SALMAT

23 August 2006

ASX Online
Australian Stock Exchange
20 Bridge St
Sydney NSW 2000

Release by eLodge

**Salmat Limited Results**

In accordance with listing rule 4.3A, please find attached Salmat Limited's preliminary final report for the year ending 30 June 2006, including:

- Appendix 4E - Preliminary annual financial report
- Media Release

Yours faithfully
Salmat Limited

Stephen Bardwell
Company Secretary

**Salmat Limited**
**ABN 11 002 724 638**
**Appendix 4E**

# Preliminary Annual Financial Report
# For the year ended 30 June 2006
# Results for announcement to the market

| | | Percentage change from 30 June 2005 | | |
|---|---|---|---|---|
| **Revenues from ordinary activities** | **up** | **29.3%** | **to** | **$526.8m** |
| **Profit from ordinary activities after tax attributable to members** | **down** | **16.1%** | **to** | **$26.2m** |
| **Net profit for the year attributable to members** | **down** | **16.1%** | **to** | **$26.2m** |

| **Dividends (distributions)** | **Amount per Security** | **Franked amount per Security** |
|---|---|---|
| **Final Dividend (fully franked)** | **9.5c** | **9.5c** |
| Interim Dividend (fully franked) | 7.0c | 7.0c |
| Prior Year - Final Dividend | 9.0c | 9.0c |
| Record date for determining entitlement to dividends | | 12 September 06 |
| Dividend payment date | | 3 October 06 |

## Explanation of results

Refer to the attached ASX announcement for commentary on the results.

This report gives a true and fair view of the matters disclosed and is based upon accounts, which are in the process of being audited.

The information contained in this report is to be read in conjunction with the 2006 annual report and any announcements made to the market by Salmat Limited during the year.

# Salmat Limited

ABN 11 002 724 638

# ASX Preliminary final report for the year ended 30 June 2006

**Contents**


| | |
|---|---|
| ASX Announcement | 1 |
| Income Statement | 5 |
| Balance Sheet | 6 |
| Statement of Recognised Income and Expense | 7 |
| Cash flow statement | 8 |
| Notes to the financial statements | 9 |

SALMAT

**SALMAT LIMITED**
A.B.N. 11 002 724 628
State of Incorporation/Registration:
NSW

**ASX/media release** **23 August 2006**

# Salmat's Strong Revenue Growth sets Base for Future Dividends up 6%

Salmat Limited (ASX: SLM), Australia's leading customer communication group, today announced a net profit after tax of $26.2 million for the year to 30 June 2006, a decrease of 16.1 per cent over FY2005 ($31.2 million). This outcome includes a similar second half result to that of the opening six months, which is $1 million ahead of the company's most recent earnings guidance provided in May. Revenue increased by 29.3 per cent to $526.8 million (2005: $407.5 million), reflecting both organic growth and full year contributions from recent acquisitions.

The directors have declared a final dividend of 9.5 cents per share fully franked, up by 5.6 per cent from 2005 (9.0 cents), payable to shareholders on 3 October. This will bring total dividends for the year to 16.5 cents fully franked (2005: 15.5 cents) up 6.5%, reflecting the Board's confidence with the strategic positioning of the Group and its prospects.

| Results summary for year to | 30 June 2006 $million | 30 June 2005 $million | % increase/ (decrease) |
|---|---|---|---|
| Sales revenue | 526.8 | 407.5 | 29.3 |
| EBITA (Earnings before interest, tax and amortisation) | 44.4 | 43.9 | 1.1 |
| EBIT (Earnings before interest and tax) | 43.0 | 43.2 | 0.0 |
| Profit after tax | 26.2 | 31.2 | (16.1) |
| Earnings per share (cents) | 22.4 | 26.9 | (16.7) |
| Final dividend per share (cents) – fully franked | 9.5 | 9.0 | 5.6 |
| Total dividends per share for the year (cents) – fully franked | 16.5 | 15.5 | 6.5 |

Salmat's Joint Managing Directors Peter Mattick and Phil Salter said: 'This was always going to be a difficult year for Salmat, as we contended with some competitive market conditions, particularly in our Business Process Outsourcing division, and incurred necessary costs as we implemented new technology, integrated recent acquisitions and restructured our operations to improve overall efficiency. Our underlying EBITA growth of 10% was solid and we finished the year with a better than expected second half.'

'Solid revenue growth was achieved in all divisions. Our Contact Centres business, bolstered by a full year's contribution from the SalesForce acquisition, performed particularly well, and we are looking to strengthen further our technological edge here through the recently-announced bid for VeCommerce.'

'We are confident that we have a complementary business mix that houses considerable long term growth potential, and that the restructuring and reinvestment steps we are taking are those that are necessary to capture that potential.'

An update on the current financial year's trading outlook will be given at the company's Annual General Meeting in November.

**Operational review**

### Targeted Media

| Results for year to | 30 June 2006 $ million | 30 June 2005 $ million | % increase |
|---|---|---|---|
| Revenue | 180.0 | 169.0 | 6.5 |
| EBITA before significant items | 38.5 | 35.8 | 7.5 |

Targeted Media produced a good result, with catalogue volume growth of 4.7 per cent translating into a 6.5 per cent increase in revenue. Although the advertising market has been relatively soft, this division has benefited from the ongoing shift towards direct media, where its data analytics and targeting tools are having continued success in attracting non-traditional users of catalogues.

An ongoing focus on cost control meant that despite fuel increases the EBITA margin was slightly higher than that of the prior year. Print industry capacity constraints have been relieved by substantial new investment.

The industry outlook is competitive, overlayed with a continuing soft advertising market.

### Business Process Outsourcing

| Results for year to | 30 June 2006 $ million | 30 June 2005 $ million | % increase/ (decrease) |
|---|---|---|---|
| Revenue | 166.9 | 141.3 | 18.1 |
| EBITA before significant items | 7.8 | 13.5 | (42.0) |

Salmat's BPO division, the market leader in processing essential mail such as bank and credit card statements, increased its total sales revenue by 18.1 per cent, the majority of which was derived from the NSW digital print-on-demand business, which was acquired in April 2005.

A significant drop in BPO's EBITA contribution reflects the highly competitive market that it operates in. Whilst underlying volume growth remains sound, competitive pricing pressure has been such that a number of contract renewals have been reset at lower prices, placing corresponding pressure on margins. In addition, the division has borne a number of costs relating to new business and customer integration, the implementation of new technology and the move to new sites in both NSW and Hong Kong.

No significant improvement in trading conditions is expected in the short term, however pricing for new business appears to have stabilised. In the meantime, BPO is concentrating on redesigning its processes and investing in technology, to optimise efficiencies in the Australian business, and on moving the Asian operations into profitability.

