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Corporate governance report

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 takes this into consideration upon making any resolution.

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 four members, of which three, being a majority, are independent Non-executive Directors.

At the end of the 2017 Annual General Meeting, John Thorn retired as a Director after more than 15 years service as Director of the Company. In addition, Fiona Balfour, a Director of the Company since 2010, retired from the Board in December 2017.

The Board undertakes periodic performance reviews. These reviews consider 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 Directors appointed over the past two years 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 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 completion of the strategic review.

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 11 and 12.

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	Mergers and Acquisitions Enterprise Technology Accounting Sales and Marketing Strategy Digital start-ups Business Advisory Risk Management	Gender	Male: 100%(4)
Roles	General Management CEO Head of Region	Geographic Experience	Australia New Zealand Asia
Industries and Markets	Telecommunications Banking and Finance Retail and logistics Property FMCG Manufacturing Media Advertising Agency Professional Services and Consulting Information Technology Customer Communications Outsourcing	Spread of Tenure	>1 to <2 years : 2 >4 to <5 years : 1 >10 years: 1

Board and Committee membership of Directors

		Appointed Director	Committee member		
			Audit, Risk and Compliance Committee	People Performance Committee	Technology and Innovation Committee
Peter Mattick	Chairman, Non-executive Director	14/3/1984			•
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	•	•	•

Peter Mattick, the Chairman of the Company and Mark Webster will retire at the 2018 Annual General Meeting in accordance with the constitution 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 13.

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.

Corporate governance report continued

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 (due to his shareholding in the Company), 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 a quantitative and qualitative basis.

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 the three independent Non-executive Directors of Salmat Limited.

The ARCC met four times during the 2017/18 year.

The ARCC Chairman is Mr Bart Vogel who has undertaken these duties since the retirement of Mr John Thorn at the Company's 2017 Annual General Meeting. Mr Vogel's qualifications, business experience 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.

Corporate governance report continued

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.

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 the three independent Non-executive Directors of Salmat Limited.

The Chairman of the Committee is Mr Stuart Nash, who has undertaken these duties since the retirement of Ms Fiona Balfour in December 2017.

The Committee met three times during the 2017/18 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 the four Non-executive Directors of Salmat Limited as well as the Chief Executive Officer and Chief Technology 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 twice during the 2017/18 year.

Corporate governance report continued

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 10. 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. The GRA is overseen by the Chief Financial Officer of the Company and is independent of business units.

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.
- Internals 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.

Corporate governance report continued

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 2017/18 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)*.

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

The Board has set two measures for reporting on gender diversity under Recommendation 1.5 of Principle 1 of the ASX Corporate Governance Principles:

- Gender percentage at all levels of the Company using a five level scale.
- Gender percentage on the Board.

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:

- The Board is made up of four males.
- Gender percentage over five organisational levels is tabled below:

Organisational Level	Male %	Female %
(CEO) 5	0%	100%
4	60%	40%
3	65%	35%
2	62%	38%
1	52%	48%
Total Staff	59%	41%

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

Corporate governance report continued

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 2018 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.

As the intention of the Board that the external audit signing partner will rotate from the Company's audit at least every five years, Sue Horlin will retire as auditor of the Company at the 2018 Annual General Meeting.

Directors' report

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 2018.

Directors

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

Peter Mattick (Chairman)

Stuart Nash (appointed 1 August 2017)

Bart Vogel

Mark Webster

John Thorn was in office until his retirement on 28 November 2017.

Fiona Balfour was in office until her resignation on 31 December 2017.

Operating and financial review

The Board presents the 2018 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 2018 and material business risks faced by the business so that shareholders can make an informed assessment of the results and prospects of the Group.

1. Salmat's operations

Principal activities

Salmat is a marketing services provider. We help clients connect with their customers, week-in, week-out. Salmat's unique combination of targeted letterbox and online channels enables clients to effectively Reach, Convert and Serve their customers, improving business performance.

Salmat deploys these key competences across two business segments:

- a) 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, e-commerce, search (SEO, SEM and display advertising) and email.
- b) The Managed Services segment provides outsourced business solutions – including back-office processes, digital creative, development services and contact centre services – which are provided via an innovative range of managed service delivery models.

