational); and
- a reduction in the last quarter in outbound call centre campaign work.

EBITDA was up by 29% to $30.8 million. This does, however, include the benefit of a significant item. As our Philippines call centre JV has turned the corner and is now trading profitably, we decided to release $2.0 million of the provision against loan receivables.

The underlying EBITDA increase, excluding this, was around 9% with the margin of 15.9% up very slightly on the previous corresponding half.

Depreciation increased by $3 million to $8.3 million of which $2.2 million related to a significant write-down of software assets. This follows a review of the recoverable value of all our software assets. A major component of this write down is the costs of upgrading our Targeted Media sales and distribution system.

Amortisation charges for the half have dropped from $2.7 million to $2.1 million, due predominantly to the $1.1 million significant item goodwill write-off in the previous corresponding half. The current half charge includes the impact of the accelerated write-off period for the balance of the BPO Philippines goodwill (five years down to three), and the continuing amortisation of goodwill relating to the small Targeted Media acquisitions.

Whilst tax expense increased by $800,000, the previous corresponding half included a $900,000 one off benefit of entering into tax consolidation. The effective tax rate of 28.3% for the half was impacted by significant items and the underlying effective tax rate was around 33%.

And as Phil mentioned, our profit after tax was up by 35.2%. This is higher than the 22% - 26% growth guidance we gave at the AGM mainly due to the benefit of the ClientLogic Philippines provision reversal.

Turning now to the divisional results – and starting with Targeted Media.

**Slide 5 TARGETED MEDIA**

As previously mentioned, the largest contributor to sales growth was again Targeted Media.

Total revenues were up by $11.2 million or 14.0%. Growth in advertising volumes has continued with 2.1 billion advertising catalogues delivered in the period, an increase of 11.4%. And the four year compound average growth rate now stands at 14%.

During the half, we acquired two small distribution businesses to continue our strategy of strengthening the national distribution network. The current results include revenues from the acquisitions made over the past year which account for revenue growth of about 4%.

The higher sales generated EBITA of $19.8 million, an increase of $1.8 million, or 10%.

Margins at 21.6% are down slightly due to two main factors. First we've experienced growth in our distribution costs, mainly as a result of distribution inefficiencies experienced through the high volume pre-Christmas period and also due to the costs of strengthening our network to support the growth we've had. Secondly there has been a small amount of margin dilution due to an increase in the proportion of lower margin newspaper distributions, which come from the acquisitions we've made.

**Slide 6 BUSINESS PROCESS OUTSOURCING**

BPO continues to be an extremely competitive market.

As you know, the essential mail market has been difficult and characterised by some aggressive pricing over the past few years. As we said at the AGM, we think the pricing pressure has started to settle down, and for new business, has bottomed out.

The Australian BPO business generated revenue growth of 6% on the back of continued volume growth. The number of mailpacks produced increased by 4.5% to 304 million. This has been achieved as a result of growth from the existing customer base as well as new business, including ANZ and one-off work from the federal election.

Our Australian BPO business lifted EBITA by 11.6% to $7.6 million and also improved margins – up 0.6% to 12.1%. Key in this result was a higher mix of laser work with slightly improved average sell prices.

In Asia revenues were impacted by the loss in December ’03 of PLDT, a customer in the Philippines. Excluding the $1.1 million effect of this, local currency revenues grew by 3%, with recent new contract wins with Hong Kong Broadband Network and Development Bank of Singapore providing the lift.

Overall, BPO’s sales were up 3% and the business produced a solid 31% return on capital, in line with last year.

BPO’s EBITA result is up only slightly, with the improvement in Australia offset by lower profitability in Asia.

**Slide 7 CUSTOMER CONTACT SOLUTIONS**

In the call centre business I’ll start with our Australian call centres, where we’ve seen a dramatic turnaround over the last two years.

Call centre sales revenues were lower than expected, with growth of only 3%. Strong growth from our Bundaberg and Wagga Wagga call centres, with the benefits of 50 additional seats, was offset by reduced levels of outbound campaign work, particularly in the last quarter. In addition, with our improved scale we made the decision not to renew certain less profitable customers.

Pleasingly our average percentage of inbound work for the half was 67%, compared to 54% last year. Good progress towards our target of 75 - 80% inbound work.

