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SALMAT LIMITED
ANNUAL REPORT 2017

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CORPORATE GOVERNANCE REPORT

30 JUNE 2017

RESPONSIBILITIES AND FUNCTIONS OF THE BOARD

Salmat Limited is committed to achieving and demonstrating high standards of corporate governance. Salmat's framework is structured to facilitate compliance to the extent possible with the best practice principles and recommendations released by the ASX Corporate Governance Council released on 27 March 2014.

A Corporate Governance Statement outlining compliance with these best practice principles is included on Salmat's website.

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

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

The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

The composition of the Board is subject to shareholder approval. As the Chairman is not independent due to his shareholding in the Company, the Board has resolved to appoint one of its members – John Thorn – as Lead Independent Director.

The Board will be independent of management and all Directors are required to bring independent judgement to bear in their Board decision-making.

Peter Mattick, the Chairman of the Company since 1st July 2013, is a former joint Managing Director and founder of Salmat. The Board currently consists of six members, of which five, being a majority, are independent Non-executive Directors.

During the year Ian Elliot – a Director of the Company since 2005 – retired from the Board. Bart Vogel was appointed as a Director of the Company on 29th May 2017 and Stuart Nash joined the Board on 1st August 2017, subsequent to the end of the financial year.

The Board undertakes a biennial performance review. The review considers the contribution made by individual Directors and the Board as a whole to the performance of the Company and seeks to identify areas for improvement. The Board considers that an appropriate mix of skills required is in evidence – including the newly appointed Directors – to maximise its effectiveness and contribution to the Company.

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

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

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

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

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

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

Details on the members of the Board, their experience, expertise, qualifications, term of office and independence status are set out in the Directors' report on pages 10 and 11.

CORPORATE GOVERNANCE REPORT CONTINUED

BOARD SKILLS AND EXPERIENCE

The Board has a diversity of skills and experience that is aligned with the strategy of the Company, providing effective corporate governance and oversight. The skills matrix below shows the expertise, experience, diversity and spread of tenure of the current Board.

Skills and Qualifications	Gender	Roles	Industries and Markets	Geographic Experience	Spread of Tenure
Mergers and Acquisitions Enterprise Technology Accounting Sales and Marketing Strategy Digital start-ups Business Advisory Risk Management	Female: 17% (1) Male: 83% (5)	General Management CEO Head of Region Head of Information Technology	Telecommunications Banking and Finance Retail and logistics Property FMCG Manufacturing Media Insurance Aviation and Transport Professional Services and Consulting Information Technology Customer Communications Outsourcing	Australia New Zealand Asia	<1 year: 2 >3 to <4 years: 1 >7 to <8 years: 1 >10 years: 2

BOARD AND COMMITTEE MEMBERSHIP OF DIRECTORS

			Committee member		
Board member		Appointed Director	Audit, Risk and Compliance Committee	People Performance Committee	Technology and Innovation Committee
Peter Mattick	Chairman, Non-executive Director	14/3/1984			•
John Thorn	Lead Independent Non-executive Director	1/9/2003	•	•	
Fiona Balfour	Independent Non-executive Director	1/1/2010	•	•	•
Mark Webster	Independent Non-executive Director	13/12/2013			•
Bart Vogel	Independent Non-executive Director	29/5/2017	•	•	•
Stuart Nash	Independent Non-executive Director	1/8/2017	•	•	•

John Thorn will retire at the 2017 Annual General Meeting. Mr Thorn has served on the Board of the Company with distinction as Chairman of the Audit Risk and Compliance Committee and as Lead Independent Director since Mr Mattick's appointment as Chairman of the Company.

Bart Vogel and Stuart Nash, having been appointed since the last meeting, will both retire and offer themselves for re-election.

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

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

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

INDEPENDENCE OF BOARD MEMBERS

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

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

ACCESS TO INDEPENDENT PROFESSIONAL ADVICE

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

CODE OF ETHICS

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

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

- To act honestly, fairly and without prejudice with clients in all commercial dealings and to conduct business with professional courtesy and integrity.
- To act in the interests of the Company, its shareholders and the financial community generally. The Company is committed to safeguarding the integrity of financial reporting and as such will prepare and maintain its accounts fairly and accurately in accordance with the accounting and financial reporting standards.
- To promote a safe, healthy and efficient work environment.
- To comply with all laws, regulations and any applicable awards in all jurisdictions in which the Company operates or sources goods or services.
- Not to knowingly make any misleading statements to any person or to be a party to any improper practice in relation to dealings with or by the Company.
- To ensure that the Company's resources and property are used properly.
- Not to disclose information or documents relating to the Company or its business, other than as required by law, not to make any improper public comment on the Company's affairs and not to misuse any information about the Company or its associates.
- Not to solicit, accept or offer money, gifts, favours, inducements, commissions, facilitation payments or business courtesies that may influence or appear to influence the ability to make an unbiased and objective decision.
- To ensure there is a clear communication process for material items of concern between employees and the Board.

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

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

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

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

AUDIT, RISK AND COMPLIANCE COMMITTEE

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

The ARCC met four times during the 2016/17 year.

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

The ARCC's role includes:

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

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

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

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

CORPORATE GOVERNANCE REPORT CONTINUED

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

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

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

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

PEOPLE PERFORMANCE COMMITTEE

The People Performance Committee is a Committee of the Board. The Committee charter adopted by the Board is displayed on the Salmat Limited website: www. salmat.com.au. The charter was reviewed by the Board during the year.

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

The Chairman of the Committee is Mrs Fiona Balfour, who has undertaken these duties since the retirement of Mr Ian Elliot in December 2016.

The Committee met four times during the 2016/17 year. The responsibility of the Committee is to monitor and review the following and, if appropriate make recommendations to the Board in respect of them.

1. Remuneration Policy and Practices
   - Base salary, short and long-term incentive plans;
   - Chief Executive Officer (CEO) and CEO direct reports remuneration package and termination arrangements;
   - Annual pay review;
   - Non-executive Director fees, benefits and termination arrangements;
   - Retention programs and policies;
   - Compliance with relevant regulatory bodies;
   - The annual remuneration report;
   - Superannuation arrangements;
   - Benefits programs; and
   - Employee share schemes.
2. People strategy, priorities and practices
   - Employment terms and conditions for the CEO and direct reports;
   - Define KPIs for the CEO and review KPIs for CEO direct reports;
   - Review of the performance of CEO and direct reports;
   - Succession and development planning for the CEO and direct reports;
   - Diversity and Inclusion policies, practices and compliance;
   - Alignment of organisational culture and engagement with overall business strategy and objectives; and
   - Wellness and Safety policies and programs.
3. Non-executive Directors and Board
   - Board succession issues and planning;
   - Board effectiveness evaluation including balance of skills, knowledge, experience, independence and diversity;
   - Induction of new Non-executive Directors; and
   - Professional development programs for Non-executive Directors.

The Committee affirms it has complied with the requirements of its charter which was updated during the period.

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

TECHNOLOGY AND INNOVATION COMMITTEE

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

Its membership consists of four of the Non-executive Directors of Salmat Limited, the Chairman as well as the Chief Executive Officer and Group Chief Operating Officer.

The Chairman of the Committee is Mr Mark Webster. Mark's extensive experience in oversight of information technology in major Australian companies, combined with his operational and financial skills, complements the industry expertise of the other Committee members.

The Committee met three times during the 2016/17 year.

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

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

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

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

RISK MANAGEMENT

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

Policies

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

Responsibility

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

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

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

Salmat has established a management led Risk Management Committee (RMC), chaired by the CEO. The Directors' report outlines the key business risks of the company at page 9. The RMC directs the implementation and operation of an appropriate risk management framework and culture.

The RMC ensures that Salmat's risk profile is within the Group's risk appetite and tolerance levels, and review changes to the business environment to ensure Salmat's risk strategies are relevant.

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

Framework

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

Other risk management and risk assurance mechanisms in place include:

- Policies and procedures for managing financial risk and treasury operations including exposures to foreign currencies and interest rate movements.
- Guidelines and limits for the approval of capital expenditure and investments.
- A Group regulatory compliance program supported by approved guidelines and standards covering crisis management, the environment, workplace health and safety, privacy, trade practices, equal employment opportunity, anti-discrimination and sexual harassment.
- Annual internal audit of all sites for workplace health, safety and environmental regulatory compliance.
- Internal quality audits are performed in all jurisdictions and Salmat is ISO 9001:2008 (Quality Management Systems) certified for the majority of key operations in Australia
- A comprehensive insurance program including annual selective risk management surveys conducted by our property insurance underwriters.
- Annual budgeting and monthly reporting systems for all business units to monitor key performance indicators.

The risk management framework is independently reviewed by the Risk and Assurance function on behalf of the Audit, Risk and Compliance Committee and assessed for effectiveness, to drive continuous improvement and enhance instinctive incorporation of risk management into day-to-day activities.

Assurance

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

Chief Executive Officer and Chief Financial Officer Declaration

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

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

DIVERSITY

Salmat continues a long history of encouraging and supporting a diverse work environment. Our diversity policy covers gender, age, ethnicity, sexual preference, disability and cultural background.

The Board's support of gender diversity is reflected in the work of Salmat's Diversity and Inclusion Council, which continues to develop programs under the four key banners of Ethnicity, Gender, Age and Disability.

The initiatives to encourage and support diversity are across all Salmat locations.

GENDER

Salmat's reports for 2016/17 under the requirements of the Workplace Gender Equality Agency for Salmat Limited and Salmat Contact Solutions Australia Pty Limited covering all of the Australian Group saw all Companies advised as compliant with the *Workplace Gender Equality Act 2012* (Act).

Salmat has made changes to the Senior Executive Level since our last report. Reporting directly to the CEO are two females and two males.

Diversity is an agenda item at every People Performance Committee meeting and meetings of the Company's senior leadership team.

CORPORATE GOVERNANCE REPORT CONTINUED

The Board has set four measures for reporting on gender diversity under Recommendation 1.5 of Principle 3 of the ASX Corporate Governance Principles:

- Representation of women on short lists for all advertised roles.
- Representation of women on all interview panels.
- Gender percentage on the Board.
- Gender percentage at all levels of the Company using a five level scale.

In line with our focus on Diversity and Inclusion, we are no longer capturing gender information with position applications on the basis that it is not relevant to the recruitment process. For all future applications, gender information will be requested and captured at the time of hire.

The results for the year were:

- Females were represented on 43% of shortlists. Males were represented on 57% of shortlists.
- Females were represented on 88% of interview panels. Males were represented on 55% of interview panels.
- The Board is made up of one female and five males.
- Gender percentage over five organisational levels is tabled below:

Organisational Level	Male %	Female %
(CEO) 5	0%	100%
4	50%	50%
3	72%	28%
2	60%	40%
1	52%	48%
Total Staff	**54%**	**46%**

Level 5 is the CEO only, Level 4 are senior executives who are members of the Executive Team and report to the CEO.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

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

Materiality and disclosure

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

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

Restrictions on securities dealings

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

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

Shareholder communication

Salmat places considerable importance on effective communication with shareholders.

The Company Secretary is nominated as the person responsible for communication with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules. All shareholders can receive a copy of the Company's Annual Report. In addition, the Company has made available electronic communication of all price-sensitive announcements for the convenience of all shareholders. All price-sensitive Company announcements and financial reports since our public listing in December 2002 are available on the Company's website: www.salmat.com.au.

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

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

EXTERNAL AUDITOR'S APPOINTMENT

The Company's independent external auditor for the year ended 30 June 2017 is PricewaterhouseCoopers. As a part of their review of the half-year and audit of the full-year results, PricewaterhouseCoopers confirmed to the Board it has maintained its independence. The auditor will attend the Company's Annual General Meeting and will be available to answer any shareholder questions.

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

DIRECTORS' REPORT

30 JUNE 2017

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Salmat Limited and the entities it controlled at the end of, or during, the year ended 30 June 2017.

DIRECTORS

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

- Peter Mattick (Chairman)
- Fiona Balfour
- John Thorn
- Bart Vogel (appointed 29 May 2017)
- Mark Webster

Ian Elliot was in office until his resignation on 31 December 2016.

Stuart Nash was appointed as a Director subsequent to the end of the financial year, on 1 August 2017.

OPERATING AND FINANCIAL REVIEW

The Board presents the 2017 Operating and Financial Review, which has been designed to provide shareholders with a clear and concise overview of the Group's operations, financial position, business strategies and prospects. The review also provides contextual information, including the impact of key events that have occurred during 2017 and material business risks faced by the business so that shareholders can make an informed assessment of the results and prospects of the Group. The review complements the financial report and has been prepared in accordance with guidance set out in RG247.

1. Salmat's operations

Principal activities

Salmat's core business is a marketing services business. We help clients with the constant pressure of acquiring and servicing customers, week-in, week-out. With media, digital and contact capabilities we manage on behalf of our clients the fundamentals – *Reach* the right consumers, *Convert* them to customers, *Serve* them with a high-quality experience – to ensure this happens like clockwork.

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

a) The Media + Digital division delivers relevant, targeted and integrated communications across all digital and traditional channels. Salmat's solutions enable clients to interact and engage with their customers through national letterbox distribution, digital catalogues, pre-shopping website Lasoo, e-commerce, search (SEO, SEM and display advertising), email and SMS marketing.

b) The Contact division helps trusted brands to generate revenue, exit cost, and improve their customer experience. Our contact centre solutions specialise in maximising customer lifetime value using inbound and outbound voice, email, webchat, SMS, social media, customer experience solutions and sophisticated speech technology and automation solutions including natural language speech recognition and voice biometrics. Salmat's MicroSourcing business provides Philippines-based outsourced business solutions – including contact centre services, back-office processes and digital creative and development services – which are provided via an innovative range of managed service delivery models.

Key developments

Key developments during FY17 included:

- Finalising the Business Transformation program launched in January 2015 to simplify every aspect of the business and focus on key strengths, to reduce costs and improve profitability. This included an operational structure and process review and a full product and services portfolio review.
- Initiating a Strategic Review of the business to consider a number of options to drive profitable growth and maximise shareholder value.
- A capital raising was undertaken in 1H17 to help fund the remaining consideration due for the MicroSourcing acquisition. This rights issue was well-supported by shareholders and raised $14.0 million in net cash.
- In May 2017 it was announced that CEO Craig Dower was leaving the business, with Rebecca Lowde moving from the CFO to CEO role. Alex Panich was appointed as Acting CFO from within the organisation.