Key developments

Key developments during FY18 included:

- The strategic review that commenced in FY17 continued into FY18 and was finally completed in March 2018. This comprehensive review encompassed the entire business and explored innovation and growth opportunities across the Group.
- As a result of the review, a number of businesses were sold or discontinued, including the Contact Centre business, MessageNet, Interactive Services and Fuse. A combined gain on sale of \$51.8 million after tax was realised from the sale of these businesses.
- The review also led to the commencement of a number of innovation projects within the Marketing Solutions business. These included the salmathub app used by catalogue distributors, and Lasoo development. The Board also approved a proof-of-concept trial of automated catalogue collation, which commenced in July 2018.
- The Philippines-based MicroSourcing business continued to perform strongly, with further growth in both revenue and EBITDA.
- The Board was pleased to recommence fully franked dividends in FY18, including the payment of an interim dividend in April 2018, special dividend in July 2018 and a final dividend in October 2018.
- Salmat also repaid its remaining debt facilities during FY18 and ended the financial year with a net cash position of \$78.5 million that was reduced by the special dividend payment of \$16.0 million on 5th July 2018.
- The Group maintained its strong operating cash flows before tax of \$14.7 million for the year.

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

2018 Operating result summary

\$ million	2018	2017	% change (pcp)
Total revenue	250.2	258.5	-3.2%
Underlying EBITDA ¹	20.3	20.2	+0.5%
Depreciation	(5.1)	(7.2)	-29.2%
Underlying EBITA ¹	15.2	13.0	+16.9%
Amortisation	(1.1)	(1.1)	0%
Underlying EBIT ¹	14.1	11.9	+18.5%
Net interest	(0.4)	(1.7)	-76.5%
Tax expense	(2.3)	(0.9)	+155.6%
Underlying NPAT ¹ from continuing operations	11.4	9.3	+22.6
Significant items	(16.6)	(0.6)	NMF
(NLAT)/NPAT from continuing operations	(5.2)	8.7	-159.8%

1) Adjusted for significant items, refer to note 1.3 in the notes to the financial statements for the significant items included in the Underlying Net Profit for the period. For FY2018 significant items included restructuring costs and impairment of goodwill. For FY2017 significant items included restructuring costs, impairment of investment, fair value adjustments on other liabilities, strategic review costs and profit on sale of shares of an investment.

Revenue from continuing operations of \$250.2 million (2017: \$258.5m) was down on the prior year by \$8.3 million. Revenue from continuing operations was impacted by volume declines in the catalogue business and a reduction in spend and lost customers in the digital business. Exposure to a weaker retail environment in the first half of the year was also a driver in lower revenue in the Marketing Solutions business.

Underlying EBITDA from continuing operations of \$20.3 million (2017: \$20.2m) was in line with the prior year with a \$0.1 million increase. The comparative reporting in the income statement and segment notes have been adjusted to only reflect those businesses that form part of continuing operations of the Group.

The *business portfolio* section in the notes to the financial statements contains disclosure for discontinued operations. The combined profit after tax from discontinued operations was \$35.0 million, including a gain on sale from discontinued operations of \$51.8 million after tax, from the sale of the Contact Centre and Marketing Solutions businesses.

Underlying net profit after income tax from continuing operations of \$11.4 million was up on the prior year (2017: \$9.3m). Depreciation and amortisation was down on the prior year as asset purchases over the past few years have declined with the Group adopting a 'cloud first' and SaaS strategy as part of the business transformation. Net interest decreased due to settlement of bank facilities during the year.

There was \$16.6 million in **significant items** for this period, compared with \$0.6 million in FY17. For FY18, this included restructuring costs of \$1.3 million as the Group removed support services in line with the smaller revenue base post sale businesses.

The other significant item was an impairment expense recognised on the Marketing Solutions CGU of \$15.3 million. This was driven by continuing industry decline in the catalogue business, ongoing pricing pressure in the market and non-performance of some of the Digital business.

Net loss after tax from continuing operations of \$5.2 million was down on the profit from the prior year (2017: \$8.7m).

Segment results

Marketing Solutions

Marketing Solutions revenue of \$176.9 million (2017: \$191.2m) was down by 7.5% compared with the prior year. The current year has seen a continued focus to remove products that are not related to, or able to support, the core business. The remaining products at the end of the financial year are those Salmat consider to be part of our solution heading into the future. Reduced volumes in the catalogue business at an industry level have continued to impact revenue growth in this segment.