## Contact Centres

| Results for year to | 30 June 2006 $ million | 30 June 2005 $ million | % increase |
|---|---|---|---|
| Revenue | 179.9 | 97.2 | 85.1 |
| EBITA before significant items | 10.5 | 3.5 | 200 |

Salmat's Contact Centres division has had an encouraging year. Strong organic growth was recorded, in addition to the effect of a full 12 months' contribution from SalesForce, compared to 6 months in FY2005.

Over the year, seat numbers increased by 14 per cent to 2,744 as a result of expansion of the Sydney, Melbourne and Auckland operations. In response to utilisation hitting 90 per cent, a new call centre has recently been built in Geelong, providing an additional 300 seats.

Contact Centres' result for FY2006 includes the first equity-accounted result from the ClientLogic joint venture in the Philippines, of $2.1 million at the EBITA level.

## Significant items (before tax)

The result for FY2006 includes significant items, which are not included in the segmental results outlined above. The total $1.6 million negative impact was made up of two components, being $2.1 million in integration and restructuring costs across the group, which are partly offset by the final reversal of the ClientLogic Philippines loan provision of $500,000. This compared to a positive impact from significant items last year of $2.1 million.

## Balance sheet and cash flow

Operating cash flow declined by 9.9 per cent to $28.1 million, reflecting the increase in interest paid on higher borrowings. Capital expenditure of $26.7 million was slightly above the company's target range of 4.0-4.5 per cent of revenue. The company expects to revert to its targeted capital expenditure range in FY2007.

At 30 June 2006, net debt was $67.9 million, representing a net debt to equity ratio of 63.6 per cent. Interest cover of over 13 times remains strong.

## VeCommerce Bid

On 27 July 2006, the company announced an off-market takeover offer for speech solutions provider VeCommerce Limited, valued at approximately $28.7 million. VeCommerce will further strengthen Contact Centres' technological capabilities and customer appeal. Salmat expects to lodge a bidder statement shortly.

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***Salmat** is Australia's leading customer communication group. We facilitate our customers' contact with their customers – through targeted catalogue distribution, mail-outs or telephone communication.*

*We have three businesses, all of which are market leaders:*

- *Targeted Media delivers advertising catalogues to homes throughout Australia and New Zealand. Detailed demographic analysis enables us to target the consumers most likely to buy particular products, helping our customers to maximise their sales.*

- *Business Process Outsourcing processes and mails bank and credit card statements, accounts and other customised, bulk mailings in Australia, Hong Kong, Taiwan and the Philippines. We receive customers' electronic data, process it using smart technology, and print and mail statements, providing significant cost savings.*
-
- *Contact Centres handles inbound and outbound telephone, fax, email and online communications on behalf of our customers, from facilities in Australia and the Philippines. Inbound services include technical support and customer care; while outbound services include telemarketing, direct sales and customer retention. We also facilitate business-to-business and business-to-consumer conversations through a range of sales support services.*
-
- *Over 27 years we have built a 4,000 plus strong team, experienced in contributing to our customers' growth through helping them to communicate effectively with their customers. This experience, together with our proprietary systems and technology and our strong customer relationships, secures Salmat's position as Australia's – and increasingly the region's – leader in customer communication services.*

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For more information about the Salmat Group, please visit Salmat's website at www.salmat.com.au.

*For further information, please contact:*


| | | |
|---|---|---|
| *Peter Mattick* | *Philip Salter* | *Ashley Fenton* |
| *Joint Managing Director* | *Joint Managing Director* | *Chief Financial Officer* |
| *+612 9928 6500* | *+612 9928 6500* | *+612 9928 6500* |

**Salmat Limited**
**Preliminary consolidated income statement**
**For the year ended 30 June 2006**

| | Notes | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | | **2006** | 2005 | **2006** | 2005 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **Revenue from continuing operations** | 3 | **527,458** | 408,578 | **50,816** | 39,872 |
| Employee benefits expense | | **(243,528)** | (168,545) | **(18,423)** | (18,866) |
| Depreciation and amortisation expense | 4 | **(17,552)** | (16,531) | **(1,394)** | (1,893) |
| Freight and Distribution | | **(100,576)** | (92,774) | **-** | - |
| Materials Usage | | **(46,759)** | (30,387) | **-** | - |
| Property related expenses | | **(20,277)** | (14,134) | **(1,639)** | (1,443) |
| Equipment related expenses | | **(24,012)** | (21,757) | **(4,361)** | (4,431) |
| Loan provision write-back | | **543** | 5,402 | **-** | 4,275 |
| Other expenses from ordinary activities | | **(33,685)** | (25,589) | **(3,946)** | (5,099) |
| Finance costs | 4 | **(5,179)** | (1,568) | **(4,631)** | (1,728) |
| Share of net profits of associates and joint venture partnership accounted for using the equity method | | **2,088** | - | **-** | - |
| **Profit before income tax** | | **38,521** | 42,695 | **16,422** | 10,687 |
| Income tax expense | 5 | **(12,300)** | (11,435) | **5,125** | 4,829 |
| **Profit attributable to members of Salmat Limited** | | **26,221** | 31,260 | **21,547** | 15,516 |

| | | **Cents** | Cents |
|---|---|---|---|
| **Earnings per share for profit attributable to the ordinary equity holders of the company:** | | | |
| Basic earnings per share | 15 | **22.4** | 26.9 |
| Diluted earnings per share | 15 | **21.7** | 26.1 |

