Salmat Limited ABN 11 002 724 638

Half Year Financial Report

For the six months ended 31 December 2017

Contents

SALMAT LIMITED
(ABN 11 002 724 638)
Appendix 4D

HALF-YEAR REPORT
31 December 2017

Results for announcement to the market

	Half year ended 31-Dec-17 $m	Half year ended 31-Dec-16 $m	% Change Increase / (Decrease)
Revenue from continuing operations	196.3	204.6	(4%)
Underlying EBITDA from continuing operations	11.9	10.5	13%
Statutory net profit for the period attributable to members from continuing operations	2.1	1.2	75%
Net tangible asset backing	0.24c	0.14c	71%
Fully franked dividends			
Fully franked interim dividend	0.01cps	-	100%

Explanation of results

- Refer to the attached ASX announcement for commentary on the results.
- The information contained in this report is to be read in conjunction with the 2017 Annual Report and any announcements to the market by Salmat Limited during the period.
- During the period MessageNet Pty Ltd, a wholly owned subsidiary, was sold on the 29th of December 2017. Details of that entity contribution to the Group can be found in the notes to the financial statements.
- The fully franked interim dividend record date will be 7 March 2018 and the dividend payment date 18 April 2018.

The Directors present their report on the consolidated entity consisting of Salmat Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

DIRECTORS

The names of the Directors of Salmat Limited in office during the half-year and until the date of this report are as follows:

Peter Mattick AM (Chairman)
Mark Webster
Bart Vogel
Stuart Nash (Appointed 1 August 2017)
Fiona Balfour (Retired 31 December 2017)
John Thorn (Retired 26 November 2017)

REVIEW OF OPERATIONS

Salmat's operations

Principal activities

Salmat is a marketing services provider. We help clients with the constant pressure of acquiring and servicing customers, week-in, week-out. With media, digital and outsourced business service 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 Marketing Solutions 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, ecommerce, search (SEO, SEM and display advertising) and email 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

2018 half year operating results summary

$ million	HY1 2018	HY1 2017	% change (pcp)
Continuing operations			
Sale revenue	196.3	204.6	-4%
Underlying EBITDA from continuing operations	**11.9**	**10.5**	+13%
Depreciation and amortisation	(6.2)	(7.1)	-13%
Net interest	(0.4)	(0.9)	-56%
Profit before income tax from continuing operations	**5.3**	**2.5**	+112%
Significant items	(2.2)	-	+100%
Income tax expense	(1.0)	(1.3)	-23%
Net profit after tax from continuing operations	**2.1**	**1.2**	+75%
Profit from discontinued operations	9.5	2.9	228%
Net profit after tax for the period	**11.6**	**4.1**	**+183%**

Revenue from continuing operations of $196.3 million was down from $204.6 million in the prior corresponding period. Contact Solutions revenue increased from the prior year on the back of new campaigns and increased spend by the existing client base. This offset the discontinued contracts highlighted at the full year announcement. Salmat continues to focus on building profitable new business to offset declining volumes and expired contracts in other parts of the business.

Underlying EBITDA from continuing operations of $11.9 million was up 13% on the first half 2017 total of $10.5 million. Higher margin new business and increased spend have contributed to the improvement in EBITDA. Cost saving initiatives made a positive contribution of $2.1 million, offset by reduced margins from volume decline in the catalogue business. Significant items had a net negative impact of $2.2 million due to restructuring and costs associated with the strategic review.

Net profit after tax from continuing operations of $2.1 million included a tax expense of $1.0 million. A net gain of $9.5 million from discontinued operations resulted in net profit after tax for the period of $11.6 million.

Given the financial performance over the past 12 months, the Board has elected to pay an interim dividend of $0.01 cents per share.

Financial position and cash flows

Operating cash inflow of $7.9 million before income tax for the period to December 2017 was a slight increase on the prior period. The final payment for the MicroSourcing acquisition was settled in August 2017 for $4.5 million. The closing cash balance of $48.2 million reflected proceeds from the sale of the MessageNet and Interactive Solutions products from the Marketing Solutions segment in late 2017. These proceeds were used to partly pay down the existing bank facility in January 2018.

Property, plant and equipment reduced by $2.5 million due to higher depreciation than capital expenditure during the period. Spending on intangibles was only $0.1 million, which is a reduction compared to the prior year, due to the completion of the R2 platform in late FY17. Intangible assets reduced through the accelerated amortisation of the Reach platform, which is due to be decommissioned in the second half of the year. Goodwill was disposed from the Marketing Solutions segment upon the sale of MessageNet and Interactive Solutions products.