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

DIRECTORS' REPORT CONTINUED

2017 Operating result summary

$ million	2017	2016	% change (pcp)
Total revenue	**435.3**	450.8	-3.4%
Underlying EBITDA	**22.8**	19.6	+16.3%
Depreciation	**(8.9)**	(10.1)	-11.9%
Underlying EBITA	**13.9**	9.5	+46.3%
Amortisation	**(4.6)**	(3.5)	+31.4%
Underlying EBIT	**9.3**	6.0	+55.0%
Net interest	**(1.6)**	(1.8)	-11.1%
Tax (expense)/benefit	**(2.8)**	(3.4)	-17.6%
Underlying NPAT[1] for the Group	**4.9**	0.8	*
Significant items	**(0.6)**	(6.8)	-91.2%
NPAT from continuing operations	**4.3**	(6.0)	+171.7%

1) Adjusted for significant items, refer to note 2 in the notes to the financial statements for the significant items included in the Underlying Net Profit for the period. This is non-recurring expenditure and income such as restructuring costs, impairment of investment, fair value adjustments on other liabilities, strategic review costs and profit on sale of shares of an investment.

* No meaningful figure

Revenue of $435.3 million (2016: $450.8m) was down $15.5 million on the previous year. Revenue was impacted by discontinued contracts, the flow-on effect of the product and services rationalisation from the business transformation, and pricing pressures in the Media business.

Underlying EBITDA of $22.8 million (2016: $19.6m) was up 16.3% on the previous year. Cost savings and efficiency gains from the transformation program and increased business from new and existing clients made a positive contribution here, offset by discontinued contracts and the Media pricing pressures.

Underlying profit after income tax was $4.9 million, compared with a $0.8 million profit in the prior year. Depreciation and amortisation as well as net interest expense remained largely consistent with the prior year.

There was $0.6 million in net costs in **significant items** for this period, compared with a net cost of $6.8 million in FY16. For FY17, this included costs associated with impairment of an equity investment, the strategic review and restructuring, offset by profit on the sale of shares in an investment and a fair value adjustment gain.

Net profit after tax was $4.3 million after significant items of $0.6 million and tax expense of $2.8 million. The comparative net loss after tax of $6.0 million in the prior year followed significant item costs of $6.8 million and a tax expense of $3.4 million.

Segment results

Media + Digital

Media + Digital revenue of $224.3 million (2016: $254.9m) was down by 12.0% on the prior year. The product and services rationalisation undertaken during the business transformation mainly affected this segment, with a $9.6 million impact this year. Reduced volumes across the retail client base and pricing pressure in the catalogue market also impacted revenue. New business growth was achieved in Digital but was insufficient to offset the revenue drop.

Underlying EBITDA of $21.6 million (2016: $24.2m) has reduced by 10.7% compared with FY16. Management of costs, including savings from the product and services rationalisation, reduced the impact of the declining revenue on earnings.

Contact

Contact revenue was up by $15.4 million to $210.3 million (2016: $194.9m). New client wins and increased spend by existing clients across the segment made a positive contribution, outweighing revenue lost to discontinued contracts and the product and services rationalisation. Second half performance was particularly strong and saw a number of new implementations.

Underlying EBITDA of $7.7 million increased from the prior year (2016: $5.8m) as a result of the positive contribution made by both new business and improved discretionary spend within the existing client base, particularly in MicroSourcing. Some additional costs were incurred in FY17 associated with the Australian contact centre premises relocation, duplication of technology platform costs during the upgrade and one-off tender-related sales and service costs. Average seat utilisation rates increased through 2H17 as a result of new campaigns and following the relocation of the Australian contact centre.

Corporate Costs of $6.4 million (2016: $10.4m) reduced as a result of a number of activities relating to transformation and change management that were no longer required. A number of other cost initiatives continue to be undertaken with the focus on continuous improvement as it relates to the efficiency and effectiveness of work practices across functions.

2. Financial position and cash flows

Operating cash was an inflow of $20.9 million before income tax for FY17 which is an improvement of $13.4 million on FY16. The capital raising that was undertaken during the year was well supported and netted the Group $14.0 million in proceeds. These proceeds were used to fund the final 50% acquisition of Microsourcing $28.5 million. Payments for the Netstarter acquisition $6.6 million and amortisation payments relating to USD borrowings were other significant outflows. Investment in capital expenditure increased in FY17 to $5.7 million including fit out of new premises and office hardware costs. The net cash position as at the of FY17 was $8.6 million down from $14.6 in FY16.

In November 2016, the revised banking agreements were executed extending existing facility agreements for a 2 year period. The facility agreement included a number of amortisation payments over this period and the assets of the company were pledged as security.

The Group net asset position has increased by 19.3% this year predominantly through reduction in acquisition related liabilities paid during the year. Other major variances can be seen across plant and equipment with depreciation being higher than capital expenditure and a change in the useful life over some intangible assets has accelerated amortisation charges. Carrying value of borrowings have also decreased in FY17 as mentioned above.

3. Business risks, strategies and prospects

Business strategies and prospects

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

During FY17, the Group largely completed its Business Transformation strategy, with an underlying objective to:

- Focus energy and investment in areas where Salmat is – or can be – the clear market leader;
- Simplify every aspect of the business so Salmat is agile, responsive, efficient and effective; and
- Grow the business in a targeted, connected and profitable manner.

In mid FY17, the Group commenced a Strategic Review of the business to consider a number of options for driving profitable growth and maximising shareholder value. The strategic review is ongoing and will be announced once formalised.

Business risks

Salmat is committed to embedding risk management practices in a manner that supports achieving its strategic objectives. Risk management is carried out in accordance with policies approved by the Board as described in the Corporate Governance statement. Salmat has established a management-led Risk Management Committee that directs the implementation and operation of an appropriate risk management framework and culture.

Salmat's profitability is directly related to the economic environment, particularly the Australian retail sector. The main risks affecting Salmat include operational risks associated with the reliance on a large number of contractors, numerous technology applications in addition to key regulatory risks, external factors and financial risks.

Operational

Salmat relies on a large number of contractors within the Media business to distribute catalogues and contact centre agent employees who interact with customers daily and frequently. In line with Salmat's ISO quality accreditation there is ongoing continual improvement to ensure processes are standardised and consistent compliance with labour, contractor and health and safety laws.

Technology applications

Supporting the business are numerous applications and Salmat in its handling of customer data increases its exposure to regulatory, and security risk. Significant investments have been made in the past 24 months in changing technology infrastructure and partnering with cloud technology vendors who maintain stringent security certifications. Salmat has technology security policies in place to ensure information managed is secure from destruction, corruption, unauthorised access and breach of confidentiality whether unintentional or malicious. In order to deliver on customer contractual commitments, system availability is constantly monitored, in addition to operational KPI performance, to ensure there is continued customer satisfaction and adequate service levels.

Regulatory and compliance

Salmat is committed to creating a culture of compliance and takes its compliance obligations very seriously. The primary regulations that affect the group include Privacy, Consumer and Competition, SPAM, Do Not Call, Fair Work, Health & Safety and Contractor legislation. Salmat has a compliance framework in place to ensure ongoing compliance monitoring, measurement and reporting.

External factors – Economic environment & competition

Salmat's sales volumes and therefore its profitability are directly related to the level of retail sales achieved by our retail clients particularly in the Media + Digital division. Salmat endeavours to mitigate reliance on major retailers and diversify its customer base through other industry verticals such as government, telecommunications, financial and health sectors in addition to targeting small and medium enterprises. The company also monitors economic, market and industry trends to identify potential opportunities for growth.

There is a very limited number of large tier players in the catalogue distribution market therefore to remain competitive Salmat's value proposition to its customers includes access to a variety of delivery and quality metrics across the network at any given time and geographic location.

Financial risks

Given a large proportion of Salmat's customer base are retailers, the company manages credit risk via strict credit policies and procedures. There are a number of preventative and detective controls and monitoring activities in place to mitigate financial risks.

DIRECTORS' REPORT CONTINUED

DIVIDENDS – SALMAT LIMITED

No dividends were paid to members during the financial year (2016: Nil)

No dividends were paid or declared during the year.

PERFORMANCE INDICATORS

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

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

ENVIRONMENTAL ISSUES

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Except for the matter discussed above, no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

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

INFORMATION ON DIRECTORS

Peter Mattick, AM
Chairman

Experience and expertise
Peter Mattick co-founded Salmat Limited in 1979 and served as its Joint Managing Director until his retirement from executive duties with Salmat in October 2009. Since that time Peter has remained as a Non-executive Director of the company and assumed the role of Chairman in November 2013.

Peter has served as Chairman and Director of the Australian Direct Marketing Association and is a member of the National Aboriginal Sports Corporation. He is a Fellow of the Australian Society of Certified Practicing Accountants and the Australian Institute of Company Directors, a Governor of the Advisory Council for the Institute of Neuromuscular Research and Chairman of The Shepherd Centre. Peter was educated at the University of New South Wales where he gained a Bachelor of Commerce degree. Peter was awarded a Member (AM) in the General Division of the Order Of Australia in 2014.

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

Interests in shares and options
37,060,735 ordinary shares in Salmat Limited.

John Thorn
Non-executive Director (Independent)

Experience and expertise
John Thorn has been a Non-executive Director of Salmat Limited since September 2003. John is a professional Director and brings expertise to the Board in the areas of accounting, financial services, mergers and acquisitions, business advisory, risk management and general management. John had 38 years of professional experience with PricewaterhouseCoopers (PwC), where he was a Partner from 1982 to 2003 advising major international and Australian companies. He served on the firm's Board, was the Managing Partner of PwC's Assurance and Business Advisory practice and was the National Managing Partner of PwC until 2003. He has experience in Asia having lived and worked in Singapore and Indonesia. John is a Non-executive Director of Amcor Limited (appointed December 2004) and a former Director of National Australia Bank Limited (October 2003 – December 2014) and Caltex Australia Ltd (June 2004 – 2013). His Board committee experience includes Audit Committees (Chairman), Human Resources Committees, IT Committees, Nomination Committees and Risk Committees.

Special responsibilities
Chairman of Audit, Risk and Compliance Committee; and
Member of People Performance Committee.

Interests in shares and options
131,101 ordinary shares in Salmat Limited.

Fiona Balfour
Non-executive Director (Independent)

Experience and expertise
Fiona is an independent Non-executive Director of Metcash Limited, Airservices Australia, the Western Sydney Airport Co Limited and The Australian Red Cross Blood Service; a Member of Chief Executive Women; a Fellow of Monash University; and a Fellow of the Australian Institute of Company Directors. Fiona has over 35 years' experience working in enterprise technology across Aviation and Transport, Information and Telecommunication Services and Distribution and Logistics. Fiona is a former Non-executive Director of SITA SC (Geneva) and TAL (Dai-ichi Life) Australia Limited; former Council Member and Treasurer of Knox Grammar School, and former Council Member of Chief Executive Women. Fiona holds a BA Hons (Monash), Dip IM (UNSW) and MBA (University of RMIT).

Special responsibilities
Member of Audit, Risk Compliance Committee; Chairman of People Performance Committee; and Member of the Innovation and Technology Committee.

Interests in shares and options
79,740 ordinary shares in Salmat Limited.

Bart Vogel
Non-executive Director (Independent)

Experience and expertise
Bart is the Chairman of Infomedia Limited and a Non-executive Director of both Macquarie Telecom Limited and BAI Communications. He is a Director of the Children's Cancer Institute Australia. Bart's executive experience includes more than 20 years in management consulting with Bain & Co, A.T. Kearney and Deloitte Consulting and more than ten years as a CEO in the technology industry for Computer Power Group and Lucent Technologies Australia and Asia Pacific. He is a Chartered Accountant with a Bachelor of Commerce (Honours) and is a graduate of the Australian Institute of Company Directors.

Special responsibilities
Member of Audit, Risk and Compliance Committee; Member of People Performance Committee; and Member of the Innovation and Technology Committee.

Interests in shares and options
Nil ordinary shares in Salmat Limited.

Mark Webster
Non-executive Director (Independent)

Experience and expertise
Mark is presently Managing Director of the thoroughbred sales group, William Inglis and Son Limited and Chairman of Ardex Technology, a software solutions company based in Sydney. Mark has had extensive, hands-on experience in extending traditional businesses into the online environment, both in the media industry and in his current role. Mark has established the Inglis Digital division and introduced a number of innovations to extend the traditional trading capability of that company. Mark has also served as Director on a number of Boards over the past 15 years, including realestate.com.au and Nationwide News Limited where he was also general manager of The Daily and Sunday Telegraph and The Australian newspapers.

Special responsibilities
Chairman of the Innovation and Technology Committee.

Interests in shares and options
Nil ordinary shares in Salmat Limited.

Company secretary

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

Prior to listing of the Company, he had over ten years' experience as Secretary of Salmat Group Companies. He has a Bachelor's degree in Accounting and is a Fellow of the Institute of Chartered Secretaries and CPA Australia.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2017, and the numbers of meetings attended by each Director were:

	Full meeting of Directors		Meetings of Committees: Audit, Risk and Compliance		People Performance		Technology and Innovation	
	A	B	A	B	A	B	A	B
Peter Mattick	14	14	4*	4*	4*	4*	3	3
John Thorn	14	14	4	4	4	4	3	3
Ian Elliot	5	5	2	2	1	1	1	1
Fiona Balfour	14	14	4	4	4	4	3	3
Bart Vogel	3	3	1	1	1	1	1	1
Mark Webster	14	14	4*	4*	4*	4*	3	3

A = Number of meetings attended.
B = Number of meetings held during the time the Director held office or was a member of the Committee during the year.
* Attended by invitation.

DIRECTORS' REPORT CONTINUED

REMUNERATION REPORT

The Board presents the 2017 Remuneration Report for Salmat Limited (Salmat or the Group) in accordance with the requirements of the *Corporations Act 2001* and its regulations. This report outlines key aspects of our remuneration practices and remuneration awarded this year. The remuneration practices are aligned with Salmat's strategy of providing senior executive rewards that drive and reflect the creation of shareholder value. The information in this report has been audited, unless otherwise stated.

Section		What it covers
1	**Remuneration at a glance**	An overview of key remuneration outcomes in 2017.
2	**Remuneration governance**	Details of the key management personnel this report covers and how remuneration is governed.
3	**Remuneration strategy, structure and framework**	Outlines our remuneration policy and how it supports our strategic objectives and is focused on the long term strategy of Salmat, with a description of the key components of remuneration.
4	**Fixed remuneration**	Detailed description of our fixed remuneration policies.
5	**Short-term incentives**	Detailed description of our Short Term Incentive schemes (STI).
6	**Long-term incentives**	Detailed description of our Long Term Incentive schemes (LTI).
7	**Executive remuneration disclosures**	Disclosures by person of the remuneration paid in the current and previous periods.
8	**Service agreements**	Summary of the key contract terms of key management personnel.
9	**Non-executive Director remuneration**	Details of Non-executive Director remuneration and relevant disclosures of remuneration in the current and prior periods.
10	**Financial performance**	Information on Salmat's performance in key shareholder measures, and five year statutory financial information.