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

**Salmat Limited**
**Preliminary consolidated balance sheet**
**As at 30 June 2006**

| | Notes | Consolidated 2006 $'000 | Consolidated 2005 $'000 | Parent 2006 $'000 | Parent 2005 $'000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash and cash equivalents | | **1,462** | 13,952 | **927** | 12,912 |
| Trade and other receivables | | **89,022** | 63,029 | **6,079** | - |
| Inventories | | **3,335** | 5,759 | **-** | - |
| Other current assets | | **3,562** | 3,694 | **2,000** | 1,732 |
| Total current assets | | **97,381** | 86,434 | **9,006** | 14,644 |
| **Non-current assets** | | | | | |
| Receivables | | **639** | 9,470 | **61,439** | 70,660 |
| Property, plant and equipment | | **53,905** | 40,860 | **7,791** | 1,279 |
| Intangible assets | | **84,198** | 84,500 | **918** | 895 |
| Deferred tax assets | | **8,728** | 9,346 | **4,151** | 3,419 |
| Other financial assets | | **-** | 9 | **34,233** | 34,233 |
| Investments accounted for using the equity method | 7 | **2,089** | - | **-** | - |
| Total non-current assets | | **149,559** | 144,185 | **108,532** | 110,486 |
| **Total assets** | | **246,940** | 230,619 | **117,538** | 125,130 |
| **Current liabilities** | | | | | |
| Trade and other payables | | **46,478** | 40,848 | **11,371** | 26,500 |
| Provisions | | **12,794** | 11,716 | **1,987** | 2,148 |
| Current tax liabilities | | **4,424** | 3,835 | **4,326** | 1,298 |
| Total current liabilities | | **63,696** | 56,399 | **17,684** | 29,946 |
| **Non-current liabilities** | | | | | |
| Payables | | **1,095** | 4,452 | **-** | - |
| Interest bearing liabilities | | **69,378** | 66,533 | **64,000** | 64,000 |
| Provisions | | **5,343** | 4,481 | **404** | 252 |
| Retirement benefit obligations | | **671** | 1,179 | **-** | - |
| Deferred tax liabilities | | **25** | 573 | **-** | - |
| Total non-current liabilities | | **76,512** | 77,218 | **64,404** | 64,252 |
| **Total liabilities** | | **140,208** | 133,617 | **82,088** | 94,198 |
| **Net assets** | | **106,732** | 97,002 | **35,450** | 30,932 |
| **Equity** | | | | | |
| Contributed equity | 8 | **32,770** | 31,459 | **32,770** | 31,459 |
| Reserves | | **1,123** | 749 | **1,069** | 252 |
| Retained profits | | **72,839** | 64,794 | **1,611** | (779) |
| **Total equity** | | **106,732** | 97,002 | **35,450** | 30,932 |

*The above preliminary consolidated balance sheet should be read in conjunction with the accompanying notes.*

**Salmat Limited**
**Preliminary consolidated statement of recognised income and expense**
**For the year ended 30 June 2006**

| | Notes | Consolidated 2006 $'000 | Consolidated 2005 $'000 | Parent 2006 $'000 | Parent 2005 $'000 |
|---|---|---|---|---|---|
| Defined benefit plan | | **524** | (201) | **-** | - |
| Employee shares and option expense | | **692** | 325 | **346** | 159 |
| Exchange differences on translation of foreign operations | | **(319)** | 173 | **469** | (7) |
| **Net income recognised directly in equity** | | **897** | 297 | **815** | 152 |
| Profit for the year | | **26,221** | 31,260 | **21,547** | 15,516 |
| **Total recognised income and expense for the year attributable to equity holders of the parent entity** | | **27,118** | 31,557 | **22,362** | 15,668 |

The above preliminary consolidated statement of recognised income and expense should be read in conjunction with the accompanying notes.

**Salmat Limited**
**Preliminary consolidated cash flow statement**
**For the year ended 30 June 2006**

| | Notes | Consolidated | | Parent | |
|---|---|---|---|---|---|
| | | **2006** | 2005 | **2006** | 2005 |
| | | **$'000** | $'000 | **$'000** | $'000 |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers (inclusive of goods and services tax) * | | **679,303** | 538,686 | **628,326** | 454,550 |
| Payments to suppliers and employees (inclusive of goods and services tax) * | | **(632,543)** | (490,659) | **(583,246)** | (407,935) |
| Interest received | | **662** | 1,087 | **425** | 1,043 |
| Interest paid | | **(6,021)** | (679) | **(5,826)** | (660) |
| Income taxes paid | | **(13,319)** | (17,245) | **(12,283)** | (16,034) |
| **Net cash inflow from operating activities** | | **28,082** | 31,190 | **27,396** | 30,964 |
| **Cash flows from investing activities** | | | | | |
| Payments for property, plant and equipment | | **(26,808)** | (16,273) | **(20,697)** | (14,775) |
| Proceeds from sale of plant and equipment | | **124** | 307 | **82** | 76 |
| Acquisition of businesses | | **(4,492)** | (64,946) | **(4,492)** | (64,946) |
| Repayments from (loans to) related parties | | **4,912** | (1,936) | **3,048** | (1,538) |
| Dividends received from related parties | | **-** | - | **-** | 919 |
| **Net cash outflow from investing activities** | | **(26,264)** | (82,848) | **(22,059)** | (80,264) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issues of shares and other equity securities | | **1,378** | 934 | **1,378** | 934 |
| Float costs | | **-** | 32 | **-** | 32 |
| Proceeds from borrowings | | **2,845** | 64,464 | **-** | 64,000 |
| Dividends paid to company's shareholders | 9 | **(18,700)** | (15,704) | **(18,700)** | (15,704) |
| **Net cash inflow (outflow) from financing activities** | | **(14,477)** | 49,726 | **(17,322)** | 49,262 |
| **Net decrease in cash and cash equivalents** | | **(12,659)** | (1,932) | **(11,985)** | (38) |
| Cash and cash equivalents at the beginning of the financial year | | **13,952** | 16,229 | **12,912** | 12,950 |
| Effects of exchange rate changes on cash and cash equivalents | | **169** | (345) | **-** | - |
| **Cash and cash equivalents at end of year** | | **1,462** | 13,952 | **927** | 12,912 |

** Includes receipts and payments relating to postage disbursements.*

*The above cash flow statements should be read in conjunction with the accompanying notes.*

## 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Salmat Limited as an individual entity and the consolidated entity consisting of Salmat Limited and its subsidiaries.

### (a) Basis of preparation

This report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) and other mandatory professional reporting requirements for the purpose of fulfilling the Group's obligation under the Australian Stock Exchange (ASX) listing rules.

The accounting policies adopted have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to AIFRS. However, AASB132; Financial Instruments: Disclosure and Pres entation and AASB139; Financial Instruments: Recognition and Measurement have been applied from 1 July 2005, as the Group has elected not to restate comparative information for these standards, as permitted in AASB1.

The financial report has been prepared on a historical costs basis, except for the carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

A full description of the accounting policies adopted by the Group may be found in the consolidated entity's full financial report.

*Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*
Financial statements of Salmat Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Salmat Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjus tments. The Salmat Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Salmat Group's equity and its net income are given in note 16.

Significant accounting policies impacted by AIFRS are detailed below.

### (b) Trade receivables

The Group has elected to apply the option available under AASB1 of adopting AASB132 and AASB139 from 1 July 2005. Outlined below are the relevant accounting policies for trade receivables applicable for the years ending 30 June 2006 and 30 June 2005.

**Accounting policies applicable for the year ending 30 June 2006**

Trade receivables are non-interest bearing, generally have 7-45 day terms and are recognised and carried at original invoice 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.

**Accounting policies applicable for the year ending 30 June 2005**

Trade receivables were recognised and carried at original invoice amount less provision for any uncollectable debts. An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

## 1 Summary of significant accounting policies (continued)

### (c) Investments and other financial assets

The Group has elected to apply the option available under AASB1 of adopting AASB132 and AASB139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

*Related parties*

**Accounting policies applicable for the year ending 30 June 2006**

Non-current investments are measured using the 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.