The Group ended the period with a net assets increase of 9%, driven by a net cash position of $22.3 million and reductions in financial liabilities, trade and other payables and provisions.

Business strategies and prospects

Salmat's core business strategy is to be a leading Australian marketing services provider, enabling clients to Reach, Convert and Serve more customers via our suite of Marketing Solutions and Contact Solutions. Salmat is uniquely positioned to enable its clients to distribute more engaging content through multiple channels, enabling them to cost effectively reach and influence their customers and maximise their sales and return on investment.

During the half, Salmat significantly advanced the Strategic Review that commenced in February 2017. This review is examining a number of options and opportunities for every part of the business, following a period of change both within Salmat and in the markets in which it operates.

As part of the review process, Salmat has elected to divest or discontinue a number of Digital services that did not directly complement the rest of the Marketing Solutions segment. Accordingly, the MessageNet SMS service; Interactive SMS and IVR service; and the Fuse franchise marketing platform were sold or closed down during the half.

The Strategic Review is now well progressed with some decisions to be finalised, further updates to be provided in due course.

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 faces a variety of material risks including (but not limited to) strategic, operational, information technology, financial and regulatory risks.

Salmat's operation of an outsourced data centre model and handling of customer data increases its exposure to regulatory and reputation risk and we have employed a number of checks and controls to mitigate this risk.

The current economic and competitive trading environment, both domestically and internationally, particularly in the retail sector, remain significant business risks. Salmat's sales volumes and therefore its profitability are directly related to the level of sales achieved by our retail customers particularly in the Marketing Solutions division.

One of Salmat's focus areas continues to be about long term sustainability of the catalogue distribution industry, which is in the interests of all Salmat's customers, employees and shareholders and the millions of Australians who read catalogues every week. We will continue to use all options available to us to maintain and grow our letterbox business, and we will continue to lead the industry, both through innovation and investment.

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 6.

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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed this 27th day of February 2018 in accordance with a resolution of the Board of Directors.

Peter Mattick AM
Chairman

Auditor's Independence Declaration

As lead auditor for the review of Salmat Limited for the half-year ended 31 December 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 review; and
2. no contraventions of any applicable code of professional conduct in relation to the review.

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

S. Horl

Susan Horlin
Partner

Sydney
27 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

	Note	Half year ended 31 Dec 2017 $000	Half year ended 31 Dec 2016 $000
Revenue	3	**196,327**	**204,628**
Other income	4	14	703
Employee benefits expenses		(102,660)	(106,269)
Depreciation and amortisation expense		(6,147)	(7,116)
Freight, distribution and communication expenses		(55,114)	(58,171)
Property related expenses		(12,608)	(12,862)
Equipment related expenses		(11,172)	(10,114)
Other expenses from ordinary activities		(5,264)	(7,458)
Finance costs		(692)	(1,233)
Share of net profits of joint ventures accounted for using the equity method		410	369
Profit before income tax		**3,094**	**2,477**
Income tax expense	5	(1,002)	(1,235)
Profit from continuing operations		**2,092**	**1,242**
Profit from discontinued operation (attributable to equity holders of the company)	8	9,458	2,907
Profit for the period		**11,550**	**4,149**
Profit for the period Attributable:			
Owners of the company		11,550	4,107
Non-controlling interests		-	42

Earnings per share for profit from continuing operations attributable to owners of Salmat Limited	**Cents**	**Cents**
Basic earnings per share	**1.1**	0.7
Diluted earnings per share	**1.0**	0.7

	Note	Half year ended 31 Dec 2017 $000	Half year ended 31 Dec 2016 $000
Profit for the period		**11,550**	**4,149**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		(1,082)	948
Items that may not be reclassified subsequently to profit and loss:			
Actuarial gains on retirement benefit obligation		-	95
Other comprehensive income for the period		**(1,082)**	**1,043**
Total comprehensive income		**10,468**	**5,192**
Attributable:			
Owners of the company		10,468	5,335
Non-controlling interest		-	(143)
		10,468	**5,192**
Total comprehensive income for the period attributable from:			
Continuing operations		1,010	2,285
Discontinued operations	8	9,458	2,907
		10,468	**5,192**