1. Remuneration at a glance

Remuneration outcomes in 2017

Remuneration	2017 outcomes
Fixed remuneration	The announcement of the strategic review in February, plus changes in the KMP positions have led the Board to not award salary increases for 2017. Where acting roles have been taken a higher duties allowance has been awarded for increased responsibility in that position. When the strategic review has completed the Board may review KMP salaries.
Short-term incentives	STI was awarded in 2017 due to the Group meeting 85% of underlying EBITDA as compared to budget with 77% of STI being paid to KMPs. The 2017 STI plan was approved by the Board with executive management participating in STI. The 2017 STI plan included both financial and non-financial targets.
Long-term incentives	There was no issue of performance rights during the financial year due to the Group capital raising and strategic review announced in February. The performance measures on 2016 performance rights are total shareholder return (TSR), earnings per share (EPS) and return on capital employed (ROCE). The type of measures were set based on feedback from shareholders in 2014.
Non-executive Director fees	Consistent with the principles applied to fixed remuneration of the KMPs, the Board did not award increases in Non-executive Director fees in 2017. The Non-executive Directors' remuneration cap remains at $1.2m, as approved by shareholders at the 2009 AGM.

2. Remuneration governance

Who this covers

The Remuneration Report sets out remuneration information for Salmat's Non-executive Directors (listed in the Directors' Report on page 7) and key management personnel (KMP). KMP are the Chief Executive Officer and senior executives, who are the key individuals who have or had authority and responsibility for planning, directing and controlling the major activities of Salmat during the financial period and up to the date of this report.

Name	Title	Status
Rebecca Lowde	Chief Executive Officer (CEO)	Effective 1 June 2017
	Chief Financial Officer (CFO)	Until 31 May 2017
Chris Walsh	Chief Operating Officer (COO)	Full year
Alex Panich	Chief Financial Officer (CFO)	Effective 5 June 2017
Craig Dower	Chief Executive Officer (CEO)	Resigned 31 May 2017

Remuneration governance framework

The below represents Salmat's remuneration framework:

SALMAT BOARD OF DIRECTORS

The Board:

- Approves the overall remuneration policy and ensures it is competitive, fair and aligned with the long term interests of the Company.
- Reviews and approves recommendations made by the People Performance Committee for non-executive, CEO and KMP remuneration.
- Reviews and approves other recommendations made by the People Performance Committee.

FEEDBACK FROM SHAREHOLDERS AND INVESTORS

People Performance Committee*

The purpose of the People Performance Committee is delegated authority by the Board to review and make recommendations on:

- Reviewing overall remuneration policies and ensuring they are in accordance with current best practice.
- Determining the remuneration arrangements for the CEO, including his STI, LTI and key performance targets.
- Reviewing the CEO's recommendations for the other KMP and senior staff remuneration and recommended performance targets.
- Reviewing succession plans of the CEO and senior executive team.
- The Group's compliance with occupational health and safety legislation.
- The Group's compliance with ASX Corporate Governance Guidelines on Diversity.

REMUNERATION CONSULTANTS

Provide information on current best practice for non-executive, KMP and senior staff remuneration and provide independent advice and information relevant to remuneration decisions.

Management

- Provides information relevant to remuneration decisions and makes recommendations to the People Performance Committee with respect to individual remuneration arrangements, performance target setting and performance assessment of incentive plans for KMPs and other senior staff.
- Implements remuneration policies and practice.

* The charter adopted by the People Performance Committee is displayed on the Salmat Limited website www.salmat.com.au.

Use of remuneration consultants

In the past the People Performance Committee has retained Ernst & Young (EY) as an adviser to assist with remuneration issues. In 2017 no advice was sought from EY on aspects of the remuneration of Non-executive Directors or KMP.

Securities trading policy

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

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

DIRECTORS' REPORT CONTINUED

3. Remuneration strategy, structure and framework

Salmat's policy is to remunerate staff in accordance with market rates in alignment with the individual's duties, responsibilities and performance.

SALMAT KMP REMUNERATION FRAMEWORK

DRIVEN BY	SUPPORTED BY	COMPONENTS	TO RESULT IN
• Salmat strategy and organisational culture. • Regulations and corporate governance.	• Shareholder and investor views. • Market practice, trends and independent input.	• Fixed remuneration. • Short-term performance incentives (STI). • Long-term performance incentives (LTI).	Remuneration outcomes aligned to shareholder returns and Salmat's strategic objectives.

The following table sets out a summary of each component of the remuneration package for all KMP, including its purpose, link to performance and key changes from last year.

Component	Performance measure	Strategic objective and link to performance	Change from 2016
Fixed remuneration – Fixed	When setting fixed remuneration and considering external benchmarks the People Performance Committee takes into account: • Group and individual performance; • Job size and complexity; • Individual's qualifications and experience; • Risk profile of the role; and • Internal relativities.	To provide base strategy and benefits which are competitive with those provided by companies of a similar size and level of complexity. To reward performance relative to expectations based on senior executives' job descriptions and scope of responsibility. To retain talented employees and to not encourage excessive risk taking.	No fixed remuneration increase was awarded to KMP. Where acting roles have been taken a higher duties allowance has been awarded for increased responsibility in that position.
STI – at risk	STI performance criteria are set by reference to the Salmat budget information (financial measures) and individual performance targets relevant to their specific position (non-financial measures).	STI awards objectives are as follows: • **Financial measures (70%):** Group, or line of business profit measures of EBITDA and revenue. These are considered to deliver financial benefits to shareholders through growth in earnings. • **Non-financial measures (30%):** Individual KPI performance results relevant to the longer term growth strategy initiative of the Group. STIs are measured over a one year performance period and paid in cash.	85% of Underlying Group EBITDA has to be achieved as compared to budget prior to any STI being paid across the Group in 2017. As the target of 85% was achieved STI have been awarded this year. For the KMP, the split of 2017 financial measures was 35% Group EBITDA and 35% Group revenue.
LTI – at risk	An annual LTI grant is made to senior executives. LTI targets are linked to internal growth measures (EPS and ROCE), and external relative outperformance measures (TSR) to align senior executives with shareholder interests.	LTI awards are designed to motivate senior executives to achieve Salmat's sustainable long term growth. The internal and external measures were chosen because: • **EPS:** Deemed to be a direct measure of growth of Salmat's earnings over the performance period. • **ROCE:** An efficient use of working capital is key to maximising shareholder return in the medium term. • **TSR:** As it is a measure of the return generated for shareholders over the performance period relative to a peer group of companies. LTIs are measured over a three-year performance period and delivered in equity.	A decision was made not to issue LTIs to KMP during the financial year given the Group capital raising and the announcement of the strategic review. It is expected that performance rights will be issued again post completion of the strategic review.

Target remuneration mix:
The remuneration strategy provides for a target remuneration mix which links remuneration outcomes to the execution of Salmat's strategy over the short (1 year) and long term (3 years). The target remuneration mix for current senior executives based on current contracts is shown below:

	Percentage of total target remuneration		
	Fixed remuneration	STI cash – 1 year	LTI equity – 3 years
CEO	70%	14%	16%
CFO	87%	13%	–
COO	80%	20%	–

Actual remuneration mix achieved:
The actual remuneration mix achieved in 2017 for current executives is shown below:

	Fixed remuneration		At risk – STI actual		At risk – LTI Actual	
%	2017	2016	2017	2016	2017	2016
Current Senior Executives						
Rebecca Lowde	77%	79%	16%	17%	7%	4%
Chris Walsh	76%	79%	16%	17%	7%	4%
Alex Panich	39%	0%	61%	0%	0%	0%

Up until Craig Dower left the business on 31 May 2017, he only received his fixed remuneration. He did not receive any short term incentives, and no new long term incentives were granted in the year. On leaving the business, he did receive a final termination benefit. See page 17 for more information, and detail of the breakdown of the table above.

4. Fixed remuneration

Fixed remuneration is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits such as health insurance, and car allowances. Fixed remuneration is reviewed annually, or on promotion, to ensure the pay is competitive with the market.

For senior executives, superannuation is included in fixed remuneration. Retirement benefit obligations are delivered to the employee's choice of superannuation fund. Salmat has no ongoing interest or liability to the fund or the employee in respect of retirement benefits.

5. Short term incentives

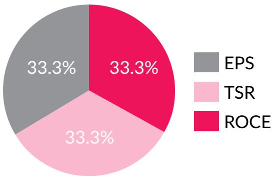
Participants and description	All senior executives are eligible for participation in the STI. The STI is the 'at risk' remuneration component subject to the achievement of pre-defined individual, Group and line of business performance hurdles which are set annually by the People Performance Committee at the beginning of the financial year. The purpose of the STI is to recognise and reward the contributions that individuals make to the overall success of Salmat.
Performance measures	The STI metrics align with the Group's strategic priorities to attract and retain talented individuals, focus on driving profitable revenue growth and encourage collaboration and team work across the business through shared goals.

Metric	Target	Weighting	Reason for selection
EBITDA	FY17 budget	35%	Reflects focus on growing the business in a targeted and profitable manner.
Revenue	FY17 budget	35%	Retention and growth of customer base, and increasing market share.
Individual performance metrics	Specific to individuals	30%	Targeted metrics have been chosen that are critical to individual roles.

Timing and delivery	The measures are assessed immediately prior to the release of Salmat's financial statements in August. The payments are made in the form of cash, and will be paid in September.
Assessment of hurdles	The People Performance Committee is responsible for assessing whether the KPIs of Key Management Personnel are met. The Board of Directors has final discretion to adjust remuneration outcomes to prevent any inappropriate reward outcomes.
Performance and impact on variable remuneration	Based on the final results of the Group an STI payment has been approved by the Board of Directors.

DIRECTORS' REPORT CONTINUED

6. Long term incentives

Participants and description	Senior executives are eligible for participation in the LTI scheme if a grant is approved by the Board. The LTI is an 'at risk' remuneration component subject to the achievement of pre-defined performance hurdles for a three year period which are set by the People Performance Committee. An offer may be made to senior executives subject to approval by the Board. Each participant may be issued performance rights in the form of zero-priced options each year. Each right granted is an entitlement to a fully paid ordinary share in the Group on terms and conditions, including vesting conditions linked to service and performance measures up to three years after grant.
Value of grant of rights	The number of rights granted to an executive is determined by dividing the value of their annual grant by the 5 day VWAP on the date of the grant. The value of an individual's annual grant is determined by the People Performance Committee based upon the individual's role and responsibilities within the Group.
Performance measures 	The rights granted will have performance measures based 33% on EPS performance, 33% on TSR performance and 33% on ROCE. **EPS** A positive cumulative three year growth target is set by the Board for the performance period. Vesting will not occur unless 90% of the cumulative EPS target is achieved. **TSR** Salmat's Total Shareholder Return (TSR) will be measured relative to the constituents of the ASX small industrials index (XSIAI). Vesting will not occur unless the Group is at or above the 50th percentile and the rights will then vest in a straight line until the Group is at or above the 75th percentile, where 100% of the rights will vest. **ROCE** The ROCE target (expressed as a percentage) is an average over three years. Vesting will not occur unless 90% of the ROCE target is achieved.
Legal rights	Rights granted as part of the LTI Plan do not carry voting or dividend rights nor can the holders attend shareholders meetings; however, shares allocated upon vesting of rights and exercise of options will carry the same rights as other ordinary shares.
Forfeiture and termination	Rights will lapse if performance measures are not met. There is a service condition attached to each tranche of performance rights in that the executive must also be employed by the company at the release date of the Group's financial results of the relevant financial year on which the final performance measures are based.
Timing and delivery	For future grants the performance measures will be assessed immediately prior to the release of Salmat's financial statements in August, 3 years from the date of issue. The rights will vest subject to the satisfaction of performance hurdles. Rights vest and the resulting shares are transferred to the senior executive at no cost to the executive. The rights will expire five years after they have been granted.
Other information	As Craig Dower left before the qualifying period had been met on the 2016 LTI plan all rights were forfeited. No 2017 LTIs were issued to any KMPs.

7. Executive remuneration disclosures

Remuneration expenses for senior executives:
Details of the remuneration of senior executives of the Group (as defined in AASB 124 Related Party Disclosures) is set out in the following table. This table is prepared in accordance with Accounting Standards.

		Short-term employee benefits			Long-term employee benefits	Post-employment benefits		Share-based payments	
A$		Salary $	Bonus $	Non-monetary benefits $	Long service leave $	Super-annuation $	Termin-ation $	Rights $	Total $
Current Senior Executives									
Rebecca Lowde[1,2]	**2017**	**443,071**	**98,572**	**7,305**	**2,233**	**19,616**	**–**	**44,519**	**615,316**
	2016	445,734	103,400	6,133	541	19,308	–	24,392	599,508
Chris Walsh[2]	**2017**	**407,885**	**93,008**	**7,305**	**1,925**	**19,616**	**–**	**42,006**	**571,745**
	2016	420,577	97,565	6,133	455	19,308	–	23,016	567,054
Alex Panich[3]	**2017**	**14,423**	**23,825**	**–**	**188**	**839**	**–**	**–**	**39,275**
Former Senior Executives									
Craig Dower[4]	**2017**	**731,078**	**–**	**6,696**	**(2,214)**	**20,428**	**784,089**	**(178,605)[5]**	**1,361,472**
	2016	812,311	355,200	6,133	2,214	19,308	–	178,605	1,373,771
Total	**2017**	**1,596,457**	**215,405**	**21,306**	**2,132**	**60,499**	**784,089**	**(92,080)**	**2,587,808**
	2016	1,678,622	556,165	18,399	3,210	57,924	–	226,013	2,540,333

1) Rebecca Lowde was appointed Salmat's acting CEO on 1 June 2017.
2) Rights to shares granted under the 2016 LTI scheme are expensed over the performance period. For 2016, these rights were issued on 14 December 2015 and the performance period is until September 2018.
3) Alex Panich was appointed Salmat's acting CFO on 5 June 2017.
4) Craig Dower's actual bonus paid for FY2016 was $355,200 which was a decrease of 8% on the 2016 remuneration report.
5) Reflects forfeiture of the 2016 LTI plan.