**Accounting policies applicable for the year ending 30 June 2005**

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

### (d) Trade and other payables

The Group has elected to apply the option available under AASB1 of adopting AASB132 and AASB139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ending 30 June 2006 and 30 June 2005.

**Accounting policies applicable for the year ending 30 June 2006**

Trade payables and other payables are carried at amortised costs 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.

**Accounting policies applicable for the year ending 30 June 2005**

Trade payables and other payables are carried at costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

### (e) Financial instrument transaction costs

The Salmat Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Salmat Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Salmat Group was immaterial.

### (f) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Prior year comparatives for certain items of expenses relating to Freight and Distribution, Materials Usage and Equipment have been reclassified between categories, as the Directors believe that these are a more appropriate basis for expense classification.

## 2 Segment information

### (a) Description of segments

**Business segments**
The economic entity delivers communications solutions to its customers through the following three businesses:

Targeted Media delivers advertising catalogues to homes throughout Australia and New Zealand. Detailed demographic analysis enables us to target the consumers most likely to buy particular products, helping our customers to maximise their sales.

Business Process Outsourcing processes and mails bank and credit card statements, accounts and other customised, bulk mailings in Australia, Hong Kong, Taiwan and the Philippines. We receive customers' electronic data, process it using smart technology, and print and mail statements, providing significant cost savings.

Contact Centres handles inbound and outbound telephone, fax, email and other online communications on behalf of our customers, from facilities in Australia, New Zealand and the Philippines. Inbound services include technical support and customer care; while outbound services include telemarketing, direct sales and customer retention. We also facilitate business-to-business and business-to-consumer conversations through a range of sales support services.

*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.

Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable, employee entitlements, accrued expenses and provisions. Segment assets and liabilities do not include deferred income taxes.

*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 economic entity at an arms length. These transfers are eliminated on consolidation.

## 2 Segment information (continued)

### (b) Primary reporting format - business segments

| 2006 | BPO $'000 | Targeted Media $'000 | Contact Centres $'000 | Corporate $'000 | Inter-segment eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|
| Sales to external customers | 166,943 | 179,956 | 179,897 | - | - | 526,796 |
| Other Segments | 1,029 | - | - | - | (1,029) | - |
| Total sales revenue | 167,972 | 179,956 | 179,897 | - | (1,029) | 526,796 |
| Other revenue/income | - | - | - | 662 | - | 662 |
| Total segment revenue/income | 167,972 | 179,956 | 179,897 | 662 | (1,029) | 527,458 |
| EBITA before significant items and equity accounted profits | 7,820 | 38,476 | 8,421 | (10,832) | - | 43,885 |
| Significant items | (1,273) | (410) | (112) | 210 | - | (1,585) |
| Equity accounted profits | - | - | 2,088 | - | - | 2,088 |
| EBITA segment result | 6,547 | 38,066 | 10,397 | (10,622) | - | 44,388 |
| Amortisation expense | | | | | | (1,350) |
| Net interest expense | | | | | | (4,517) |
| Profit before income tax | | | | | | 38,521 |
| Income tax expense | | | | | | (12,300) |
| Profit for the year | | | | | | 26,221 |
| Segment assets | 96,150 | 42,340 | 13,247 | 86,017 | - | 237,754 |
| Unallocated assets | | | | | | 9,186 |
| Total assets | | | | | | 246,940 |
| Segment liabilities | 27,350 | 8,311 | 21,673 | 9,047 | - | 66,381 |
| Unallocated liabilities | | | | | | 73,827 |
| Total liabilities | | | | | | 140,208 |
| Acquisitions of plant and equipment | 13,041 | 707 | 8,464 | 7,191 | - | 29,403 |
| Depreciation of segment assets | 7,939 | 933 | 5,012 | 2,318 | - | 16,202 |
| Amortisation of segment assets | 34 | - | 1,316 | - | - | 1,350 |
| Other non-cash (revenue)/expenses | (9) | (28) | - | (2,881) | - | (2,918) |

## 2 Segment information (continued)

| **2005** | BPO $'000 | Targeted Media $'000 | Contact Centres $'000 | Corporate $'000 | Inter-segment eliminations $'000 | Consolidated $'000 |
|---|---|---|---|---|---|---|
| Sales to external customers | 141,272 | 169,010 | 97,209 | - | - | 407,491 |
| Intersegment sales | 1,015 | 423 | - | - | (1,438) | - |
| Total sales revenue | 142,287 | 169,433 | 97,209 | - | (1,438) | 407,491 |
| Other revenue | - | - | - | 1,087 | - | 1,087 |
| Total segment revenue/income | 142,287 | 169,433 | 97,209 | 1,087 | (1,438) | 408,578 |
| EBITA before significant items | 13,491 | 35,827 | 3,458 | (10,956) | - | 41,820 |
| Significant items | (695) | - | (295) | 3,094 | - | 2,104 |
| Equity accounted profits | - | - | - | - | - | - |
| EBITA segment result | 12,796 | 35,827 | 3,163 | (7,862) | - | 43,924 |
| Amortisation expense | | | | | | (748) |
| Net interest expense | | | | | | (481) |
| Profit before income tax | | | | | | 42,695 |
| Income tax expense | | | | | | (11,435) |
| Profit for the year | | | | | | 31,260 |
| Segment assets | 86,913 | 48,486 | 1,979 | 83,893 | - | 221,271 |
| Unallocated assets | | | | | | 9,348 |
| Total assets | | | | | | 230,619 |
| Segment liabilities | 24,987 | 7,522 | 14,433 | 15,731 | - | 62,673 |
| Unallocated liabilities | | | | | | 70,944 |
| Total liabilities | | | | | | 133,617 |
| Acquisitions of plant and equipment | 10,510 | 1,780 | 4,755 | 3,025 | - | 20,070 |
| Depreciation of segment assets | 6,786 | 1,092 | 2,825 | 4,955 | - | 15,658 |
| Amortisation of segment assets | 90 | - | 658 | - | - | 748 |
| Other non-cash (revenue)/expenses | (78) | (3) | - | (5,433) | - | (5,514) |

## 2 Segment information (continued)

### (c) Secondary reporting format - geographical segments

| | Segment revenues from sales to external customers | | Segment assets | | Acquisitions of plant and equipment | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Australia | **490,247** | 380,260 | **223,956** | 211,788 | **21,748** | 18,389 |
| New Zealand | **20,696** | 15,078 | **3,075** | 2,909 | **1,359** | 154 |
| Asia | **15,853** | 12,153 | **10,723** | 6,574 | **6,296** | 1,527 |
| | **526,796** | 407,491 | **237,754** | 221,271 | **29,403** | 20,070 |
| Unallocated assets | | | **9,186** | 9,348 | | |
| Total assets | | | **246,940** | 230,619 | | |