Underlying EBITDA of \$16.6 million (2017: \$17.6m) was down 5.7% compared to the prior year. Impacting EBITDA margin this year has been the cost of distribution with increases in freight and delivery costs. The Netstarter business also faced some challenges this year impacting margin in this segment.

Managed Services

Managed Services revenue of \$72.8 million (2017: \$66.6m) was up 9.3% compared to the prior year and continues to grow in line with the business plan forecast. This year saw a high number of customers join the MicroSourcing business model but the average size of the customer being smaller than historically seen.

Underlying EBITDA of \$10.5 million (2017: \$9.1m) was up 15.4% compared to the prior year. The results show the value of the MicroSourcing business model, however a slightly higher utilisation for the first half of the financial year has contributed to the margin growth. MicroSourcing will continue to invest in new facilities and this will have an impact on sustaining the margin growth seen this year.

Corporate

Corporate costs of \$6.8 million (2017: \$6.4m) were up on the prior year due to a separation provision for onerous contracts (\$1.4m) being recognised as part of the reduction in the business size. Corporate costs have been monitored closely to ensure that the cost base being carried is in line with the smaller operations post sale of the Contact and Marketing Solutions businesses and continues to be a focus for management.

Directors' report continued

2. Financial position and cash flows

The Group ended the year with an increase to net assets of \$12.5 million. Cash at the end of the year was higher when compared to the prior year due to proceeds received from the sale of the Contact Centre business in May 2018. Included in the balance sheet is a provision for the special dividend of \$16.0 million paid on the 5th of July 2018.

A provision of \$3.9 million has been recognised at the end of the financial year in relation to separation costs for the Contact Centre business. Payments to suppliers of \$3.1 million were paid prior to the end of financial year relating to contract termination costs.

Property, plant and equipment have decreased from the prior year as a result of the sale of the Contact Centre business assets relating to facilities and IT infrastructure.

Intangibles have decreased during the year with the decommissioning of the Reach platform, and transfer of the R2 platform with the Contact Centre business. The overall carrying value of goodwill has also reduced through the sale of Contact and Marketing Solutions businesses.

During the year the Group recognised an impairment of \$15.3 million in the Marketing Solutions CGU in order to bring the carrying value in line with its recoverable amount. As mentioned above this was driven by continuing industry decline in the catalogue business plus ongoing pricing pressure in the market and non-performance of some of the Digital business.

The sale of the Contact Centre business has enabled the Group to repay all its bank facilities in line with its obligations under the facility agreement. At the end of the year a small amount of debt (\$0.6m) was held on the balance sheet relating to financing of insurance premiums.

Operating cash was an inflow before tax of \$14.7 million down on the prior year (2017: \$21.0m). Factors that influenced the reduction in operating cash inflows were separation payments for terminated contracts of \$3.1 million, restructuring costs of \$2.8m plus the Group being required to provide transition services on the sale of the Contact Centre business that has a delayed impact on cash inflows.

The final payment for MicroSourcing plus repayment of all debt obligations to banking partners have the Group in a net cash position of \$78.5 million at the end of the financial year less the special dividend \$16.0 million paid on 5th July 2018.

3. Business risks, strategies and prospects

Business strategies and prospects

Salmat's core business strategy is to be the leading Australian marketing partner, enabling our clients to understand and successfully reach all Australian consumers with targeted, data-driven communications.

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 the financial year the Group completed its Strategic Review of the business to consider a number of options for driving profitable growth and maximising shareholder value. As a result of the review, several parts of the business were sold or discontinued.

The largest business sold was the Contact Centre business for \$53.0 million to funds advised by 5V Capital. The Contact Centre business included operations in Australia, New Zealand and the Philippines with approximately 2,200 employees across these locations. Transition services for the separation of the Contact Centre business are progressing well with some major separation streams already completed.

The Group also sold MessageNet, a bulk SMS distributor, for \$14.8m to Message4U Pty Limited, trading as MessageMedia, a pure play provider of these services in the market. Additional to this product being sold were some smaller services discontinued or sold including the FUSE business which was transferred to a partner who specialised in their point of sale services. The Group remains able to offer these services to customers due to the continuing relationship. Interactive Services, part of the digital product suite, was also sold to Oxygen8 during the year.

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 independent contractors, numerous technology applications in addition to key regulatory risks, external factors and financial risks.