Performance based remuneration granted and forfeited during the year:

STI:

		Total STI	
2017	Total opportunity	Awarded %	Forfeited %
Current Senior Executives			
Rebecca Lowde	128,800	77%	23%
Chris Walsh	121,500	77%	23%
Alex Panich	31,103	77%	23%

LTI:
No rights have been issued in the 2017 period due to the Group capital raising and the strategic review announced in February.

DIRECTORS' REPORT CONTINUED

Terms and conditions of the share-based payments arrangements:
The terms and conditions of the only grant that affects remuneration in the current period or future reporting period is as follows:

	Grant date	Date vested and exercisable	Expiry date	Cumulative three year target: EPS	Cumulative three year target: ROCE	Value per right at grant date**: EPS & ROCE	Value per right at grant date**: TSR	Exercise price
Rights	December 2015	September 2018	December 2020	14 cents	6.5%	$0.65	$0.39	$0.00

The table below shows the details of the rights per KMP. No LTIs were exercised in 2017.

Executive	Contractual LTI value	Number of rights granted*	Fair value of rights**
Rebecca Lowde	$150,230	214,290	$120,986
Chris Walsh	$141,750	202,790	$114,158

* The 5 day VWAP was used to calculate the number of rights, and for the 2016 rights this was 0.70 cents.
** The value at the grant date of rights has been determined as the fair value of the rights at that date in accordance with AASB 2 share-based payment of options.

Shareholdings:

The following table shows the relevant shareholdings of each KMP that were held during the financial year, including their close family members and entities related to them.

2017	Balance at the start of the year	Granted during the year as compensation	Purchased during the year	Other acquisition and disposal of shares	Balance at the end of the year
Non-executive Directors – Ordinary shares					
Peter Mattick	37,060,735	–	7,863,430	–	44,924,165
John Thorn	131,101	–	25,660	–	156,761
Fiona Balfour	79,740	–	25,449	–	105,189
Ian Elliot	33,435	–	–	(33,435)	–
Senior Executives – Ordinary shares					
Rebecca Lowde	16,000	–	–	–	16,000
Chris Walsh	5,000	–	–	–	5,000
Craig Dower	257,643	–	–	(257,643)	–

8. Service agreements
Senior executive contracts specify remuneration components, benefits and notice provisions. Senior executives are typically employed on ongoing contracts that have no fixed term.

	Fixed remuneration*	Notice by Salmat	Notice by executive	Treatment on termination with notice by Salmat***
Rebecca Lowde – CEO**	649,274	3 months	3 months	Salmat can choose to make payment in lieu of notice, which would not exceed the average base salary plus STIs paid in the 12 months before termination. The senior executives are not entitled to receive any additional retirement or termination benefits.
Chris Walsh – COO	475,050	3 months	3 months	
Alex Panich – CFO**	269,000	1 month	1 month	

* Where acting roles have been taken a higher duties allowance has been awarded for increased responsibility in that position.

** Rebecca Lowde is performing the role of acting CEO and Alex Panich is performing the role of acting CFO.

*** Termination clauses are specified in each contract describing treatment on termination based on the reason for termination (i.e. resignation, with notice, due to illness or immediate termination for cause).

9. Non-executive Director remuneration

Remuneration policy

The remuneration policy for Non-executive Directors is designed to remunerate them at market levels for their time, commitment and responsibilities. The Group is cognisant that it needs to attract and retain well qualified and experienced Directors. The People Performance Committee also takes into account external market data in setting Non-executive Director fees.

Director fees

The Director's fee is a composite fee and covers all responsibilities of the respective members including Board and Committee duties. The Non-executive Directors do not receive any retirement or performance related or other benefits. Shareholders at the Annual General Meeting in 2009 set the aggregate remuneration for Non-executive Directors at $1.2 million. Non-executive Directors' fees are reviewed annually in June and reflect the responsibility of the Directors.

The Chairman's fees are determined independently to the fees of non-executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

	2017			2016		
$A	**Board and Committee fees**	**Post-employment super-annuation**	**Total**	Board and Committee fees	Post-employment supera-nnuation	Total
Peter Mattick (Chairman)	**238,700**	**19,615**	**258,315**	247,883	19,308	267,191
John Thorn	**113,945**	**10,824**	**124,769**	118,328	11,241	129,569
Ian Elliot	**59,162**	**5,620**	**64,782**	118,328	11,241	129,569
Philip Salter[1]	**–**	**–**	**–**	43,825	4,163	47,988
Fiona Balfour	**113,941**	**10,824**	**124,765**	118,328	11,241	129,569
Mark Webster	**113,684**	**10,800**	**124,484**	118,328	11,241	129,569
Bart Vogel[2]	**8,724**	**828**	**9,552**	–	–	–
Total	**648,156**	**58,511**	**706,667**	765,020	68,435	833,455

1) Founding partner, Philip Salter, was a Director until he sadly passed away on 7 November 2015.

2) Commenced role 29 May 2017.

10. Financial performance

We aim to align our executive remuneration to our strategic objectives and the creation of shareholder wealth. The table below shows measures of Salmat's financial performance as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded:

$'000	**2017**	2016	2015	2014	2013
Revenue	**435,259**	450,800	498,119	452,840	467,579
Underlying EBITDA	**22,842**	19,586	13,289	18,223	36,364
Profit/(loss) for the year attributable to owners of Salmat Limited	**4,306**	(8,029)	(100,550)	261	40,142
Return on capital employed	**6.5%**	4.7%	(1.0%)	2.5%	6.5%

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2017	2016	2015	2014	2013
Dividend payments ($'000)	**–**	–	11,986	23,972	56,732
Basic earnings/(loss) per share (cents)	**2.3**	(5.0)	(62.9)	0.2	25.4
Share price at financial year end ($)	**0.39**	0.44	0.72	1.62	1.94
Decrease in share price (%)	**11.4%**	38.9%	55.6%	16.5%	6.6%

DIRECTORS' REPORT CONTINUED

INSURANCE OF OFFICERS

During the financial year, Salmat Limited paid a premium of $152,879 to insure work performed by current or past principals, partners, Directors and employees. The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings.

This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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

CORPORATE GOVERNANCE

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

NON-AUDIT SERVICES

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

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

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

Peter Mattick
Chairman

Fiona Balfour
Director

Sydney
29 August 2016

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Salmat Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Salmat Limited and the entities it controlled during the period.

S. Horl

Susan Horlin
Partner

PricewaterhouseCoopers

Sydney
29 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, Sydney NSW 2000
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $'000	2016 $'000
Revenue	3	**435,259**	450,800
Other Income	2c	**1,430**	1,468
Employee benefits expenses		**(221,981)**	(226,277)
Depreciation and amortisation expense	4	**(13,472)**	(13,624)
Freight, distribution and communication expenses		**(130,318)**	(141,828)
Property related expenses		**(26,059)**	(25,543)
Equipment related expenses		**(21,446)**	(21,557)
Other expenses from ordinary activities		**(13,159)**	(23,568)
Impairment of investment in joint venture	2c	**(1,314)**	–
Finance costs	4	**(2,308)**	(2,754)
Share of net profits of joint venture accounted for using the equity method	20d	**462**	271
Profit/(loss) before income tax		**7,094**	(2,612)
Income tax expense	5	**(2,788)**	(3,432)
Profit/(loss) for the period		**4,306**	(6,044)
Attributable:			
Owners of the company		**4,264**	(8,029)
Non-controlling interests		**42**	1,985
		4,306	(6,044)

	Notes	Cents	Cents
Earnings per share for profit/(loss) for the period:			
Basic earnings/(loss) per share	22	**2.3**	(3.8)
Diluted earnings/(loss) per share	22	**2.3**	(3.8)
Earnings per share for profit/(loss) attributable to owners of Salmat Limited			
Basic earnings/(loss) per share	22	**2.3**	(5.0)
Diluted earnings/(loss) per share	22	**2.2**	(5.0)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $'000	2016 $'000
Profit/(loss) for the year		**4,306**	**(6,044)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	18	**(394)**	609
Items that may not be reclassified subsequently to profit or loss			
Actuarial gains on retirement benefit obligation		**76**	448
Other comprehensive income for the year, net of tax		**(318)**	1,057
Total comprehensive income/(loss)		**3,988**	(4,987)
Attributable:			
Owners of the company		**4,131**	(7,133)
Non-controlling interests	20	**(143)**	2,146
		3,988	(4,987)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Notes	Consolidated 2017 $'000	Consolidated 2016 $'000
Current assets			
Cash and cash equivalents	6	**34,816**	42,911
Trade and other receivables	7	**52,055**	51,192
Inventories		**231**	99
Other current assets	8	**4,584**	7,235
Total current assets		**91,686**	101,437
Non-current assets			
Receivables and other non-current assets	9	**5,502**	4,993
Investments	20	**1,546**	3,107
Property, plant and equipment	10	**10,864**	13,441
Deferred tax assets	5	**12,845**	12,743
Intangible assets	11	**88,082**	91,170
Total non-current assets		**118,839**	125,454
Total assets		**210,525**	**226,891**
Current liabilities			
Trade and other payables	12	**45,105**	43,486
Provisions	13	**10,336**	10,696
Borrowings	14	**5,970**	7,526
Other financial liabilities	15	**4,583**	36,832
Current tax payable		**1,016**	750
Total current liabilities		**67,010**	99,290
Non-current liabilities			
Provisions	13	**3,135**	3,610
Borrowings	14	**20,016**	20,731
Other financial liabilities	15	**–**	1,492
Deferred tax liabilities	5	**2,101**	2,430
Retirement benefit obligations		**689**	720
Other non-current liabilities	16	**714**	698
Total non-current liabilities		**26,655**	29,681
Total liabilities		**93,665**	128,971
Net assets		**116,860**	97,920
Equity			
Contributed equity	17	**226,585**	209,976
Reserves	18	**(20,457)**	(29,056)
Retained earnings	18	**(89,268)**	(93,598)
Equity attributable to owners of the company		**116,860**	87,322
Non-controlling interests	20	**–**	10,598
Total equity		**116,860**	97,920

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

Consolidated	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2015		210,152	(30,465)	(85,792)	12,172	106,067
(Loss)/Profit for the year		–	–	(8,029)	1,985	(6,044)
Other comprehensive income		–	673	223	161	1,057
Total comprehensive income for the year		**–**	**673**	**(7,806)**	**2,146**	**(4,987)**
Transactions with owners in their capacity as owners:						
Dividends paid	19	–	–	–	(3,215)	(3,215)
Cost of share based payments	18	–	232	–	–	232
Treasury shares		(176)	–	–	–	(176)
Derecognition of NCI*	18	–	505	–	(505)	–
		(176)	737	–	(3,720)	(3,159)
Balance at 30 June 2016		**209,976**	**(29,056)**	**(93,598)**	**10,598**	**97,920**
Balance at 1 July 2016		209,976	(29,056)	(93,598)	10,598	97,920
Profit for the year		–	–	4,264	42	4,306
Other comprehensive income		–	(199)	66	(185)	(318)
Total comprehensive income for the year		**–**	**(199)**	**4,330**	**(143)**	**3,988**
Transactions with owners in their capacity as owners:						
Dividends paid	19	–	–	–	(1,692)	(1,692)
Cost of share based payments	18	–	35	–	–	35
Issue of share capital	17	16,609	–	–	–	16,609
Derecognition of NCI*	18	–	8,763	–	(8,763)	–
		16,609	**8,798**	**–**	**(10,455)**	**14,952**
Balance at 30 June 2017		**226,585**	**(20,457)**	**(89,268)**	**–**	**116,860**

* NCI = Non-controlling interest

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Consolidated 2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**477,743**	502,876
Payments to suppliers and employees (inclusive of goods and services tax)		**(456,770)**	(495,345)
		20,973	7,531
Income taxes paid		**(1,861)**	(2,106)
Net cash inflow from operating activities	28	**19,112**	5,425
Cash flows from investing activities			
Payments for property, plant and equipment		**(5,405)**	(3,605)
Payments for intangible assets		**(1,912)**	–
Proceeds from sale of business		**–**	100
Proceeds from sale of shares of an investment	2	**1,430**	840
Proceeds from loan to joint venture		**857**	–
Payments of other financial liabilities (previous acquisitions)	15	**(6,593)**	(4,193)
Interest received		**485**	836
Net cash outflow from investing activities		**(11,138)**	(6,022)
Cash flows from financing activities			
Proceeds from rights issue	17	**15,072**	–
Transaction costs from rights issue	17	**(1,077)**	–
Repayment of borrowings		**(6,854)**	(2,282)
Proceeds from borrowings drawdown		**5,000**	4,663
Interest and finance costs paid		**(1,469)**	(1,070)
Purchase of shares through the Salmat Ltd employee share trust	17	**–**	(176)
Transaction with non-controlling interest	15	**(24,307)**	(3,360)
Dividends paid to non-controlling interest	19	**(1,692)**	(3,215)
Net cash outflow from financing activities		**(15,327)**	(5,440)
Net decrease in cash and cash equivalents		**(7,353)**	(6,037)
Cash and cash equivalents at the beginning of the financial year		**42,911**	48,640
Effect of exchange rate changes on cash and cash equivalents		**(742)**	308
Cash and cash equivalents at end of year	6	**34,816**	42,911

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

CORPORATE INFORMATION

The financial report of Salmat Limited and the entities it controlled for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 29 August 2017.

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

Registered Office
Level 3, 116 Miller Street
North Sydney NSW 2060

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

The financial report has been prepared on a historical costs basis except for financial assets and liabilities (including derivative financial instruments) and retirement benefit obligations which are held at fair value.

(i) Compliance with IFRS

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

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

The Group adopted all new and amended Australian Accounting Standards and Interpretations that became mandatory for the first time for the financial year beginning 1 July 2015. The adoption of these standards did not have any impact on the current period or any prior period.

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 16 Leases

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $66.1m, see note 26. Management has considered these same commitments in the context of the new standard. At 30 June 2017, had this standard been applied there would have been recognition of an asset and a liability for future payments in the region of $50.4m. The rental expense of $15.7m (note 4) would no longer be recognised and instead be replaced by depreciation of the asset and interest costs on the discounting of future payments. The estimated increase in depreciation would have been in the region of $14.8m.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16. This final assessment has not yet been performed.

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

AASB 9 Financial instruments

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The main financial assets expected to be impacted are trade receivables. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. The Group does not expect the new guidance to have a significant impact on the classification and measurement of these although it may result in an earlier recognition of credit losses.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group expects its other financial liabilities to be settled prior to the implementation date.

AASB 15 Revenue from contracts with customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified that contracts for Contact and Digital services, are most likely to be impacted – the application of AASB 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. In addition, accounting for certain costs incurred in fulfilling these contracts will be considered – certain costs which are currently expensed may need to be recognised as an asset under AASB 15.