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

## 3 Revenue

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Services | **526,796** | 407,491 | **-** | - |
| Interest | **662** | 1,087 | **166** | 1,043 |
| Dividends | **-** | - | **33,200** | 21,567 |
| Management Fees | **-** | - | **17,450** | 17,262 |
| | **527,458** | 408,578 | **50,816** | 39,872 |

## 4 Expenses

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **Profit before income tax includes the following specific expenses:** | | | | |
| *Depreciation* | | | | |
| Buildings | **345** | 350 | **-** | - |
| Plant and equipment | **15,857** | 15,308 | **1,394** | 1,893 |
| Total depreciation | **16,202** | 15,658 | **1,394** | 1,893 |
| *Amortisation* | | | | |
| Customer intangible | **1,316** | 658 | **-** | - |
| Other intangible | **34** | 90 | **-** | - |
| Leases | **-** | 125 | **-** | - |
| Total amortisation | **1,350** | 873 | **-** | - |
| *Finance costs* | | | | |
| Interest and finance charges paid/payable | **5,179** | 1,568 | **4,631** | 1,728 |
| *Net (gain)/loss on disposal of plant and equipment* | **(21)** | (41) | **(5)** | - |
| *Rental expense relating to operating leases* | | | | |
| Minimum lease payments | **14,370** | 8,142 | **480** | 1,335 |
| *Foreign exchange (gains) and losses* | | | | |
| Net foreign exchange losses | **(266)** | (71) | **(240)** | (191) |
| *Defined contribution superannuation expense* | **412** | 204 | **-** | - |
| *Research and development* | **748** | 701 | **748** | 701 |

## 4 Expenses (continued)

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Significant items included in expenses* | | | | |
| Integration, restructure and redundancy costs | **2,128** | 990 | **333** | 260 |
| Reversal of loan provision | **(543)** | (5,402) | **-** | (4,275) |
| Write-off software assets | **-** | 2,308 | **-** | 2,308 |
| | **1,585** | (2,104) | **333** | (1,707) |

These significant expense items are relevant in explaining the financial performance:

*Integration, restructure and redundancy costs - Integration costs associated with the acquisition of businesses during the year, the closure of the plastics division in NSW and Victoria and redundancies in the 2nd half of 2005/06. Income tax expense of $0.6 million has been brought to account in the current year result relating to this item.*

*Reversal of loan provision - The group reversed provisions against its loans due from its Philippine call centre joint venture (ClientLogic Philippines). This reversal (net of the foreign exchange impact) favourably impacted the net profit by $0.5 million (2005: $5.4 million). As the original provision was treated as non-deductible for tax purposes, no tax benefit has been brought to account in the full year result relating to this item.*

*Write-off software assets - In the prior period, certain software assets were written down by $2.3 million.*

## 5 Income tax expense

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| **(a) Income tax expense** | | | | |
| Current tax | **12,300** | 11,435 | **(5,125)** | (4,829) |
| | **12,300** | 11,435 | **(5,125)** | (4,829) |
| **(b) Tax losses** | | | | |
| Unused tax losses for which no deferred tax asset has been recognised | **1,310** | 897 | **-** | - |

## 6 Net Tangible Asset Backing

| | Consolidated | |
|---|---|---|
| | **2006** | 2005 |
| | **Cents** | Cents |
| Net tangible asset backing per ordinary share | **19.2** | 10.7 |

## 7 Non-current assets - Investments accounted for using the equity method

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Shares in associates (note 13) | **2,089** | - | **-** | - |

## 8 Contributed equity

| | Parent | | Parent | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **Shares** | Shares | | |
| | **'000** | '000 | **$'000** | $'000 |
| **(a) Share capital** | | | | |
| Ordinary shares | | | | |
| Fully paid | **117,245** | 116,635 | **32,770** | 31,459 |

**(b) Movements in ordinary share capital:**

| Date | Details | Number of shares '000 | $'000 |
|---|---|---|---|
| 1 July 2004 | Opening balance | 116,158 | 30,478 |
| | Exercise of 2002 options | 452 | 949 |
| | Issued to Directors during the year | 25 | - |
| | Transaction costs relating to share issues | - | 32 |
| 30 June 2005 | Balance | 116,635 | 31,459 |
| | Exercise of 2002 options | 591 | 1,311 |
| | Issued to Directors during the year | 19 | - |
| 30 June 2006 | Balance | 117,245 | 32,770 |

## 9 Dividends

| | Consolidated and Parent 2006 $'000 | Consolidated and Parent 2005 $'000 |
|---|---|---|
| **(a) Ordinary shares** | | |
| A final fully franked dividend of 9.0 cents (2005: 7.0 cents) per share, franked at the tax rate of 30% was paid on 4 October 2005. | **10,498** | 8,131 |
| An interim dividend of 7.0 cents (2005: 6.5 cents) per ordinary share was paid for 2006 on 28 March 2006, franked at the tax rate of 30%. | **8,202** | 7,573 |
| Total dividends provided for or paid | **18,700** | 15,704 |
| Paid in cash | **18,700** | 15,704 |
| **(b) Dividends not recognised at year end** | | |
| In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 9.5 cents per fully paid ordinary share (2005: 9.0 cents). This dividend will be fully franked to 100% at 30% corporate tax rate. | **11,139** | 10,498 |

### (c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2006 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2006.

| | Consolidated 2006 $'000 | Consolidated 2005 $'000 | Parent 2006 $'000 | Parent 2005 $'000 |
|---|---|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2005 - 30%) | **57,286** | 57,470 | **57,286** | 57,470 |
| Franking credits that will arise from the payment of income tax payable as at the end of the financial year | **4,167** | 5,085 | **2,534** | 5,085 |
| | **61,453** | 62,555 | **59,820** | 62,555 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

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

## 10 Contingencies

*Legal Proceedings*
The Salmat Group has been involved from time to time in various claims and legal proceedings arising from the conduct of its business. The Company does not consider the outcome of any proceedings, either individually or in aggregate, are likely to have a material effect on its financial position. The Company maintains insurance cover to minimise the potential effects of such claims, and where appropriate, provisions have been made.