This half we've posted an EBITA positive result of $600,000 as compared to a $700,000 loss in the previous corresponding half. A $1.3 million turnaround, following on from our $1.4 million EBITA turnaround for the second half of last year.

A key driver of this improvement has been our regional call centres in Bundaberg and Wagga Wagga where we're achieving efficiency improvements. Customer satisfaction has been high and during the half, these sites handled in excess of 2 million calls.

Labour cost productivity across all sites improved by 13%, whilst our reliance on more expensive agency staff reduced from 43% to 20%.

This improved efficiency is reflected in our EBITDA margins, which are up by 8% points.

**Slide 8 CLIENTLOGIC JOINT VENTURE**

In the Philippines our 49% owned Joint Venture call centre operation has continued to grow during the half with sales up by an impressive 67%. We now operate nearly 2,300 seats across two sites.

Growth has been driven by ClientLogic's success in attracting major US corporates to the Philippines, including Dell, MCI, Sony and BellSouth. These inbound customers are now fully operational and are contributing well to results.

The continued improvement in scale has driven a significant financial turnaround. We've seen EBITA for the half increase to $1.5 million from breakeven in the previous corresponding period. And the business posted its first bottom line profit after tax of nearly $1 million.

This profitability means two things for Salmat.

First it means that, in the absence of significant further growth, our funding requirements are now finalised and we look forward to loan repayments down the track.

Second, once the JV has generated profits sufficient to recoup our share of unrecognised accumulated losses of $2 million, we will begin to equity account our share of the profits. Based on current performance, we expect this to begin in FY06.

Going forward, we also expect to recover the remaining $3.6 million balance of the provisions against loan receivables as the JV demonstrates an ability to repay cash loans.

**Slide 9 CASH FLOW**

Now let's look at cash flow for the year.

Operating cash flow has been strong over the half, with $12.9 million recorded, up 33% on last year. This has resulted primarily from the EBITDA improvement. And whilst we experienced our customary higher first half working capital requirements, our overall working capital was slightly better than the prior corresponding half.

With a net capital spend of $9.0 million, the capex re-investment rate of 4.9% of sales was higher than we normally expect due to the timing of spend on new BPO mail inserters and laser printers. This compares to an unusually low spend, again due to timing, in the previous corresponding half. We continue to expect capex in our target range of 4% - 4.5% of sales on a full year basis.

Funds outlaid on acquisitions were reduced as a result of only 2 small distribution businesses being acquired, as opposed to 7 in the previous corresponding half.

During the half, we contributed a further $4.4 million to the Philippines call centre JV to fund the capital expenditure of the new Baguio site.

After paying dividends we still had an ungeared balance sheet at 31 December, with net cash of $5.2 million. Since balance date we have drawn down $64 million to complete the SalesForce acquisition. This takes our debt to equity gearing to around 66%, which we will comfortably manage.

I'll now hand back to Phil and Peter who will give you an update on our focus areas ahead.

**Phil Salter**

Thanks Ashley.

**Slide 10 – TARGETED MEDIA FOCUS**

Salmat continues to be the market leader in this low risk industry, producing strong returns with low capex requirements.

During the half we have continued to focus our attention on growing our market and increasing revenue from non-traditional areas such as financial institutions & telco's. 51% of our new business is now coming from these non-retail customers, and 80% of that is coming via our expanding relationships with advertising agencies.

This continuing shift to non-traditional areas means that our customer base is broadening. Our top 20 customers now provide 48 per cent of revenue, compared with 55 per cent at 30 June.

Our targeting tools remain one of the key drivers of value for our customers and we continue to focus our attention on this area.

A new product, MarketDisk, was launched during the half. It assists agencies to understand more about what we do and makes our services, particularly our targeting tools, more accessible to them.

We will continue to work with both creative and media advertising agencies to help them to understand the value of our offering in an increasingly fragmented mass media market.

The shift towards direct media is continuing as customers demand more value for their marketing dollars.

**Slide 11 BUSINESS PROCESS OUTSOURCING FOCUS**

In the BPO Australia business, we are the market leader. The key to this is our financial services leadership position, our data management capabilities, quality focus, and data security.

During the half we were also successful in renewing the contract to process GE's statements. As part of the tender process the contract was extended to include all statement processing work for GE.