	Note	Half year ended 31 Dec 2017 $000	Full year ended 30 Jun 2017 $000
Current assets			
Cash and cash equivalents		48,231	34,816
Trade and other receivables		50,970	52,055
Inventories		46	231
Other current assets		5,386	4,584
Total current assets		**104,633**	**91,686**
Non-current assets			
Receivables and other non-current assets		4,841	5,502
Investments accounted for using the equity method		1,885	1,546
Property, plant and equipment		8,350	10,864
Deferred tax assets		12,318	12,845
Intangible assets		79,378	88,082
Total non-current assets		**106,772**	**118,839**
Total assets		**211,405**	**210,525**
Current liabilities			
Trade and other payables		42,220	45,105
Provisions		8,643	10,336
Borrowings		26,385	5,970
Other financial liabilities	7	-	4,583
Current tax payable		337	1,016
Total current liabilities		**77,585**	**67,010**
Non-current liabilities			
Provisions and other payables		2,796	3,135
Borrowings		-	20,016
Deferred tax liabilities		1,936	2,101
Retirement benefit obligations		864	689
Other non-current liabilities		840	714
Total non-current liabilities		**6,436**	**26,655**
Total liabilities		**84,021**	**93,665**
Net assets		**127,384**	**116,860**
Equity			
Contributed equity	9	226,585	226,585
Reserves		(21,483)	(20,457)
Retained earnings		(77,718)	(89,268)
Equity attributable to owners of the company		**127,384**	**116,860**

		Contributed equity $000	Retained profits $000	Reserves $000	Non-controlling interest $000	Totals $000
Balance at 1 July 2017		**226,585**	**(89,268)**	**(20,457)**	**-**	**116,860**
Profit for the period		-	11,550	-	-	11,550
Other comprehensive income		-	-	(1,082)	-	(1,082)
Total comprehensive income for the period		**-**	**11,550**	**(1,082)**	**-**	**10,468**
Cost of share-based payments		-	-	56	-	56
		-	**-**	**56**	**-**	**56**
Balance at 31 December 2017		**226,585**	**(77,718)**	**(21,483)**	**-**	**127,384**
Balance at 1 July 2016		**209,976**	**(93,598)**	**(29,056)**	**10,598**	**97,920**
Profit for the period		-	4,107	-	42	4,149
Other comprehensive income		-	87	1,141	(185)	1,043
Total comprehensive income for the period		**-**	**4,194**	**1,141**	**(143)**	**5,192**
Transactions with owners in their capacity as owners:						
Issued share capital		16,673	-	-	-	16,673
Cost of share-based payments		-	-	272	-	272
Dividends paid	6	-	-	-	(1,692)	(1,692)
Transaction with NCI reserve		-	-	8,763	(8,763)	-
		16,673	**-**	**9,035**	**(10,455)**	**15,253**
Balance at 31 December 2016		**226,649**	**(89,404)**	**(18,880)**	**-**	**118,365**

	Half year ended 31 Dec 2017 $000	Half year ended 31 Dec 2016 $000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	227,500	240,987
Payment to suppliers and employees (inclusive of goods and services tax)	(219,622)	(233,196)
	7,878	7,719
Income taxes paid	(1,459)	(1,693)
Net cash inflow from operating activities	**6,419**	**6,098**
Cash flows from investing activities		
Payments for property, plant and equipment	(1,374)	(3,425)
Payments for intangible assets	(134)	(934)
Interest received	192	185
Repayments from loan to associate	-	380
Proceeds from sale of investment in associate	-	702
Proceeds from sale of assets	15,114	-
Net cash inflow/(outflow) from investing activities	**13,798**	**(3,092)**
Cash flows from financing activities		
Proceeds from rights issue - entitlement offer	-	15,063
Transaction costs from rights issue - entitlement offer	-	(1,004)
Proceeds from borrowings drawdown	-	5,000
Payment for acquisition	(4,483)	(19,898)
Repayment of borrowings	(1,183)	(1,177)
Interest and finance costs paid	(592)	(597)
Dividends paid to non-controlling interest	-	(1,692)
Net cash outflow from financing activities	**(6,258)**	**(4,305)**
Net increase/(decrease) in cash held	**13,959**	**(1,299)**
Cash and cash equivalents at the beginning of the period	**34,816**	**42,911**
Effects of exchange rate changes on cash and cash equivalents	**(544)**	**184**
Cash and cash equivalents at the end of the period	**48,231**	**41,796**

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

a) Basis of preparation

This interim financial report for the half-year period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Act 2001* and other mandatory professional reporting requirements.

This interim financial report does not include the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Salmat Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies applied by the consolidated entity are consistent with those applied by the consolidated entity in its full year financial report for the year ended 30 June 2017 except for the adoption of new standards and interpretations issued since this date, noted below.

b) New accounting standards

AASB 15 Revenue from contracts with customers

The group adopted AASB 15 *Revenue from contracts with customers* effective from 1 January 2018. AASB 15 replaced AASB 118 which covered revenue arising from the sale of goods and the rendering of services and AASB 111 which covered 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.