## 11 Commitments

### (a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

| | Consolidated | | Parent | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| *Property, plant and equipment* | | | | |
| Payable: | | | | |
| Within one year | **4,312** | 10,689 | **141** | 2,164 |
| | **4,312** | 10,689 | **141** | 2,164 |

The Salmat 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 | | Parent | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| Within one year | **12,901** | 12,979 | **3,296** | 1,624 |
| Later than one year but not later than five years | **37,990** | 26,900 | **13,247** | 3,637 |
| Later than five years | **33,939** | 28,505 | **31,798** | 8,580 |
| Commitments not recognised in the financial statements | **84,830** | 68,384 | **48,341** | 13,841 |

## 12 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries.

| Name of entity | Country of incorporation | Class of shares | Equity holding ** 2006 % | Equity holding ** 2005 % |
|---|---|---|---|---|
| Salmat Document Management Solutions Pty Limited * | Australia | Ordinary | **100** | 100 |
| Salmat Data Solutions Pty Limited * | Australia | Ordinary | **100** | 100 |
| Salmat Targeted Media Pty Limited * | Australia | Ordinary | **100** | 100 |
| Letterbox Distribution Services Pty Limited * | Australia | Ordinary | **100** | 100 |
| Salmat Teleservices Pty Limited * | Australia | Ordinary | **100** | 100 |
| SalesForce Australia Pty Ltd * | Australia | Ordinary | **100** | 100 |
| Pardrive Pty Limited | Australia | Ordinary | **100** | 100 |
| SalesForce Services Pty Ltd | Australia | Ordinary | **100** | 100 |
| Salmat International Pty Limited | Australia | Ordinary | **100** | 100 |
| Monteson Holdings Pty Limited | Australia | Ordinary | **100** | 100 |
| Deltarg Distribution Systems Limited | New Zealand | Ordinary | **100** | 100 |
| Salmat Asia Limited | Australia | Ordinary | **100** | 100 |
| Salmat Mauritius Limited | Mauritius | Ordinary | **100** | 100 |
| Salmat Asia Pacific Pte Limited | Singapore | Ordinary | **100** | 100 |
| Salmat Philippines Corporation | Philippines | Ordinary | **100** | 100 |
| Salmat (China) Limited | Hong Kong | Ordinary | **100** | 100 |
| SalesForce New Zealand Limited | New Zealand | Ordinary | **100** | 100 |

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

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

# 13 Investments in associates

### (a) Carrying amounts

Information relating to associates is set out below.

| Name of company | Principal activity | Ownership interest | | Consolidated | | Parent | |
|---|---|---|---|---|---|---|---|
| | | **2006 %** | 2005 % | **2006 $'000** | 2005 $'000 | **2006 $'000** | 2005 $'000 |
| *Unlisted* | | | | | | | |
| ClientLogic, Philippines | Contact Centres | **49** | 49 | **2,089** | - | **-** | - |
| | | | | **2,089** | - | **-** | - |

The reporting date of ClientLogic Philippines, Inc is 31 December.

There were no impairment losses relating to the investment in associate and no capital commitments or contingent liabilities relating to the associate.

# 14 Events occurring after the balance sheet date

### (a) Acquisition of VeCommerce Limited

On 27 July 2006, Salmat Limited announced its intention to make an off-market takeover offer for speech solutions provider VeCommerce Limited (VeCommerce).

Salmat will offer $2.30 cash per share, valuing VeCommerce at approximately $28.7 million (the “Offer”). The Offer will be subject to standard conditions including a 90% minimum acceptance condition.

The acquisition will be funded from Salmat’s existing facilities.

## 15 Earnings per share

| | Consolidated | |
|---|---|---|
| | **2006** | 2005 |
| | **Cents** | Cents |
| **(a) Basic earnings per share** | | |
| Profit from continuing operations attributable to the ordinary equity holders of the company | **22.4** | 26.9 |
| **(b) Diluted earnings per share** | | |
| Profit from continuing operations attributable to the ordinary equity holders of the company | **21.7** | 26.1 |

### (c) Reconciliations of earnings used in calculating earnings per share

| | Consolidated | |
|---|---|---|
| | **2006** | 2005 |
| | **$'000** | $'000 |
| *Basic earnings per share* | | |
| Profit from continuing operations | **26,221** | 31,260 |
| *Diluted earnings per share* | | |
| Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share | **26,221** | 31,260 |

### (d) Weighted average number of shares used as the denominator

| | Consolidated | |
|---|---|---|
| | **2006** | 2005 |
| | **Number '000** | Number '000 |
| *Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share* | **116,893** | 116,386 |
| Options | **4,037** | 3,520 |
| *Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share* | **120,930** | 119,906 |

### (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.

## 16 Explanation of transition to Australian equivalents to IFRSs

### (1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

For all reporting periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared its financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 1. In preparing these financial statements, the Group has started from an opening balance sheet at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB1, First-time adoption of AIFRS.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

*Exemptions applied*

AASB1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively. The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and Group have adopted AASB132 Financial Instruments: Disclosure and Presentation and AASB139 Financial Instruments: Recognition and Measurement from 1 July 2005.

- AASB3 Business Combinations, has not been applied to acquisitions of subsidiaries or of interest in associates that occurred before 1 July 2004.

- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 July 2004.

- AASB2 Share-based Payment, has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November that vested before 1 January 2005.

*Explanation of material adjustments to the cash flow statement*

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

## 16 Explanation of transition to Australian equivalents to IFRSs (continued)

### (a) At the date of transition to AIFRS: 1 July 2004

| | Consolidated | | | Parent | | |
|---|---|---|---|---|---|---|
| | Previous AGAAP $'000 | Effect of transition to AIFRS $'000 | AIFRS $'000 | Previous AGAAP $'000 | Effect of transition to AIFRS $'000 | AIFRS $'000 |
| **Current assets** | | | | | | |
| Cash and cash equivalents | 16,229 | - | 16,229 | 12,950 | - | 12,950 |
| Trade and other receivables | 38,558 | - | 38,558 | 1,689 | - | 1,689 |
| Inventories | 3,260 | - | 3,260 | - | - | - |
| Other current assets | 2,612 | - | 2,612 | 1,127 | - | 1,127 |
| **Total current assets** | 60,659 | - | 60,659 | 15,766 | - | 15,766 |
| **Non-current assets** | | | | | | |
| Trade and other receivables | 2,386 | - | 2,386 | 4,796 | - | 4,796 |
| Property, plant and equipment | 36,420 | 547 | 36,967 | 159 | - | 159 |
| Intangible assets | 26,521 | (1,254) | 25,267 | - | - | - |
| Deferred tax assets | 5,949 | 169 | 6,118 | 5,624 | 169 | 5,793 |
| Other financial assets | 10 | 1 | 11 | 34,233 | - | 34,233 |
| **Total non-current assets** | 71,286 | (537) | 70,749 | 44,812 | 169 | 44,981 |
| **Total assets** | 131,945 | (537) | 131,408 | 60,578 | 169 | 60,747 |
| **Current liabilities** | | | | | | |
| Trade and other payables | 32,164 | - | 32,164 | 11,482 | - | 11,482 |
| Provisions | 5,162 | - | 5,162 | 1,051 | - | 1,051 |
| Current tax liabilities | 4,263 | - | 4,263 | 4,051 | - | 4,051 |
| Other current liabilities | - | - | - | - | - | - |
| **Total current liabilities** | 41,589 | - | 41,589 | 16,584 | - | 16,584 |
| **Non-current liabilities** | | | | | | |
| Payables | 1,605 | (163) | 1,442 | 12,835 | - | 12,835 |
| Interest bearing liabilities | 2,072 | - | 2,072 | - | - | - |
| Provisions | 4,907 | 845 | 5,752 | 956 | - | 956 |
| Deferred tax liabilities | 385 | - | 385 | 385 | - | 385 |
| **Total non-current liabilities** | 8,969 | 682 | 9,651 | 14,176 | - | 14,176 |
| **Total liabilities** | 50,558 | 682 | 51,240 | 30,760 | - | 30,760 |
| **Net assets** | 81,387 | (1,219) | 80,168 | 29,818 | 169 | 29,987 |
| **Equity** | | | | | | |
| Contributed equity | 30,478 | - | 30,478 | 30,478 | - | 30,478 |
| Reserves | 2,456 | (2,205) | 251 | (21) | 121 | 100 |
| Retained earnings | 48,453 | 986 | 49,439 | (639) | 48 | (591) |
| **Total equity** | 81,387 | (1,219) | 80,168 | 29,818 | 169 | 29,987 |