Operational

Salmat relies on a large number of independent contractors within the Marketing Solutions business to distribute catalogues. In line with Salmat's ISO quality accreditation there is ongoing continual improvement to ensure processes are standardised and consistent to comply with labour, contractor and health and safety laws.

Technology applications

Salmat is supported by applications, technology and services that have undergone a significant refresh over the last 48 months. A key factor in the evolution of these technology services has been a focus on improving cyber security to keep in step with the changing regulatory environment and the critical importance of customer data. Cloud service providers with a primary focus on security have been selected. 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.

Directors' report continued

Regulatory and compliance

Salmat is committed to creating a culture of compliance and takes its compliance obligations very seriously. Salmat has documented policies and procedures relevant to its material compliance obligations and these are supported by mandatory annual compliance training undertaken by all Salmat employees.

Salmat must comply with a broad range of state and federal legislative and regulatory requirements applicable to its business but the primary legislation that affect the Group includes: the Corporations Act, the Privacy Act, the Competition and Consumer Act, the SPAM Act, the Do Not Call Register, the Fair Work Act, the Work Health & Safety Act and the Independent Contractors Act. 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 clients particularly in the Marketing Solutions 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.

The Managed Services business based in the Philippines is directly impacted by changes to policy that may occur from time to time in that region. The Group manages the risk by ensuring full compliance and disclosure with local laws and filings and staying educated about proposed changes as they are announced.

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.

Dividends – Salmat Limited

The Directors have recommended the payment of a final fully franked ordinary dividend of \$3,992,500 (2.0 cents per fully paid share – record date 4 September 2018) to be paid on 4 October 2018.

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 the Group's performance. 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

The Directors have recommended the payment of a final fully franked ordinary dividend of \$3,992,500 (2.0 cents per fully paid share on record date 4 September 2018) to be paid on 4 October 2018.

Except for the matter discussed above, no other matter or circumstance has arisen since 30 June 2018 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.

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 CPA Australia 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 for profoundly deaf children. 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;
Member of Technology and Innovation Committee

Interests in shares and options

44,889,589 ordinary shares in Salmat Limited.

Directors' report continued

Stuart Nash

Non-executive Director (Independent)

Experience and expertise

Stuart is Interim CEO of Kinrise Foods - a diversified FMCG company – and a Non-executive Director of Opteon Group Holdings – a national property valuation and advisory business. He is also Chairman of Australian Affordable Housing Securities Limited. Stuart's executive experience includes over 20 years in accounting and investment banking with global firms including Macquarie Capital and Barclay's Capital, specialising in mergers and acquisitions, debt and equity capital markets and strategy. Stuart is a qualified accountant, holds a Bachelor of Arts (Honours) from Cambridge University and is a graduate of the Australian Institute of Company Directors.

Special responsibilities

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

Interests in shares and options

7,992 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 Invocare Limited, Macquarie Telecom Limited and BAI Communications. He is also a Director of the Children's Cancer Institute Australia. Bart's executive career included more than 20 years in management consulting as a partner with Bain & Co, A.T. Kearney and Deloitte Consulting and more than ten years as a CEO in the technology industry for Asurion Australia, Lucent Technologies (Australia and Asia Pacific) and Computer Power Group. He is a Chartered Accountant with a Bachelor of Commerce (Honours) and is a Fellow of the Australian Institute of Company Directors.

Special responsibilities

Chairman of Audit, Risk and Compliance Committee;
Member of People Performance Committee; and
Member of the Technology and Innovation 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 Technology and Innovation Committee;
Member of People Performance Committee; and
Member of Audit, Risk and Compliance 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 2018, and the numbers of meetings attended by each Director were:

	Meetings of Committees							
	Full meeting of Directors		Audit, Risk and Compliance		People Performance		Technology and Innovation	
	A	B	A	B	A	B	A	B
Peter Mattick	11	11	4 ¹	4 ¹	3 ¹	3 ¹	3	3
John Thorn	3	3	2	2	3	1	2	1
Fiona Balfour	4	3	2	2	3	1	2	1
Mark Webster	11	11	4	4	3	3	3	3
Bart Vogel	11	11	4	4	3	3	3	3
Stuart Nash	11	11	4	4	3	3	3	3

A = Number of meetings held during the time the Director held office or was a member of the Committee during the year.

B = Number of meetings attended.

1) Attended by invitation.