At this stage, the Group is not able to estimate the effect of the new rules on the group's financial statements, this is due to the constantly changing and evolving customer base of the Group. The Group will make more detailed assessments of the effect over the next twelve months.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

This new standard is mandatory for financial years commencing on or after 1 January 2018, but available for early adoption. At this stage, the Group does not intend to adopt the standard before its effective date.

b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Under AASB 11 *Joint Arrangements* investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Salmat Limited has only joint ventures. Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

(iv) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

The carrying amount of equity-accounted 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.

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Salmat Limited.

c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. Individually immaterial operating segments and those with similar economic characteristics are aggregated for the purpose of identifying reportable segments.

d) Foreign currency translation

Functional and presentation currency

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

Foreign currency transactions

Foreign currency transactions are recorded, on initial recognition, in Australian dollars by applying the exchange rate at the date of the transaction. Foreign currency exchange gains and losses resulting from the settlement of such items, and from the translation of monetary assets and liabilities denominated in foreign currencies are translated at year end exchange rates are generally recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined, and translation differences are reported as part of the fair value gain or loss.

Foreign operations

The assets and liabilities of foreign operations are translated to Australian dollars at the foreign exchange rates applicable at the balance sheet date. The revenues and expenses of foreign operations are translated to Australian dollars at a rate that approximates the exchange rates at the dates of the transactions. Equity items are translated at historical rates.

Foreign currency differences arising on translation are recognised directly in the foreign currency translation reserve (FCTR), a separate component of equity, through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Foreign exchange gains and losses arising from a monetary item receivable from or payable to, a foreign operations, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of the net investment in a foreign operation and are recognised directly in equity in the FCTR.

When a foreign operation is sold or borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the rendering of a service is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (percentage of completion method). Percentage of completion is measured by reference to an assessment of costs incurred to date as a percentage of estimated total costs for each contract. Costs for this purpose, represent costs that are reflective of services performed to date, or services to be performed.

Revenue from the licensing of products developed by the Company for a fixed term is recognised over the period for which the product is licensed.

Where payment terms extend beyond 12 months, revenue is discounted to its present value if the impact of discounting is material.

Revenue for other business activities is recognised as follows:

(i) Interest income

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

f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Salmat Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

g) Leases

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

h) Business combinations

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

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

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit and loss.

The fair value of the business combination put options, or commitments to purchase the remaining shareholdings of a subsidiary, are measured at inception and again at each period end. Each option or commitment is classified as a financial liability and movements in fair value at each period end are recorded in the income statement. Initial recognition of each liability is recorded against a business combination reserve. The value of this reserve will be adjusted against the derecognition of the relevant non-controlling interest on exercise of the option by the minority interest or payment of the commitment.

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

i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

If the Group reassesses its Cash Generating Units (CGUs), goodwill and other intangibles are allocated between CGUs based on the relative value of the businesses.

j) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

k) Trade receivables

Trade receivables are non-interest bearing, generally have 7-45 day terms and are recognised and carried at amortised cost amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

l) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs include direct materials, direct labour and an appropriate proportion of fixed and variable overhead expenses. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

m) Derivatives and hedging activities

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

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

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

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated income statement within 'finance costs'.

The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in profit or loss within revenue. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

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

n) Property, plant and equipment

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

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

- Plant and equipment — 14.0% to 33.0%
- Leasehold improvements — Over term of lease or 10 years, whichever is less

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

o) Intangible assets

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments.

(ii) Other intangible asset

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

Other intangible assets include both customer contracts and relationships and costs of acquiring and developing business systems. Useful lives have been established for all other intangible assets. Amortisation charges are expensed in the income statement on a straight-line basis over those useful lives. Estimated useful lives are reviewed annually.

The expected useful lives of intangible assets are generally:

- Customer contracts and relationships — 5 – 12 years
- Business systems — 3 years

(iii) Research and development

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

p) Trade and other payables

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

q) Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

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

r) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due to the passage of time is recognised as an interest expense.

s) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

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

(iii) Retirement benefit obligations
All Philippines employees of the Group are entitled to benefits from the superannuation plan on retirement, disability or death. There are two defined benefit schemes, for Salmat Services Inc and MicroSourcing International Limited. The defined benefit plan expense for the plan is determined separately for each plan by independent actuarial valuations. Actuarial gains and losses are recognised immediately in retained earnings through other comprehensive income and employee expenses and interest costs are recognised through the income statement. The defined benefit liability recognised in the balance sheet represents the present value of the defined benefit obligation.

The discount rate applied is based on zero-coupon bond yields (using the RDST-R2 index) and compounded annually. The salary growth rate applied takes into account inflation, seniority, promotion, production, merit and other market factors. The salary growth rate affects all future years, and is considered to be the long-term growth rate. While these are significant actuarial assumption, due to the size of the defined benefit obligation, changes in these are not expected to have a material impact on the obligation at 30 June 2017.

(iv) Share-based payments
Share-based compensation benefits are provided to employees of Salmat limited. Information relating to these schemes is set out in note 30.

The fair value of options and deferred shares granted are recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options and deferred shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The share-based payment plans administered by a Share Trust, which is consolidated in accordance with the consolidation principles in 1(b). When the options are exercised or deferred shares vest, the trust transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

t) Contributed equity

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

Shares in the Group held by the share trust are classified and disclosed as treasury shares and deducted from equity.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

u) Earnings per share

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

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

v) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable:

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

w) Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest thousand dollars, or in certain cases, the nearest dollar.

x) Comparative amounts

The Group has reclassified certain prior year comparatives to align presentation with the current year.

y) Parent entity financial information

The financial information for the parent entity, Salmat Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements except as set out below:

Investments in subsidiaries, associates and joint venture entities
Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Salmat Limited. Dividends received from associates are recognised in the parent entity's profit or loss when its right to receive the dividend is established.

2. SEGMENT INFORMATION

a) Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. The Chief Executive Officer has identified two reportable segments which are as follows:

Media + Digital
The Media + Digital segment delivers relevant, targeted and integrated communications across all digital and traditional channels. Salmat's solutions enable clients to interact and engage with their customers through national letterbox distribution, digital catalogues, pre-shopping website Lasoo, ecommerce, search (SEO, SEM and display advertising), email and SMS marketing.

Contact
The Contact segment helps trusted brands to generate revenue, exit cost, and improve their customer experience. Our contact centre solutions specialise in maximising customer lifetime value using inbound and outbound voice, email, webchat, SMS, social media, customer experience solutions and sophisticated speech technology and automation solutions including natural language speech recognition and voice biometrics. Salmat's MicroSourcing business provides Philippines-based outsourced business solutions – including contact centre services, back-office processes and digital creative and development services – which are provided via an innovative range of managed service delivery models.

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

Interest revenue and finance costs are not allocated to segments, as this type of activity is driven by the corporate finance team, which manages the cash position of the Group.

Accounting policies
Segment revenues and expenses are those directly attributable to the segments.

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

2. SEGMENT INFORMATION CONTINUED

b) Segment Result

2017	Media + Digital $'000	Contact $'000	Corporate Costs $'000	Total $'000
External service revenue	224,341	210,250		434,591
Finance income				668
Total revenue				**435,259**
Underlying EBITDA before significant items	**21,596**	**7,678**	**(6,432)**	**22,842**
Depreciation and amortisation expense				(13,472)
Net finance costs				(1,640)
Underlying profit before income tax				**7,730**
Significant items (note 2c)				(636)
Profit before income tax				**7,094**
Income tax expense				(2,788)
Profit for the year				**4,306**

2016	Media + Digital $'000	Contact $'000	Corporate Costs $'000	Total $'000
External service revenue	254,897	194,934		449,831
Finance income				969
Total revenue				**450,800**
Underlying EBITDA before significant items	**24,195**	**5,770**	**(10,379)**	**19,586**
Depreciation and amortisation expense				(13,624)
Net finance costs				(1,785)
Underlying profit before income tax				**4,177**
Significant items (note 2c)				(6,789)
Loss before income tax				**(2,612)**
Income tax expense				(3,432)
Loss for the year				**(6,044)**

c) Significant Items

The chief operating decision maker (CODM) assesses the performance of the operating segments based on a measure of underlying EBITDA. This measurement basis excludes the effects of non-recurring expenditure from the operating segments.

	Consolidated	
	2017 $'000	2016 $'000
Significant items included in total expenses		
Profit on sale of shares of investment (note 20)	**(1,430)**	(840)
Fair value adjustment on other financial liabilities (note 15)	**(826)**	5,497
Impairment of investment in joint venture (note 20)	**1,314**	–
Strategic review costs	**932**	–
Restructuring costs	**646**	2,760
Other income[1]	**–**	(628)
Significant items[2]	**636**	6,789

1) This includes sale of a small online learning business as part of the product and services review.

2) Tax benefits have not been assigned for significant items due to the Group having carry forward tax losses in Australia.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. SEGMENT INFORMATION CONTINUED

d) Geographical information

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

	Segment revenues		Segment assets	
	2017 $'000	2016 $'000	**2017 $'000**	2016 $'000
Australia	**313,131**	334,997	**141,684**	165,757
New Zealand	**42,888**	40,350	**15,590**	9,755
Philippines	**78,224**	74,216	**11,681**	10,576
Other	**348**	268	**28,724**	28,060
Total	**434,591**	449,831	**197,679**	214,148
Unallocated: deferred tax asset			**12,846**	12,743
Total			**210,525**	226,891

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

In 2017 two clients generated 10.6% and 10.2% of total revenue. In 2016 two clients generated 10.7% and 8.8% of total revenue.

3. REVENUE

	Consolidated	
	2017 $'000	2016 $'000
The Group derives the following type of revenue:		
Services	**434,591**	449,831
Finance income	**668**	969
Total	**435,259**	450,800

4. EXPENSES

	Consolidated	
	2017 $'000	2016 $'000
Depreciation		
Plant and equipment	**8,913**	10,101
Amortisation		
Customer intangibles	**1,150**	1,471
Other intangibles	**3,409**	2,052
Total amortisation	**4,559**	3,523
Depreciation and amortisation expense	**13,472**	13,624
Finance costs	**2,308**	2,754
Net (gain)/loss on disposal of property, plant and equipment	**(25)**	38
Rental expense relating to operating leases	**15,736**	15,132
Net foreign exchange (gain)/losses	**(44)**	169
Defined contribution superannuation expense	**10,486**	11,121
Share-based payments expense	**35**	232
Fair value adjustment on other financial liabilities	**(826)**	5,497
Impairment of investment in joint venture	**1,314**	–

5. INCOME TAX AND DEFERRED TAX

	Consolidated 2017 $'000	Consolidated 2016 $'000
a) Income tax expense		
Current tax	**2,827**	1,978
Deferred tax	**(51)**	1,228
Adjustments for current tax of prior periods	**12**	226
Total income tax expense	**2,788**	3,432
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(Loss) before tax	**7,094**	(2,612)
Tax at the Australian tax rate of 30% (2016 – 30%)	**2,128**	(784)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-allowable deductions	**131**	476
Non-taxable income	**(429)**	(351)
Allowable items	**(688)**	(316)
Tax impact of fair value adjustment and discounting of other liabilities	**(159)**	2,154
Under provision for income tax in prior year	**12**	226
Difference in overseas tax rates	**(1,517)**	(1,349)
Share of joint venture profits and impairment loss on investment in joint venture	**256**	(81)
Unrecognised tax losses	**3,054**	3,457
Total income tax expense	**2,788**	3,432
c) Tax losses		
Gross unused tax losses for which no deferred tax asset has been recognised	**37,039**	26,854
Potential benefit at 30%	**11,112**	8,056

The Group has recognised deferred tax losses of $4.8m to the extent that tax forecasts support their utilisation (see note 5(d)). The unrecorded tax losses of $37.0m are available for utilisation, and they will remain available indefinitely for offset against future taxable profits, subject to continuing to meet the statutory tax tests.

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. INCOME TAX AND DEFERRED TAX CONTINUED

d) Non-current deferred tax assets

	Consolidated 2017 $'000	Consolidated 2016 $'000
The balance comprises temporary differences attributable to:		
Doubtful debts	**191**	477
Employee benefits	**3,540**	3,766
Property, plant & equipment	**1,279**	951
Other provisions	**3,012**	2,726
Tax losses	**4,823**	4,823
	12,845	12,743
Movements:		
Opening balance at 1 July	**12,743**	14,079
Charged to the income statement	**(221)**	(1,336)
Credited from equity	**323**	-
Closing balance at 30 June	**12,845**	12,743

(i) Critical accounting estimate
The deferred tax assets include an amount of $4.8m which relates to carried forward tax losses of Salmat Limited. The Group has incurred taxable losses over the last three financial years, some of which have not been recorded as a deferred tax asset as at 30 June 2017. Management has exercised its judgement, and concluded that the recognised tax losses will be recoverable using the estimated future taxable income based on the Board approved FY18 budget, business forecasts and projections for FY19-FY20. The Group is expected to generate taxable income from FY19.

e) Non-current deferred tax liabilities

	Consolidated 2017 $'000	Consolidated 2016 $'000
The balance comprises temporary differences attributable to:		
Intangible assets	**2,101**	2,430
Movements:		
Opening balance at 1 July	**2,430**	2,473
Credited to the income statement	**(272)**	(108)
Charged to equity	**(57)**	65
Closing balance at 30 June	**2,101**	2,430

6 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated 2017 $'000	Consolidated 2016 $'000
Cash at bank	**34,807**	42,898
Cash on hand	**9**	13
	34,816	42,911

At 30 June 2017 no cash is held with term deposits (2016: nil). $236,014 (2016: $263,000) of cash is held in trust and is restricted for use for the settlement of short-term and long-term incentives.

7. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated 2017 $'000	Consolidated 2016 $'000
Trade receivables	**46,802**	46,655
Provision for impairment (note (a))	**(736)**	(1,813)
	46,066	44,842
Other receivables	**5,989**	6,350
	52,055	51,192

a) Impaired trade receivables

As at 30 June 2017 current trade receivables of the Group with a nominal value of $735,658 (2016: $1,812,558) were impaired. The individually impaired receivables mainly relate to clients, which are in an unexpectedly difficult economic situation.