## 16 Explanation of transition to Australian equivalents to IFRSs (continued)

### (b) At the end of the last reporting period under previous AGAAP: 30 June 2005

| | Consolidated | | | Parent | | |
|---|---|---|---|---|---|---|
| | Previous AGAAP $'000 | Effect of transition to AIFRS $'000 | AIFRS $'000 | Previous AGAAP $'000 | Effect of transition to AIFRS $'000 | AIFRS $'000 |
| **Current assets** | | | | | | |
| Cash and cash equivalents | 13,952 | - | 13,952 | 12,912 | - | 12,912 |
| Trade and other receivables | 63,029 | - | 63,029 | - | - | - |
| Inventories | 5,759 | - | 5,759 | - | - | - |
| Other current assets | 3,694 | - | 3,694 | 1,732 | - | 1,732 |
| **Total current assets** | 86,434 | - | 86,434 | 14,644 | - | 14,644 |
| **Non-current assets** | | | | | | |
| Receivables | 9,470 | - | 9,470 | 70,660 | - | 70,660 |
| Property, plant and equipment | 39,938 | 922 | 40,860 | 1,262 | 17 | 1,279 |
| Intangible assets | 80,215 | 4,285 | 84,500 | 895 | - | 895 |
| Deferred tax assets | 9,282 | 64 | 9,346 | 3,355 | 64 | 3,419 |
| Other financial assets | 9 | - | 9 | 34,233 | - | 34,233 |
| **Total non-current assets** | 138,914 | 5,271 | 144,185 | 110,405 | 81 | 110,486 |
| **Total assets** | 225,348 | 5,271 | 230,619 | 125,049 | 81 | 125,130 |
| **Current liabilities** | | | | | | |
| Trade and other payables | 40,847 | 1 | 40,848 | 26,500 | - | 26,500 |
| Provisions | 11,716 | - | 11,716 | 2,148 | - | 2,148 |
| Current tax liabilities | 3,835 | - | 3,835 | 1,298 | - | 1,298 |
| **Total current liabilities** | 56,398 | 1 | 56,399 | 29,946 | - | 29,946 |
| **Non-current liabilities** | | | | | | |
| Payables | 4,808 | (356) | 4,452 | - | - | - |
| Interest bearing liabilities | 66,533 | - | 66,533 | 64,000 | - | 64,000 |
| Provisions | 2,668 | 1,813 | 4,481 | 224 | 28 | 252 |
| Retirement benefit obligations | 425 | 754 | 1,179 | - | - | - |
| Deferred tax liabilities | 573 | - | 573 | - | - | - |
| **Total non-current liabilities** | 75,007 | 2,211 | 77,218 | 64,224 | 28 | 64,252 |
| **Total liabilities** | 131,405 | 2,212 | 133,617 | 94,170 | 28 | 94,198 |
| **Net assets** | 93,943 | 3,059 | 97,002 | 30,879 | 53 | 30,932 |
| **Equity** | | | | | | |
| Contributed equity | 31,459 | - | 31,459 | 31,459 | - | 31,459 |
| Reserves | 2,628 | (1,879) | 749 | (28) | 280 | 252 |
| Retained earnings | 59,856 | 4,938 | 64,794 | (552) | (227) | (779) |
| **Total equity** | 93,943 | 3,059 | 97,002 | 30,879 | 53 | 30,932 |

## 16 Explanation of transition to Australian equivalents to IFRSs (continued)

### (2) Reconciliation of profit for the year ended 30 June 2005

| | Consolidated | | | Parent | | |
|---|---|---|---|---|---|---|
| | Previous AGAAP $'000 | Effect of transition to AIFRS $'000 | AIFRS $'000 | Previous AGAAP $'000 | Effect of transition to AIFRS $'000 | AIFRS $'000 |
| **Revenue** | 408,885 | (307) | 408,578 | 39,872 | - | 39,872 |
| Employee benefits expense | (168,221) | (324) | (168,545) | (18,707) | (159) | (18,866) |
| Depreciation and amortisation expense | (21,284) | 4,753 | (16,531) | (1,893) | - | (1,893) |
| Freight and Distribution | (92,774) | - | (92,774) | - | - | - |
| Materials Usage | (30,387) | - | (30,387) | - | - | - |
| Property related expenses | (13,770) | (364) | (14,134) | (1,432) | (11) | (1,443) |
| Equipment related expenses | (21,757) | - | (21,757) | (4,431) | - | (4,431) |
| Loan provision write-back | 5,402 | - | 5,402 | 4,275 | - | 4,275 |
| Other expenses from ordinary activities | (25,896) | 307 | (25,589) | (5,099) | - | (5,099) |
| Finance costs - net | (1,761) | 193 | (1,568) | (1,728) | - | (1,728) |
| **Profit before income tax** | 38,437 | 4,258 | 42,695 | 10,857 | (170) | 10,687 |
| Income tax expense | (11,330) | (105) | (11,435) | 4,934 | (105) | 4,829 |
| **Profit attributable to members of Salmat Limited** | 27,107 | 4,153 | 31,260 | 15,791 | (275) | 15,516 |

### (3) Notes to the reconciliations

#### (a) Foreign currency translation reserve: cumulative translation differences

The Salmat Group elected to apply the exemption in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.* The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve were reset to zero at the date of transition to AIFRSs. The effect was:

*(i) At 1 July 2004*
The balance of the $1,662,000 debit in the foreign currency translation reserve of the Salmat Group was reduced to zero. Retained earnings was decreased by this amount. There was no effect on the parent entity.