We currently have some significant tender opportunities across the Asia Pacific region including a tender from a global credit and charge card provider for the provision of statement processing work and a tender from ATOS Origin for statement processing in Hong Kong. We have and will continue to focus the necessary resources on these opportunities.

As we said we would, we've started a refresh of our laser printing and mail inserting platforms, to provide additional capacity to support volume growth, and to take advantage of the benefits of newer high speed technology.

In the coming months we will continue to focus on broadening and deepening our current product offerings to improve and grow our customers' businesses.

We expect that organic growth in the Australian market will continue. However margin improvements will remain slow as the market recovers and stabilises.

In Asia, we expect a similar profile of gradual improvement with Hong Kong particularly focused on bedding down new contract wins.

I'll now hand over to Peter who will take you through our strategy and focus areas for call centres for the balance of the financial year.

**Peter Mattick**

Thanks Phil

**Slide 12 SALESFORCE ACQUISITION**

Most of you will be aware of our recent acquisition of leading Australian and New Zealand call centre operator, SalesForce.

We completed the transaction on 21 January and are now in a business review phase. Once this is completed we will be able to tell you more about our expectations from this business and, in particular, more about the integration process and benefits.

This new operation has strengthened our existing call center business and takes our total number of call center seats to in excess of 2,300. More importantly, it takes us to a market leadership position in this industry. One of our key strategic goals is to attain and maintain a market leadership position in each of our businesses and this is a significant step forward.

SalesForce brings with it an excellent and deeper blue chip customer base, including Foxtel, Medibank Private, Flybuys, Transurban and Jetstar.

The wider customer base of the combined businesses provides Salmat with significant opportunities for ongoing organic growth. Customers of both businesses are now offered a wider range of products and services and the improved scale makes us the leading force in one of the fastest growing service sectors in the Asia Pacific region.

The SalesForce business has demonstrated excellent growth since it started in 1992 with cumulative average sales growth over the last three years of around 11%.

This acquisition is the most significant in the 25 year history of Salmat. It accelerates our growth and positions us as the market leader in this industry.

**Slide 13 – CALL CENTRES FOCUS**

Clearly the integration of SalesForce will be our primary focus for the year.

We remain confident that the level of outsourcing in Australia will increase from its current low levels.

An important win for us in the half was the 2006 Census tender. This government work is mainly inbound and includes provision of data management capabilities for the Census project. Whilst there will be some small project management work in the second half of this year, the main part of the work will not occur until FY07. This win has demonstrated that our technology and data capabilities are being recognised in the market.

Our focus is to influence decision makers (CFO's and CEO's) of the financial and operational benefits of outsourcing, targeting industries such as government, financial institutions and utilities. And we expect our level of inbound work to increase from our current 67% towards our 75% - 80% inbound mix target as outsourcing becomes more sophisticated.

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 products for our customers.

In the Philippines, we will continue to work with our JV partner to achieve the growth and efficiencies to enable the business to begin to return cash to us.

And we will focus on promoting the benefits of "right shoring" to encourage Australian businesses to take an appropriate component of their work to the Philippines.

**Slide 14 GROUP OUTLOOK**

In summary, we've had a busy six months.

- We've delivered sales growth of 8.3%, profit growth of 35.2% and an increased dividend of 6.5 cents;
- We've made the most important acquisition in the 25 year history of Salmat with the purchase of SalesForce to become the largest Australian owned call center operator in Australia and New Zealand;
- We've seen solid growth continue in our Targeted Media division;
- We've maintained the strong turnaround in the profitability of our call center business with the benefits of scale clearly demonstrated; and
- Our three businesses are positioned as the market leaders in their respective markets.

Our major focus during the next half will be bedding down new wins within BPO and integrating the SalesForce acquisition.

Subject to the normal caveats, we are confident of another strong full year result. We expect our rate of revenue growth for the full year to remain at close to first half levels, excluding the impact of SalesForce.

In terms of full year outlook, given the strong first half result we now anticipate full year net profit growth of 27% - 32%, higher than the previous guidance of 20% - 25% provided at last year's AGM. This excludes any impact from the SalesForce acquisition.

As mentioned earlier, we will provide an update on our expectations from this business once we have completed our business review, however we reiterate our previous guidance that the acquisition will be EPS accretive in the first year of operations.

In closing, we have plenty of opportunities for growing all of our businesses in the year ahead.

We'll now open the call to questions.

**Disclaimer**

Company announcements 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.