Management has undertaken an impact assessment to identify revenue streams and associated transactions where applying AASB 15 could result in differences from the current approach. The following areas of potential difference were identified:

- Revenue on fixed price and project-based contracts within the Marketing Solutions business is currently recognised as services or rendered on a percentage of completion basis. Identification of separate performance obligations within these contracts under AASB 15 may result in a shift in timing of revenue recognition.
- Costs incurred to secure new contracts or costs outlayed in connection with servicing contracts that were previously expensed as incurred may qualify for capitalisation under AASB 15 and be expensed over the life of the contract.

Management is currently quantifying the impact in each of the areas above on adoption and is evaluating the transition options provided under the standard. Group accounting policies will be updated following completion of the impact assessment.

c) New accounting standards issued but not yet adopted

AASB 16 Leases

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on 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 over the term of the lease are recognised. The only exceptions are for short-term and low-value leases.

This standard is 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 mandatory effective date.

1. BASIS OF PREPARATION OF HALF-YEAR REPORT (continued)

c) New accounting standards issued but not yet adopted (continued)

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.

2. SEGMENT INFORMATION

(a) Business segments

The Group has identified its operating segments based on 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. A measure of total assets and liabilities are not regularly provided to the CODM. The Chief Executive Officer has identified two segments which are as follows:

Marketing Solutions

The Marketing Solutions 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) and email marketing.

Contact Solutions

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.

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.

2. SEGMENT INFORMATION (continued)

(b) Segment information provided to the chief operating decision maker

Six months to 31 December 2017	Marketing Solutions $000	Contact Solutions $000	Corporate costs $000	Total $000
Segment revenue				
Sales to external customers	94,355	101,709	-	196,064
Interest revenue				263
TOTAL revenue				**196,327**
Underlying EBITDA	9,402	5,476	(2,995)	11,883
Depreciation and amortisation expense				(6,147)
Net finance costs				(429)
Profit before income tax from continuing operations before significant items				**5,307**
Significant items (note 2 c)				(2,213)
Profit before income tax from continuing operations after significant items				**3,094**
Income tax expense				(1,002)
Profit for the period from continuing operations				**2,092**

(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.

Significant items included in total expenses	Half year ended 31 Dec 2017 $000	Half year ended 31 Dec 2016 $000
Restructuring costs	(1,692)	-
Strategic review costs	(521)	-
Significant items	**(2,213)**	**-**

2. SEGMENT INFORMATION (continued)

(d) Segment information provided to the chief operating decision maker (continued)

Six months to 31 December 2016 (Restated)	Marketing Solutions $000	Contact Solutions $000	Corporate costs $000	Total $000
Segment revenue				
Sales to external customers	105,122	99,151	-	204,273
Interest revenue				355
TOTAL revenue				**204,628**
Underlying EBITDA	12,818	1,373	(3,721)	10,470
Depreciation and amortisation expense				(7,116)
Net finance costs				(877)
Profit before income tax from continuing operations				**2,477**
Income tax expense				(1,235)
Profit for the period from continuing operations				**1,242**

3. REVENUE

The Group derives the following type of revenue:	Half year ended 31 Dec 2017 $000	Half year ended 31 Dec 2016 $000
Services	196,064	204,273
Finance income	263	355
Total revenue from continuing operations	**196,327**	**204,628**

4. OTHER INCOME

The Group derives the following type of other income:	Half year ended 31 Dec 2017 $000	Half year ended 31 Dec 2016 $000
Profit on sale of share in associate	-	702
Other income	14	1
Total	**14**	**703**

5. INCOME TAX EXPENSE

The income tax expense of $1.0 million represents current tax payable in relation to profitable overseas jurisdictions.

6. DIVIDENDS

	Half year ended 31 Dec 2017 Pre Tax $000	Half year ended 31 Dec 2016 Pre Tax $000
Dividend paid to non-controlling Interests	**-**	**1,692**
Dividends paid as per Statement of Cash Flows	**-**	**1,692**

The Board has elected to pay a fully franked interim dividend for this period of $0.01 per share. Dividends will continue to be considered in the context of Salmat's capital management strategy. (2016: nil).

7. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(i) Fair value hierarchy

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. To provide an indication about the reliability of the inputs used in determining fair value, the group has classified its financial instruments into the three levels prescribed under the accounting standards.

The contingent consideration payable and put/call options associated with business combinations completed in the prior year are classified as Level 3 financial liabilities.