Directors' report continued

Remuneration report

The Board presents the 2018 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 2018.
2. Remuneration governance	Details of the key management personnel (KMP) 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 KMP.
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 2018

Remuneration	2018 outcomes
Fixed remuneration	During the year where acting roles were taken and converted into permanent positions the Board awarded salary increases in line with the higher duties allowances that were allocated in FY2017. Where acting roles have continued there were no change to the higher duties allowances from the prior year.
Short-term incentives	STI was not awarded to KMPs under the STI plan rules in 2018 due to the Group not meeting 85% of budgeted underlying EBITDA. A selection of KMPs were put on a retention plan as part of the sale process for the Contact Centre business. Had the Group met the STI target the KMPs on retention would no longer have been eligible to receive an STI under the plan rules. A discretionary bonus was paid to a selection of KMPs that were not part of the retention plan to recognise the finalisation of the strategic review and sale of businesses.
Long-term incentives	There was no issue of performance rights during the financial year as the Group continued the strategic review announced in 2017. Performance rights held by certain KMP made redundant during the year vested in accordance with the rules of the plan. Performance rights held by KMP still employed by the Group at 30 June 2018 did not vest in accordance with the plan rules, due to the exercise of Board discretion.
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 2018. The Non-executive Directors' remuneration cap remains at \$1.2m, as approved by shareholders at the 2009 AGM.

Directors' report continued

2. Remuneration governance

Who this covers

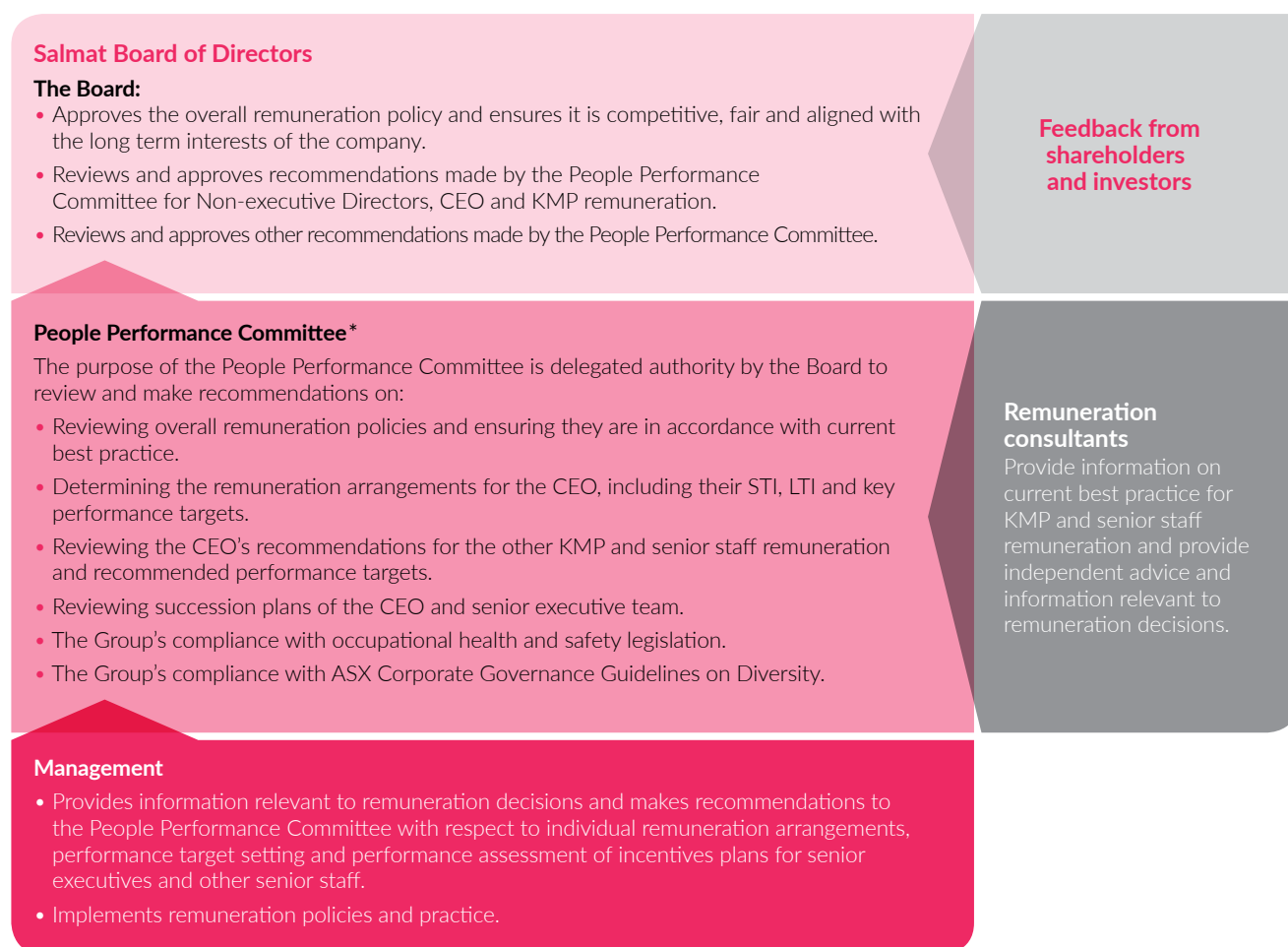
The Remuneration Report sets out remuneration information for Salmat's Non-executive Directors (listed in the Directors' Report on page 8). KMP are the Chief Executive Officer and senior executives who are the key individuals who have or had authority and responsibility for planning, directing and controlling the major activities of Salmat during the financial period and up to the date of this report.