*(ii) At 30 June 2005*
The balance of the foreign currency translation reserve of the Salmat Group was reduced by $1,662,000. Retained earnings decreased by this amount. There was no effect on the parent entity.

#### (b) Consolidations

In December 2004, the AASB followed its equivalent UIG international body (SIC) by adopting amendments to UIG Interpretation 112 "Consolidation-Special Purpose Entities". The effect of the scope amendments was to include equity compensation plans. The amendment required the company that has established employee benefit trusts for the purposes of a share-based payment plan to consolidate them

*(i) At 1 July 2004*
There was a reclassification of equity instruments, however, there was no impact on the Group's equity position.

*(ii) At 30 June 2005*
There was no impact on the income statement comparatives.

## 16 Explanation of transition to Australian equivalents to IFRSs (continued)

### (c) Revaluation Reserve

As a result of the use of fair value as deemed cost the amount in the revaluation reserve represented by these assets was transferred to retained earnings.

The effect of this on the Salmat Group was the same at both 1 July 2004 and 30 June 2005. At these dates, $4,117,000 was transferred from the revaluation reserve to retained earnings.

### (d) Business combinations

Historically, the acquisition of an entity was accounted for under the purchase method of accounting by the legal acquirer. Where consolidated accounts are prepared, the assets and liabilities purchased are initially recognised at their fair values in the consolidated accounts.

For all business combinations occurring prior to 1 July 2004, the company utilised the AIFRS first time adoption exemption under AASB1 to "grandfather" those past acquisitions rather than re-open purchase price allocations. No new intangibles were brought to account for those historical acquisitions.

Salmat assessed its impairment testing policy and tested all intangible assets for impairment as at transition and at 30 June 2005.

### (e) Income taxes

The Group previously adopted the liability method of tax-effect accounting whereby the income tax expense was based on the accounting profit adjusted for any permanent differences. Timing differences were brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB 112: Income Taxes, Salmat adopted a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

*(i) At 1 July 2004*
On transition to AIFRS, the adoption of AASB112 resulted in an increase in retained earnings of $169,000.

*(ii) At 30 June 2005*
The impact on the income statement was to record an increase in the tax charge of $105,000.

### (f) Impairment

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of net selling price (fair value less costs to sell) and value in use. In determining the recoverable amount, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the "cash generating unit' level. A "cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets.

The economic entity assessed its impairment testing policy and tested all intangible assets for impairment as at transition and at 30 June 2005.

*(i) At 1 July 2004*
Testing of goodwill indicated that Philippines goodwill was being carried in excess of its recoverable amount. Accordingly, a reduction in the goodwill carrying amount of $1,254,000 was charged to retained earnings.

*(ii) At 30 June 2005*
Goodwill amortised in 2004/05 of $5,411,000 was reversed resulting in a corresponding increase in profit in that period.

## 16 Explanation of transition to Australian equivalents to IFRSs (continued)

### (g) Retirement benefit obligations

Under AASB 119: Employee Benefits, employers are required to recognise the net surplus or deficit in their defined benefit superannuation plans as assets or liabilities based on the difference between the accrued benefits and the net market value of plan assets. This resulted in a change in the economic entity's accounting policy, which did not record an asset relating to any net surplus and a liability was only recognised as a net deficit where a present legal obligation existed. The economic entity has elected to recognise actuarial gains and losses immediately in retained earnings.

Subsequent to the acquisition of the Government Printing Service in April 2005, the funding deficit of the employees Defined Benefit Superannuation Plan was confirmed.

*(i) At 1 July 2004*
For the Salmat Group and the parent entity, there was no change in retirement benefit obligations or retained earnings.

*(ii) At 30 June 2005*
For the Salmat Group, retirement benefit obligations increased by $754,000 and intangibles increased by $553,000. The corresponding adjustment of $201,000 was recognised in retained earnings. There was no effect on the parent entity.

### (h) Share-based payments

Under AASB 2 *Share-based Payment* from 1 July 2004 the Salmat Group was required to recognise an expense for those shares and options that were issued to employees under the Group Share and Option Plans after 7 November 2002 but that had not vested by 1 January 2005. The effect of this was:

*(i) At 1 July 2004*
For the Salmat Group there was a decrease in retained earnings of $250,000 and a corresponding increase in reserves. The effect was the same for the parent entity.

*(ii) At 30 June 2005*
For the Salmat Group there was a decrease in retained earnings of $324,000 and a corresponding increase in reserves. The effect on the parent entity was a decrease in retained earnings of $159,000.

### (i) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

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. Under AIFRS, Salmat is required to record a provision if it can be reliably estimated and measured. The assets recognised in the balance sheet are amortised over the initial estimated life of the lease.

Deferred acquisition costs recognised in the balance sheet as a "non-current creditor" at face value are required to be discounted.

*(i) At 1 July 2004*
Upon transition to AIFRS, a lease "make-good" provision was recognised in the balance sheet for $2,155,000. A charge to retained earnings was made of $293,000 (being prior amortisation), with the balance of $1,862,000 being recorded as a fixed asset.

The provision for deferred acquisition costs was discounted by $163,000 compared to AGAAP to current values with a corresponding credit to retained earnings.

*(ii) For the year ended 30 June 2005*
Following the acquisition of the SalesForce Group in January 2005, additional lease "make-good" provisions and corresponding fixed assets were recorded in the balance sheet of $484,000. The amortisation charge associated with total "make-good" provisions for 2004/05 was $364,000.

The discount of deferred acquisition costs was $193,000 and was recognised as a credit to the profit.

## 16 Explanation of transition to Australian equivalents to IFRSs (continued)

### (j) Amortisation of intangibles

This Standard defines an intangible asset as an identifiable non-monetary asset without physical substance. Salmat identified one intangible asset at transition date, relating to a business acquisition in March 2003. This represented the amortised deferred purchase price of the business.

Following the acquisition of the SalesForce Group in January 2005, an intangible asset was recognised for $3,949,000 representing the future value of specific customers under contract at the time of acquisition. This is amortised to the income statement over a period of three years, being the estimate of discounted cashflows contracted from those customers.

Intangible assets with indefinite lives must be tested for impairment annually regardless of whether impairment indicators are present and more frequently where indicators are present.

The economic entity assessed its impairment testing policy and tested all intangible assets for impairment as at transition and at 30 June 2005.

Under AIFRS, intangible assets with indeterminate useful lives are no longer amortised, but are subject to an ongoing impairment assessment, with carrying values adjusted accordingly.

*(i) At 1 July 2004*
There was no effect on the Salmat Group or the parent entity.

*(ii) At 30 June 2005*
An amortisation charge of $658,000 was recognised in the income statement in respect of SalesForce "customers under contract".