The Group has no level 1 or level 2 financial liabilities, and no material financial assets requiring fair value measurement.

The carrying value less impairment provision of trade receivables and trade payables are assumed to approximate their fair values due to their short term nature. The carrying value of the bank loan is not materially different to its fair value.

(ii) Summary of level 3 financial instruments

The fair value for contingent consideration and the put/call options have been calculated using a discounted cash flow model with the key input being the discount rate.

Reconciliation of the level 3 financial liabilities for the current year:

	Half year ended 31 Dec 2017 $000
Carrying amount at the start of the year	4,583
Increase in fair value	-
Unwinding of discount rate	-
Payment of put/call option	(4,483)
Interest on put/call option	-
Foreign exchange on put/call option	(100)
Issue of share capital to settle put/call option	-
Carrying amount at the end of the year	**-**

7. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

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 date, so that $4.3m was paid in April 2017 and the remaining $4.2m (excluding interest) was paid in August 2017. No other level 3 financial liabilities remain on balance sheet at 31 December 2017.

8. DISCONTINUED OPERATIONS

(a) Description

During the period, the Group sold products from the Marketing Solutions segment over two separate transactions:

- MessageNet - Sale of the MessageNet Pty Ltd company to Message4U Pty Ltd for $14.8m on the 29th of December 2017. The proceeds from this sale comprised of a payment of $14.6m and a deferred element of $0.2m to be paid in 12 months.
- Interactive Services - Trade sale of the customers and products were sold to Oxygen8 for $500k on the 31st of October 2017.
- The Fuse platform was discontinued in the period and was sold for an immaterial amount.

The sale of these products from the Marketing Solutions segment is reported in the current period as a discontinued operation. The transactions generated total net gain of $8.8m.

(b) Financial performance and cash flow information of Marketing Solutions discontinued operations

The financial performance and cash flow information presented is for the six months ended 31 December 2017 and 31 December 2016.

	Half year ended 31 Dec 2017 $000	Half year ended 31 Dec 2016 $000
Revenue	**8,352**	**19,874**
Other income	40	5
Expenses from ordinary activities	(7,759)	(16,962)
Profit before income tax	**633**	**2,907**
Income tax expense	-	-
Profit for the period from the discontinued operations	633	2,907
Gain on sale of the discontinued operations after income tax, see (c) below	8,825	-
Profit from discontinued operations	**9,458**	**2,907**
Net cash inflow from operating activities	2,085	2,401
Net cash outflow from investing activities	(2,011)	(1,609)
Net increase in cash generated by the discontinued operations	**74**	792

8. DISCONTINUED OPERATIONS (continued)

(c) Details of the sale of the Marketing Solutions businesses

	Half year ended 31 Dec 2017 $000
Consideration received or receivable:	
Cash	15,114
Fair value of contingent consideration	186
Total disposal consideration	**15,300**
Less: Carrying amount of net assets sold	(5,892)
Gain on sale before transaction costs	9,408
Less: Working capital adjustments	(297)
Less: Transaction costs	(286)
Gain on sale after transaction costs	**8,825**
Income tax expense on gain	-
Gain on sale after income tax	**8,825**

The carrying amount of assets and liabilities as at the date of sale (31 December 2017) were:

	31 Dec 2017 $000
Trade receivables and other receivables	1,093
Deferred tax assets	236
Intangible assets	6,188
Total assets	**7,517**
Trade creditors and other payables	887
Deferred revenue	649
Employee benefit obligations	89
Total liabilities	**1,625**
Net assets	**5,892**

9. CONTINGENCIES

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.

10. CONTRIBUTED EQUITY

There has been no movement in the contributed equity since the beginning of the financial year.

Ordinary share capital		**Number of shares '000**	**$'000**
Date	**Details**		
1 July 2017	Opening balance	199,339	226,585
31 December 2017	**Balance**	**199,339**	**226,585**

11. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No circumstance has arisen since 31 December 2017 that has significantly affected or may significantly affect:

(i) the Group's operations in future financial years; or
(ii) the results of those operations in future financial years; or
(iii) the Group's state of affairs in future financial years.

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 3 to 19, are in accordance with the *Corporations Act 2001*, including:

   (a) Comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory reporting requirements, and;

   (b) Give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Signed this 27th day of February 2018 on behalf of the Board.

Peter Mattick AM
Chairman

Independent auditor's review report to the members of Salmat Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Salmat Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Salmat Limited Group. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Salmat Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Salmat Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

S. Horl

Susan Horlin
Partner

Sydney
27 February 2018