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

	Consolidated 2017 $'000	Consolidated 2016 $'000
At 1 July	**1,813**	851
Allowance for impairment recognised during the year	**536**	1,254
Receivables written off during the year as uncollectible	**(1,612)**	(296)
Net exchange difference on translation of foreign operations	**(1)**	4
At 30 June	**736**	1,813

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

b) Past due but not impaired

As of 30 June 2017, trade receivables of $10,045,323 (2016: $10,585,863) were past due but not impaired. These relate to a number of independent clients for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated 2017 $'000	Consolidated 2016 $'000
1-30 days	**6,371**	7,857
31-60 days	**1,178**	1,577
Greater than 60 days	**2,496**	1,152
	10,045	10,586

There are no trade receivables that have had renegotiated terms that would otherwise, without that renegotiation, have been past due or impaired. Based on the credit history of trade receivables not past due or past due and not impaired, the Group believes that these amounts will be received when due.

The other classes within trade and other receivables do not contain impaired assets and the Group believes that these amounts will be fully recovered. Outstanding balances are unsecured and are repayable in cash.

(i) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security. Refer to note 21 for more information on the risk management policy of the Salmat Group and the credit quality of the entity's trade receivables.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. CURRENT ASSETS – OTHER CURRENT ASSETS

	Consolidated	
	2017 $'000	2016 $'000
Prepayments	**4,404**	4,575
Related party receivable – Reach Media NZ Limited (joint venture)	**–**	2,406
Withholding tax receivables	**37**	38
Recoverable deposits	**143**	216
	4,584	7,235

9. NON-CURRENT ASSETS – RECEIVABLES

	Consolidated	
	2017 $'000	2016 $'000
Recoverable deposits	**1,717**	1,506
Related party receivable – Reach Media NZ Limited (joint venture)	**1,538**	–
Prepayments	**33**	208
Non-current trade receivables	**2,214**	3,279
	5,502	4,993

a) Fair values

The carrying amounts for all non-current receivables are a reasonable approximation of fair value.

b) Related party transaction

The loan to Reach Media NZ Limited is considered to be a transaction with a related party (note 20). The loan is classified as non-current as management's expectation is this loan will not be settled within the next 12 months given the forecast operating cash flows, however the loan balance has been considered as part of the 2017 impairment test of the investment in the joint venture. This loan is made on normal commercial terms and conditions. Interest is concluded to be at market rates.

10. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment $'000
At 30 June 2015	
Cost	108,939
Accumulated depreciation	(89,076)
Net book amount	19,863
Year ended 30 June 2016	
Opening net book amount	19,863
Additions	3,605
Disposals	(38)
Depreciation charge	(10,101)
Net exchange difference on translation of foreign operations	112
Closing book amount	13,441
At 30 June 2016	
Cost	112,051
Accumulated depreciation	(98,610)
Net book amount	13,441
Year ended 30 June 2017	
Opening net book amount	13,441
Additions	6,657
Disposals	(76)
Depreciation charge	(8,913)
Net exchange difference on translation of foreign operations	(245)
Closing book amount	10,864
At 30 June 2017	
Cost	115,314
Accumulated depreciation	(104,450)
Net book amount	10,864

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Goodwill $'000	Software Assets $'000	Customer Intangible $'000	Total $'000
Year ended 30 June 2016				
Opening net book amount	73,272	8,628	12,345	94,245
Amortisation charge	–	(2,052)	(1,471)	(3,523)
Foreign currency translation impact	110	–	338	448
Closing net book amount	73,382	6,576	11,212	91,170
At 30 June 2016				
Cost	166,134	9,957	13,730	189,821
Accumulated amortisation and impairment	(93,547)	(3,381)	(5,030)	(101,958)
Foreign currency translation impact	795	–	2,512	3,307
Net book amount	73,382	6,576	11,212	91,170
Year ended 30 June 2017				
Opening net book amount	73,382	6,576	11,212	91,170
Additions	–	1,912	–	1,912
Amortisation charge	–	(3,409)	(1,150)	(4,559)
Foreign currency translation impact	(124)	–	(317)	(441)
Closing net book amount	73,258	5,079	9,745	88,082
At 30 June 2017				
Cost	166,134	11,869	13,730	191,733
Accumulated amortisation and impairment	(93,547)	(6,790)	(6,158)	(106,495)
Foreign currency translation impact	671	–	2,173	2,844
Net book amount	73,258	5,079	9,745	88,082

Due to investment in new technology solutions over the past year, the Group has reassessed the amortisation rate on software assets in line with their expected useful life. All assets in this category now have a useful life of 3 years. This increased amortisation in the current period by $1.3m for those assets with a previous useful life of 5 years.

a) Impairment tests for intangible assets

The Group performs impairment testing of goodwill and other intangible assets annually, or at other times if there is an indicator of impairment.

During the year the Group did not recognise any impairment charges relating to intangible assets.

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

	Media+Digital $'000	Contact $'000	Total $'000
2017 Goodwill	54,034	19,224	73,258
2016 Goodwill	54,034	19,348	73,382

The recoverable amount of a CGU is determined based on value in use using discounted cash-flow calculations.

b) Key assumptions

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

- Revenue forecasts for a five-year forecast period based on the detailed Board approved FY18 budget, business forecasts and projections for FY19-FY22. Average five-year growth rates are a growth of 1.7% for Contact and a decline of 4.5% for Media+Digital.
- Growth rates to extrapolate cash flows beyond the five-year period of 2.5% for Contact and 0% for Media+Digital.
- A discount rate applied to forecast pre-tax cash flows for both Contact of 14.2% (2016:14.1%) and Media+Digital of 15.5% (2016: 14.8%). The equivalent post-tax discount rate is 10.3% for both CGUs (2016: 10.3%).

Discount rates reflect the Group's estimate of the time value of money and the risks specific to each CGU that are not already reflected in the cash flows. In determining appropriate discount rates for each CGU, regard has been given to the weighted average cost of capital of the Group and business risk specific to that segment. Risk related to operating in different geographic locations has been reflected in the underlying cash flows prior to applying the discount rate.

11. NON-CURRENT ASSETS – INTANGIBLE ASSETS CONTINUED

c) Critical accounting estimate

The value in use calculation requires management to exercise its judgement in the process of applying the key assumptions noted above.

d) Impact of possible changes in key assumptions

Contact CGU's recoverable amount exceeds its carrying amount by $1.4 million. All other things being equal, if the following reasonably possible changes occurred in the Contact cash flow model's key assumptions, the CGU's recoverable amount would equal its carrying amount:

- a reduction in average annual revenue growth rates from 1.7% to 1.6%;
- a reduction in the terminal growth rate by 0.3%; or
- an increase in the post-tax discount by 0.2%.

12. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2017 $'000	2016 $'000
Trade payables	**7,436**	7,194
Accrued expenses	**32,622**	33,499
Other payables – deferred revenue	**5,047**	2,793
	45,105	43,486

13. PROVISIONS

	Consolidated	
	2017 $'000	2016 $'000
Current		
Employee benefits – long service leave	**3,565**	3,869
Employee benefits – annual leave	**6,771**	6,827
	10,336	10,696
Non-current		
Employee benefits – long service leave	**732**	863
Other provisions – lease make good (note ii)	**2,403**	2,747
	3,135	3,610
Total provisions	**13,471**	14,306

(i) Amounts not expected to be settled within the next 12 months

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

The following amounts reflect annual leave that is not expected to be taken or paid within the next 12 months.

	2017 $'000	2016 $'000
Current leave obligations to be settled after 12 months	**471**	760

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. PROVISIONS CONTINUED

(ii) Lease make good provision

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

Movements in the lease make good provision is set out below:

	Consolidated	
	2017 $'000	2016 $'000
Carrying amount at start of year	**2,747**	2,760
Additional provision recognised	**1,152**	10
Provision utilised	**(1,490)**	–
Foreign currency translation impact	**(6)**	(23)
Carrying amount at end of year	**2,403**	2,747

14. BORROWINGS

	Consolidated	
	2017 $'000	2016 $'000
Current		
Bank loans	**5,954**	7,526
Lease liabilities	**16**	–
Total current borrowings	**5,970**	7,526
Non-current		
Bank loans	**19,962**	20,671
Lease liabilities	**54**	60
Total non-current borrowings	**20,016**	20,731
Total borrowings	**25,986**	28,257

a) Bank loans and bank overdraft

On 17 November 2016, the Group signed and renewed the existing facility agreement. This included extending the repayment terms for the AUD Tranche (to be repaid by 17 November 2018), as well as the USD Tranche, which will have amortisation payments due every 6 months, with full payment by 31 March 2018. A number of assets have also now be pledged as security. The loans have been classified between current and non-current based on the expiry date of the loan facility agreements.

b) Financing arrangements

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

	Consolidated	
	2017 $'000	2016 $'000
Floating rate		
Bank overdraft	**1,000**	1,478
Loan facilities	**28,001**	35,773
Guarantee facility	**8,000**	8,000
	37,001	45,251
Used at balance date		
Loan facilities	**26,001**	28,197
Guarantee facility	**4,392**	5,164
	30,393	33,361
Unused at balance date		
Bank overdrafts	**1,000**	1,478
Loan facilities	**2,000**	7,576
Guarantee facility	**3,608**	2,836
	6,608	11,890

14. BORROWINGS CONTINUED

The bank overdraft facilities may be drawn at any time. Interest-bearing liabilities recorded in the statement of financial position includes deferred borrowing costs. The current interest rates on loan facilities are 3.53% to 4.37% (2016: 3.10% to 4.59%) and on bank overdraft the interest is up to 4.17% (2016: up to 4.96%).

c) Fair value

The carrying amounts of borrowings are a reasonable approximation of fair value.

15. OTHER FINANCIAL LIABILITIES

	Consolidated	
	2017 $'000	2016 $'000
Financial liabilities at fair value through profit or loss		
Contingent consideration	–	5,967
Put/call option	**4,583**	32,357
	4,583	38,324
Total other financial liabilities	**4,583**	38,234
Current	**4,583**	**36,832**
Non-current	–	1,492
Total other financial liabilities	**4,583**	38,324

All of the above financial liabilities at fair value through profit and loss arose as part of the purchase agreements of companies acquired during 2014.

Movements other financial liabilities is set out below:

	Consolidated	
	2017 $'000	2016 $'000
Carrying amount at start of year	**38,324**	38,696
(Decrease)/increase in fair value	**(826)**	5,497
Unwinding of discount rate	**626**	1,684
Payment of put/call option	**(24,307)**	–
Interest on put/call option	**450**	–
Foreign exchange on put/call option	**(791)**	–
Issue of share capital to settle put/call option	**(2,300)**	–
Payment of contingent consideration and purchase commitment	**(6,593)**	(7,553)
Carrying amount at end of year	**4,583**	38,324

On 10 August 2016, the Group completed the remaining 50% acquisition of MicroSourcing International. $22.3m of this liability was settled on 10 August 2016, through a $20.0m cash payment and $2.3m share issue. The payment terms for the remaining $8.5m were re-negotiated to defer cash settlement dates in which $4.3m was paid in April 2017 and the remaining $4.2m (excluding interest) is due in August 2017. Interest that was payable on the deferred payment was included in each payment installment.

16. NON-CURRENT LIABILITIES – OTHER NON-CURRENT LIABILITIES

	Consolidated	
	2017 $'000	2016 $'000
Deferred profit	–	698
Refundable customer deposits	**295**	–
Other payables	**419**	–
	714	698

The deferred profit has been recognised due to the impairment of the investment in Reach Media NZ Limited in 2017.

The refundable customer deposits represent the security deposit collected from the customers by MicroSourcing International Ltd. This is used to minimise the credit risk exposure of the business and it is applied to any costs associated with the contract termination. This includes office reinstatement costs, outstanding employee severance costs and any amount owed by customer to MicroSourcing.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. CONTRIBUTED EQUITY

	Notes	Consolidated 2017 Shares '000	Consolidated 2016 Shares '000	Consolidated 2017 $'000	Consolidated 2016 $'000
a) Share capital					
Ordinary shares					
Fully paid	(b)	**199,663**	159,813	**226,761**	210,152
Treasury shares	(c)	**(324)**	(324)	**(176)**	(176)
		199,339	159,489	**226,585**	209,976

b) Ordinary share capital

The Group successfully completed a $9.8m Institutional Entitlement Offer on 17 October 2016 and a $5.3m Retail Entitlement Offer on 10 November 2016. The gross proceeds of $15.1m were offset by transaction costs net of tax of $0.8m. All proceeds, less costs, were used to fund the settlement of the MicroSourcing put/call option (note 15). Set out below is a full reconciliation of share capital for the period:

Date	Details	Number of shares '000	$'000
1 July 2016	Opening balance	159,489	209,976
	MicroSourcing share issue	4,820	2,300
	Capital raising proceeds – net of transaction costs	35,030	14,309
30 June 2017	**Balance**	**199,339**	**226,585**

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

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

c) Treasury shares

Treasury shares are shares in Salmat Limited that are held by the Salmat Limited employee share trust for the employee deferred share and option plan and are deducted from equity (see note 30 for further information).

Date	Details	Number of shares '000	$'000
1 July 2015	Opening balance	–	–
	Purchase of shares through share trust	324	176
30 June 2016	Balance	324	176
1 July 2016	Opening balance	**324**	**176**
	Purchase of shares through share trust	**–**	**–**
30 June 2017	**Balance**	**324**	**176**

d) Employee deferred share and option plan

Information relating to the employee deferred share and option plan, including details of deferred shares and options issued, and exercised under the schemes, are set out in note 30.

e) Capital management

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

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

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

As the Company is in a net cash position, the monitoring and forecasting of the net cash position is a key measure that capital management targets are assessed against. At 30 June 2017 the Company had a net cash position of $8,815,000 (2016: $14,654,000).

18. OTHER RESERVES AND RETAINED EARNINGS

	Consolidated 2017 $'000	Consolidated 2016 $'000
a) Other reserves		
Share-based payments reserve	**2,372**	2,337
Foreign currency translation reserve	**1,810**	2,009
Transaction with NCI reserve	**(24,639)**	(33,402)
	(20,457)	(29,056)
Movements:		
Share-based payments reserve		
Balance 1 July	**2,337**	2,105
Shares and options expense	**35**	232
Balance 30 June	**2,372**	2,337
Movements:		
Foreign currency translation reserve		
Balance 1 July	**2,009**	1,337
Exchange differences on translation of foreign operations	**(199)**	672
Balance 30 June	**1,810**	2,009
Movements:		
Transaction with NCI reserve		
Balance 1 July	**(33,402)**	(33,907)
Transaction with non-controlling interest	**8,763**	505
Balance 30 June	**(24,639)**	(33,402)

On 10 August 2016, the Group completed the remaining 50% acquisition of MicroSourcing International Ltd. On 4 January 2016, the Group completed the remaining 50% acquisition of Fuse Pty Ltd.

	Consolidated 2017 $'000	Consolidated 2016 $'000
b) Retained earnings		
Balance 1 July	**(93,598)**	(85,792)
Net profit/(loss) for the year attributable to owners of the Company	**4,264**	(8,029)
Remeasurement of retirement benefit obligation recognised directly in retained earnings	**66**	223
Dividends	**–**	–
Balance 30 June	**(89,268)**	(93,598)

c) Nature and purpose of other reserves

(i) Share-based payments reserve
The share-based payments reserve is used to recognise the grant date fair value of performance rights (note 30) issued but not exercised, and the issue of shares held by the Salmat Limited employee share trust to employees.

(ii) Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d). The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(iii) Transaction with NCI reserve
The transaction with NCI reserve arises from transactions with non-controlling interests, where commitments are made or there are obligations to purchase the remaining shares of subsidiaries that are not wholly owned. Initial recognition is through this reserve, any subsequent changes in the fair value of the liability are recognised through the income statement. On purchase of remaining shares of subsidiaries where a commitment had been made, the non-controlling interest of the subsidiary is de-recognised through this reserve.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. DIVIDENDS

	Consolidated 2017 $'000	Consolidated 2016 $'000
a) Dividends paid		
Dividend paid to non-controlling interests	**1,692**	3,215
Dividend paid to owners of Salmat Limited	**–**	–
Dividend paid as per Statement of Cash Flows	**1,692**	3,215
b) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the Directors have recommended no dividend payment per fully paid ordinary share.	**–**	–
	–	–

c) Franked dividends

The franked portions of any dividends recommended after 30 June 2017 will be franked out of existing franking credits.

	Consolidated 2017 $'000	Consolidated 2016 $'000
Franking credits available for the Australian Group subsequent financial years based on a tax rate of 30% (2016 – 30%)	**33,052**	33,052

The above amounts represent the balance of the franking account as at the end of the reporting period, 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 end of each reporting period; and

c) franking credits that will arise from the receipt of dividends recognised as receivables at the end of each reporting period.

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

20. GROUP INTERESTS AND RELATED PARTIES

a) Parent entity

The ultimate parent entity is Salmat Limited.

b) Subsidiaries

The Group's material subsidiaries and interests in these at the end of the reporting period are as follows:

			Equity Holding 2017 %	Equity Holding 2016 %
Salmat MediaForce Pty Limited*	Australia	Ordinary	**100**	100
Salmat Contact Solutions Australia Pty Limited*	Australia	Ordinary	**100**	100
Salmat Contact Solutions New Zealand Limited	New Zealand	Ordinary	**100**	100
Salmat Digital Pty Limited*	Australia	Ordinary	**100**	100
Salmat Direct Sales Pty Limited*	Australia	Ordinary	**100**	100
Netstarter Pty Limited	Australia	Ordinary	**100**	100
MicroSourcing Philippines Inc **	Philippines	Ordinary	**100**	50
MicroSourcing International Ltd **	Hong Kong	Ordinary	**100**	50

* These subsidiaries have been granted relief from the necessity to prepare financial report in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 29.

** On 10 August 2016, the Group completed the remaining 50% acquisition of this subsidiary (see note 15), prior to this date the Group had control over these entities as they were able to control the Board and direct the day to day running of these entities through key clauses in the shareholder agreement.

c) Non-controlling interests

The are no non-controlling interests in the Group as at 30 June 2017.

d) Interests in joint ventures and assets for sale (AFS)

Set out below are the investments of the Group at 30 June 2017.

Name of Company	Principal activity	Ownership interest 2017 %	Ownership interest 2016 %	Carrying amount/ fair value 2017 $'000	Carrying amount/ fair value 2016 $'000
Unlisted – no quoted prices available					
Reach Media NZ Limited, New Zealand (Joint Venture)	Unaddressed mail distribution	**50**	50	**1,546**	3,107
Online Media Holdings Pty Ltd (AFS)*	Online location based services	**16**	23	**–**	–
				1,546	3,107

* During the year Online Media changed from an Associate to AFS investment due to the loss of significant influence. The Group has concluded the fair value should remain at $NIL.

	Consolidated 2017 $'000	Consolidated 2016 $'000
Carrying amount at the beginning of the financial year	**3,107**	2,585
Impairment loss*	**(2,013)**	–
Foreign exchange profit/(loss)	**(10)**	251
Share of profits recognised	**462**	271
Carrying amount at the end of the financial year	**1,546**	3,107

* The impairment loss has been partially offset in the income statement by deferred profit recognised at the time of at acquisition (note 16).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market (including foreign currency and interest rate risk), credit and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks, aging analysis for credit risk and rolling cash flow forecasts for liquidity risk.

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

The Group holds the following financial instruments:

	Consolidated	
	2017 $'000	2016 $'000
Financial assets		
Cash and cash equivalents	**34,816**	42,911
Trade and other receivables	**55,807**	56,877
	90,623	99,788
Financial liabilities		
Trade and other payable	**45,524**	43,486
Borrowings	**25,986**	28,257
Other financial liabilities	**4,583**	38,324
	76,093	110,067

a) Market risk

(i) Foreign exchange risk

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

The US dollar denominated bank loans are expected to be repaid with receipts from US denominated sales. The foreign currency exposure of these loans has therefore not been hedged.

(ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable interest rates. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's treasury policy requires interest rate swaps to be entered into to manage cash flow risks associated with borrowings with variable interest rates.

During 2016 and 2017, the Group's borrowings at variable rate were mainly denominated in Australian dollars and US dollars. As at 30 June 2017 the Group is in a net cash position, and so the Group's exposure to interest rate risk considered minimal, as the variable interest paid is offset by the variable interest received.

b) Credit risk

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

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

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 50. As at 30 June 2017, the Group's exposure to clients with a balance greater than $1 million totalled $18.9 million (2016: $10.7 million). The Group does not consider that there is any significant concentration of credit risk.

c) Liquidity risk

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

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (interest is calculated based on current rates). Balances due within 12 months equal their carrying amount as the impact of discounting is not significant.

21. FINANCIAL RISK MANAGEMENT CONTINUED

Contractual maturities of financial liabilities	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000	Carrying amount (assets)/ liabilities $'000
At 30 June 2017							
Non-derivatives							
Trade payables	45,524	–	–	–	–	45,524	45,524
Borrowings including interest	644	6,342	20,300	–	–	27,286	25,916
Finance lease liabilities	16	–	54	–	–	70	70
Other financial liabilities (note 14)	4,608	–	–	–	–	4,608	4,583
	50,792	**6,342**	**20,354**	**–**	**–**	**77,488**	**76,093**
At 30 June 2016							
Non-derivatives							
Trade payables	43,486	–	–	–	–	43,486	43,486
Borrowings including interest	4,067	4,485	21,342	–	–	29,894	28,197
Finance lease liabilities	–	–	–	60	–	60	60
Other financial liabilities (note 14)	32,357	5,026	1,675	–	–	39,058	38,324
Total non-derivatives	**79,910**	**9,511**	**23,017**	**60**	**–**	**112,498**	**110,067**

d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. There are no Level 1 – 3 financial liabilities held by the Group at 30 June 2017.

22. EARNINGS/(LOSS) PER SHARE

	Consolidated 2017	Consolidated 2016
a) Basic earnings/(loss) per share		
Earnings per share attributable to owners of Salmat Limited	**2.3**	(5.0)
Earnings per share for profit/(loss)	**2.3**	(3.8)
b) Diluted earnings/(loss) per share*		
Diluted earnings per share attributable to owners of Salmat Limited	**2.2**	(5.0)
Diluted earnings per share for profit/(loss)	**2.3**	(3.8)

* Due to the Group reporting a loss and a loss attributable to owners of Salmat for the year ended 30 June 2016, the impacts of potential shares are not included in calculating diluted EPS because they are anti-dilutive.

	Consolidated 2017 $'000	Consolidated 2016 $'000
c) Reconciliation of earnings used in calculating earnings per share		
Profit/(loss) for the year attributable to owners of Salmat	**4,264**	(8,029)
Profit/(loss) for the year	**4,306**	(6,044)

	Consolidated 2017 Quantity '000	Consolidated 2016 Quantity '000
d) Weighted average number of ordinary shares used in the calculation of basic and diluted EPS		
Weighted average number of shares on issue used to calculate basic EPS	**186,421**	159,768
Weighted average number of shares on issue used to calculate diluted EPS	**189,213**	159,768

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. KEY MANAGEMENT PERSONNEL

Key management personnel compensation

	Consolidated	
	2017 $	2016 $
Short-term employee benefits	**2,481,324**	3,048,446
Long term benefits	**2,132**	3,210
Post-employment benefits – Defined contribution fund contributions	**119,010**	126,359
Share-based payments	**(92,080)**	226,013
Termination payments	**784,089**	–
	3,294,475	3,404,028

Detailed remuneration disclosures are provided in the remuneration report on page 12-19. There are no transactions with key management personnel or entities related to them, other than remuneration detailed.

24. REMUNERATION OF AUDITORS

	Consolidated	
	2017 $	2016 $
Amounts received, or due and receivable by auditors of the Company:		
PricewaterhouseCoopers:		
Remuneration for audit or review of the financial reports		
PricewaterhouseCoopers – Australian firm	**358,700**	384,360
PricewaterhouseCoopers – Overseas firm	**76,796**	82,543
Remuneration for other assurance services		
PricewaterhouseCoopers – Australian firm	**55,000**	56,000
Total audit and other assurance services	**490,496**	522,903
Remuneration for other services(i)		
PricewaterhouseCoopers – Australian firm		
Tax compliance	**20,000**	–
Compliance	**87,000**	–
Consulting and advice	**713,000**	–
Total non-audit services	**820,000**	–

(i) 2017 non-audit services relating to Financial, IT and Tax consulting and advice associated with the strategic review performed across the business, and due diligence procedures associated with the rights issue in the period. PricewaterhouseCoopers was considered most appropriately suited to perform this work. It is the Group's policy to employ the auditors on assignments additional to their statutory audit duties where their expertise and experience with the Group is compelling.

25. CONTINGENT LIABILITIES

(i) Legal and regulatory proceedings

The Group has been, and is involved from time to time in various claims and proceedings arising from the conduct of its business. There are no claims or proceedings on foot, either individually or in aggregate, where the quantum of the claim is likely to have a material effect on the Group's financial position, aside from one claim which is currently stayed, and which ultimately the Group believes it is in a strong position to defend. The Group maintains insurance cover to minimise the potential effects of such claims, and where appropriate, provisions have been made.

(ii) Guarantees

	2017 $	2016 $
Guarantees in respect of performance under contracts and premise leases	**4,392**	5,164
	4,392	5,164

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

26. COMMITMENTS

a) Lease commitments

(i) Non-cancellable operating leases

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

	Consolidated	
	2017 $'000	2016 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**16,610**	18,631
Later than one year but not later than five years	**41,986**	46,698
Later than five years	**7,510**	8,879
	66,106	74,208

(ii) Finance leases

The Group leases various plant and equipment under finance lease expiring within five years. This totals $70,000 (2016: $60,000)

27. EVENTS OCCURRING AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

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

28. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2017 $'000	2016 $'000
Profit/(loss) for the year	**4,306**	(6,044)
Depreciation and amortisation	**13,472**	13,624
Impairment on joint venture	**1,314**	–
Non-cash financing costs	**839**	1,559
Non-cash financing income	**(183)**	(133)
Non-cash employee benefits	**413**	319
Non-cash retirement benefits (benefit)/expense	**(68)**	579
Fair value adjustment – other financial liabilities	**(826)**	5,497
Net (gain)/loss on sale of non-current assets	**(25)**	38
Profit on sale of shares of investment	**(1,430)**	(840)
Sale of business	**–**	(330)
Share of net profit of joint venture	**(462)**	(271)
Interest revenue	**(485)**	(836)
Finance costs	**1,469**	1,070
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
(Increase)/decrease in trade and other receivables	**(2,284)**	7,329
Increase in inventories	**(132)**	(34)
Decrease/(increase) in other assets	**3,278**	(2,287)
Decrease in deferred tax assets	**191**	1,372
Increase/(decrease) in trade and other payables	**2,095**	(11,877)
Increase/(decrease) in provision for income taxes payable	**309**	(18)
Decrease in provision for deferred income tax	**(255)**	(108)
Decrease in other provisions	**(2,424)**	(3,184)
Net cash inflow from operating activities	**19,112**	5,425

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. DEED OF CROSS GUARANTEE

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

- Salmat MediaForce Pty Limited
- Contract Solutions Pty Limited
- Salmat Contact Solutions Australia Pty Limited
- Salmat Digital Pty Limited
- Salmat MSI Pty Limited
- Salmat International Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and Directors' report under ASIC Corporations (wholly-owned Companies) Instrument 2016/785 issued by ASIC.

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

The above companies represent a 'Closed Group' for the purposes of the Class Order. Set out below is a consolidated income statement and a summary of movements in consolidated retained earnings for the year ended 30 June 2017 of the Closed Group.

	2017 $'000	2016 $'000
Consolidated income statement		
Profit/(loss) before income tax	**26,823**	(20,185)
Income tax expense	**(103)**	(1,646)
Profit/(loss) after tax	**26,721**	(21,831)
Profit/(loss) for the year	**26,720**	(21,831)
Consolidated statement of comprehensive income		
Profit/(loss) for the year	**26,720**	(21,831)
Other comprehensive income		
Exchange differences on translation of foreign operations	**165**	202
Other comprehensive income for the year, net of tax	**165**	202
Total comprehensive income/(loss) for the year	**26,885**	(21,629)
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**(30,192)**	(8,361)
Profit/(loss) for the year	**26,720**	(21,831)
Retained earnings at the end of the financial year	**(3,472)**	(30,192)

29. DEED OF CROSS GUARANTEE CONTINUED

b) Statement of financial position

Set out below is a consolidated statement of financial position as at 30 June 2017 of the Closed Group.

	2017 $'000	2016 $'000
Current assets		
Cash and cash equivalents	**10,459**	24,165
Trade and other receivables	**38,970**	35,347
Inventories	**50**	34
Other current assets	**3,788**	4,105
Total current assets	**53,267**	63,651
Non-current assets		
Receivables	**2,285**	3,454
Investments	**215,447**	217,877
Property, plant and equipment	**6,805**	9,193
Deferred tax assets	**12,613**	12,333
Intangible assets	**17,302**	19,086
Total non-current assets	**254,452**	261,943
Total assets	**307,719**	325,594
Current liabilities		
Trade and other payables	**32,613**	31,164
Net intercompany payables	**52,906**	80,608
Borrowings	**5,954**	7,526
Other financial liabilities	**–**	29,951
Provisions	**8,687**	9,055
Total current liabilities	**100,160**	158,304
Non-current liabilities		
Other financial liabilities	**–**	1,492
Borrowings	**19,963**	20,671
Provisions	**2,015**	3,182
Total non-current liabilities	**21,978**	25,345
Total liabilities	**122,138**	183,649
Net assets	**185,581**	141,945
Equity		
Contributed equity	**226,585**	209,977
Reserves	**(37,532)**	(37,840)
Retained earnings	**(3,472)**	(30,192)
Total equity	**185,581**	141,945

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. SHARE-BASED PAYMENTS

a) Employee option plan

The Salmat Executive Performance Option Plan allows the Company to grant performance rights in the form of zero price options over shares to key executives. The plan is designed to provide long-term incentives for senior managers and above to deliver long term shareholder returns. Under the plan participants are offered rights to purchase shares if certain performance standards are met. The consideration for the right is zero. The amount of rights that vest depends on Salmat's Total Shareholder Return (TSR), EPS and non-financial measures. There is also a service condition attached to each tranche of performance rights in that the executive must also be employed by the Company at the date of assessment of the right.

Participation in the plan is at the Board's discretion. Rights generally may not be transferred and do not carry any voting rights or the right to dividends. Quotation of rights on the ASX will not be sought. However, the Company will apply for official quotation of shares issued on the exercise of rights. Shares issued on the exercise of rights will rank equally with other shares of the Company.

Once vested, the right remains exercisable for a period of 2 years (or such earlier date as determined by the Board) from the date of its vesting to the eligible executive, or the date six months after the eligible executive dies, retires, is made redundant or becomes disabled, or the date one month after the eligible executive ceases to be employed by Salmat for any other reason.

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

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Forfeited during the year Number	Exercised during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
Consolidated – 2017								
Dec 15	Sept 18	–	2,439,781	–	(1,408,440)	–	1,031,341	–
Total			**2,439,781**	**–**	**(1,408,440)**	**–**	**1,031,341**	**–**
Consolidated – 2016								
Dec 15	Sept 18	–	–	2,930,482	(490,701)	–	2,439,781	–
Aug 13	Sept 16	–	164,593	–	(164,593)	–	–	–
Aug 12	Sept 15	–	90,335	–	(90,335)	–	–	–
Dec 12	Sept 15	–	17,027	–	(17,027)	–	–	–
Total			**271,955**	**2,930,482**	**(762,656)**	**–**	**2,439,781**	**–**

Fair value of rights granted

The assessed fair value at grant date of rights granted to the individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using an adjusted form of the Black-Scholes model and a Monte Carlo simulation that take into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the right.

The model inputs for the rights issued during the year ended 30 June 2016 included:

a) Share price at date of grant: $0.65 on 14 December 2015
b) Rights issued have no exercise price
c) Risk free interest rate: 2.11% on 14 December 2015
d) Expected price volatility of the Company's shares: 40%
e) Expected dividend yield: 0%
f) Expiry and vesting date: 1 September 2018

b) Employee share plan

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

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

30. SHARE-BASED PAYMENTS CONTINUED

	2017 Number of shares '000	2016 Number of shares '000
Exempt employee share plan		
Opening balance	–	–
Transfers/disposals	–	(116)
Acquisitions	–	116
Closing balance	–	–

c) Expenses arising from share-based payment transactions

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

	Consolidated	
	2017 $'000	2016 $'000
Rights issued under employee option plan	**35**	232
	35	232

31. PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	Parent Entity	
	2017 $'000	2016 $'000
Statement of financial position		
Current assets	**33,192**	46,093
Non-current assets	**25,253**	32,205
Total assets	**58,445**	78,298
Current liabilities	**12,971**	10,938
Non-current liabilities	**18,429**	15,524
Total liabilities	**31,400**	26,462
Shareholders' equity		
Contributed equity	**226,585**	209,975
Reserves	**(3,674)**	(2,259)
Retained earnings	**(195,866)**	(155,880)
	27,045	51,836
Loss for the year	**(39,985)**	(47,447)
Total comprehensive loss	**(39,985)**	(47,447)

b) Guarantees entered into by the parent entity

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the deed of cross guarantee and the subsidiaries subject to the deed are disclosed in note 29.

c) Contingencies and commitments

For information about contingent liabilities and commitments contracted by the parent entity please see note 25 and 26.

DIRECTOR'S DECLARATION

30 JUNE 2017

In the Directors' opinion:

a) the financial statements and notes set out on pages 22 to 57 are in accordance with the *Corporations Act 2001*, including:
   (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
   (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and
b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended Closed Group identified in note 29 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 29.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer as required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Peter Mattick
Chairman

Sydney

INDEPENDENT AUDITOR'S REPORT

TO THE OWNERS OF SALMAT LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Our opinion

In our opinion:

The accompanying financial report of Salmat Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

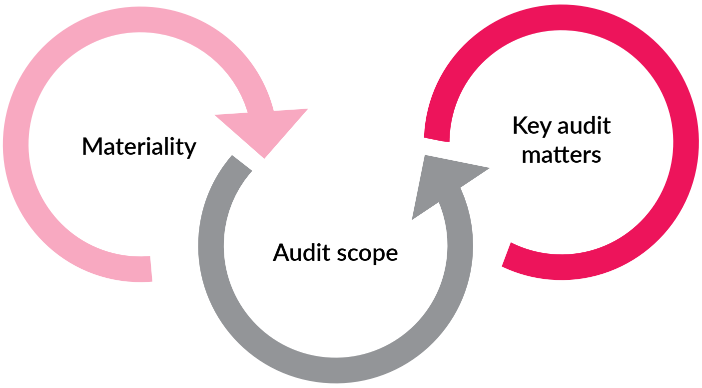
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, Sydney NSW 2000
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

INDEPENDENT AUDITOR'S REPORT CONTINUED



Materiality

- For the purpose of our audit we used overall group materiality of $0.55 million, which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation and amortisation ('EBITDA').
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose EBITDA as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Group and is not as volatile as other profit and loss measures.
- We selected 2.5% based on our professional judgement, noting that it is also within the range of commonly accepted EBITDA-related benchmarks.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group's accounting processes are managed by a finance function in Sydney, where we predominantly performed our audit procedures. The Group audit team performed audit procedures in respect of the Group's operations in Australia and New Zealand. Acting under our instruction, component auditors performed procedures over the Microsourcing business in the Philippines.
- The team included specialists and experts on information technology and valuation.

Key audit matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit Risk and Compliance Committee:
  - Valuation of goodwill and other intangible assets in the Contact, and Media + Digital cash generating units ('CGU'); and
  - Revenue recognition for Contact contracts.
- They are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

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Key audit matter	How our audit addressed the key audit matter
Valuation of goodwill and other intangible assets in the Contact, and Media + Digital cash generating units ('CGU') *(refer to note 11, $88.1m)* The Group prepared discounted cash flow models to assess the carrying value of goodwill and other intangible assets in both the Contact, and Media + Digital CGUs. In undertaking the impairment testing, the Group made a number of assumptions in the model that are subjective and judgemental. The key assumptions and related disclosures can be found in note 11 of the financial report and include average five-year revenue growth rates, long-term growth rates and the discount rate used to discount the estimated cash flows. We considered this to be a key audit matter because of the magnitude of the balance and the judgements and estimates made by the Group when undertaking the impairment tests.	We obtained an understanding of the Group's cash flow forecasts included in the models to assess the carrying value of the Contact and, Media + Digital CGUs and the process by which they were approved. We compared these forecasts to the Board approved budget and compared previous forecasts to actual results to assess the Group's ability to forecast cash flows accurately. To test the methodology supporting the Group's model, we: • Assessed the reasonableness of the assumptions used by: – Comparing the revenue growth forecasts to the historical performance of the business and management's support. In particular, for the Contact CGU, this management support included consideration of recent contract wins, and, for the Media + Digital CGU, forecast volume information reflecting recent changes in the market. – Comparing long term market growth assumptions to a sample of relevant external Australian market data. • Together with PwC valuation experts, we assessed the components of the discount rate used in the model, this included calculating our own acceptable range of discount rates. • We considered the sensitivity of the models to changes in key assumptions by applying other values within a reasonably possible range. We compared the final carrying value of these CGUs to the possible valuations under these different scenarios.
Revenue recognition for Contact contracts *(Refer to note 2, $210.3m)* The Group has contracts with multiple customers for the provision of contact services. There are bespoke terms and conditions for each customer. Revenue recognition for Contact contracts was a key audit matter because of the significance of these to the total revenue of the Group and the complexity of these contracts.	We performed the following procedures, amongst others, on the revenue recognition for Contact contracts: • Performed tests of the operating effectiveness of the Group's relevant key controls over the recognition of revenue, primarily the internal review and approval of all invoices prior to being raised and distributed to the customer. • Selected a sample of customer contracts, to obtain an understanding of the key terms and conditions of the contracts. For the selected sample of we compared the contract pricing from each contract to a monthly invoice and the contact services provided by the Group for that month. • For a sample of customers, we obtained evidence to support the year end calculation of services performed but not yet invoiced.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Other information

The directors are responsible for the other information included in the Group's annual report for the year ended 30 June 2017. The other information comprises the Directors' report included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf.

This description forms part of our auditor's report.

REPORT ON THE REMUNERATION REPORT

Our opinion on the remuneration report

We have audited the remuneration report included in pages 12 to 19 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Salmat Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

S. Horl

Susan Horlin
Partner

Sydney
29 August 2017

SHAREHOLDER INFORMATION

AS AT 5 SEPTEMBER 2017

SHARES AND OPTIONS

Shares on issue	199,663,080
Performance rights on issue	1,031,341

DISTRIBUTION OF SHAREHOLDINGS AS AT 5 SEPTEMBER 2017

Range	Securities	% issued capital	Total holders
1 to 1,000	384,747	0.19	986
1,001 to 5,000	2,297,948	1.15	885
5,001 to 10,000	2,043,279	1.02	272
10,001 to 100,000	8,115,632	4.06	291
100,001 and Over	186,821,474	93.57	43
Total	**199,663,080**	**100.00**	**2,477**

There were 1,100 holders of a less than marketable parcel of shares.

TOP 20 HOLDERS OF ORDINARY FULLY PAID SHARES AS AT 5 SEPTEMBER 2017

Name	Units	% issued capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	41,994,645	21.03
TEAMDATE PTY LIMITED	35,674,680	17.87
TEAMNEWS PTY LIMITED	34,917,120	17.49
J P MORGAN NOMINEES AUSTRALIA LIMITED	20,133,345	10.08
CITICORP NOMINEES PTY LIMITED	13,432,616	6.73
TEAMNEWS PTY LTD <MATTICK FAMILY A/C>	8,227,952	4.12
NATIONAL NOMINEES LIMITED	6,654,037	3.33
MICROSOURCING GROUP CAYMAN LTD	4,820,205	2.41
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,878,324	1.94
BT PORTFOLIO SERVICES LIMITED <SALTER FAMILY S/FUND A/C>	1,781,577	0.89
BNP PARIBAS NOMS PTY LTD <DRP>	1,374,421	0.69
VAILELE PTY LTD JULIET SALTER FAMILY TESTAMENTARY	1,062,191	0.53
LIVISTONA PTY LTD DOMINIC SALTER FAMILY TESTAMENTARY	1,062,189	0.53
LAST DOLLAR PTY LTD DANIEL SALTER FAMILY TESTAMENTARY	1,062,189	0.53
GUNNERS VIEW PTY LTD ANNA LONGLEY FAMILY TESTAMENTARY	1,062,189	0.53
HALF MILE PTY LTD ANDREW SALTER FAMILY TESTAMENTARY	1,062,189	0.53
TEMERIDY PTY LTD RICHARD SALTER FAMILY TESTAMENTARY	1,062,189	0.53
PACIFIC CUSTODIANS PTY LIMITED SLM PLANS CTRL A/C	1,032,977	0.52
AKAT INVESTMENTS PTY LIMITED <TAG FAMILY - CORE A/C>	788,298	0.39
BOND STREET CUSTODIANS LIMITED <FHMHO2 - D43936 A/C>	546,284	0.27
BOND STREET CUSTODIANS LIMITED <FHMHO2 - D44110 A/C>	531,826	0.27
DARRELL JAMES HOLDINGS PTY LTD <DJ HOLDINGS P/L S/FUND A/C>	500,000	0.25
PACIFIC CUSTODIANS PTY LIMITED <DEFERRED ESP TST A/C>	345,627	0.17
BELLINO PTY LTD <HERDMAN SUPER FUND A/C>	303,192	0.15

SUBSTANTIAL SHAREHOLDERS AS AT 1 AUGUST 2017

Name	Units	% issued capital
Mr Peter Mattick	44,821,551	22.4%
Salter Family	44,326,407	22.2%
Allan Gray Investment Mgt	37,690,058	18.9%
Investors Mutual	29,563,211	14.8%
Celeste Funds Mgt	11,819,673	5.9%

No changes in substantial holders have been notified to the Company in accordance with 617B of the *Corporations Act 2001* since that time.

DIRECTORY

Salmat Limited

ABN 11 002 724 638

Registered office

Level 3, 116 Miller Street
North Sydney NSW 2060

Phone: (02) 9928 6500
Fax: (02) 9928 6652
www.salmat.com.au

Directors

Peter Mattick	Chairman
Fiona Balfour	Non-executive Director (Independent)
Stuart Nash	Non-executive Director (Independent)
John Thorn	Non-executive Director (Lead Independent)
Bart Vogel	Non-executive Director (Independent)
Mark Webster	Non-executive Director (Independent)

Company Secretary

Stephen Bardwell

Auditors

PricewaterhouseCoopers
GPO Box 2650
Sydney NSW 1171

Bankers

Australia and New Zealand Banking Group Limited

Share Registry

Link Market Services
Locked Bag A14
Sydney South NSW 1235

Phone: 1300 554 474 or (02) 8280 7111
International: +61 2 8280 7111
Fax: (02) 9287 0303
www.linkmarketservices.com.au

Stock Exchange Listing

Salmat Limited shares are listed on the Australian Securities Exchange.

ASX code

SLM

Annual General Meeting

The Annual General Meeting will be held at:
10.00am Tuesday 28 November 2017
Museum of Sydney
Corner Bridge and Phillip Streets
Sydney NSW 2000

Please refer to the formal Notice of Meeting for full details.

Key dates

Annual General Meeting	28 November 2017
Half year results	February 2018
Full year results	August 2018

The Australian Securities Exchange will be notified of any changes to these dates.

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