Name	Title	Status
Rebecca Lowde ¹	Chief Executive Officer (CEO)	Effective 1 June 2017
	Chief Financial Officer (CFO)	Until 31 May 2017
Chris Walsh	Chief Operating Officer (COO)	Resigned 30 June 2018
Alex Panich ¹	Chief Financial Officer (CFO)	Effective 5 June 2017

1) Rebecca Lowde was confirmed as CEO on 12 December 2017 and Alex Panich was confirmed as CFO on 13 August 2018.

Remuneration governance framework

The below represents Salmat's remuneration framework:



* 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 independent advisers to assist with remuneration issues. In 2018, no recommendation was sought on aspects of remuneration for KMP.

Securities trading policy

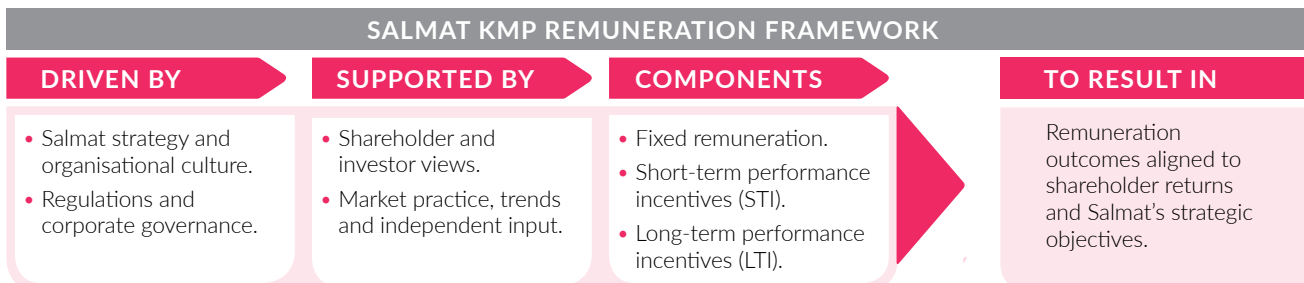
The Securities Trading Policy of Salmat outlines the responsibilities of all key management personnel including Directors and employees to ensure that any market sensitive information whether about Salmat or any other Company is not used to trade in securities.

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.



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 2017
Fixed remuneration – Fixed	When setting fixed remuneration and considering external benchmarks the People Performance Committee takes into account: <ul style="list-style-type: none"> Group and individual performance; Job size and complexity; Individual's qualifications and experience; Risk profile of the role; and Internal relativities. 	To provide base salary 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.	The fixed remuneration of KMPs was set to reflect market rates based on benchmarking. Where acting roles have been taken a higher duties allowance has been awarded for increased responsibility in that position. Where acting roles have been confirmed the higher duties allowance has been converted to base salary.
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: <ul style="list-style-type: none"> 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 had to be achieved as compared to budget prior to any STI being paid across the Group in 2018. As the target of 85% was not achieved no STI under this plan was awarded. For the KMP, the split of 2018 financial measures was 35% Group EBITDA and 35% Group Revenue.
LTI – at risk	LTI targets are linked to internal growth measures (EPS and ROCE), and external relative out performance 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: <ul style="list-style-type: none"> 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: 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.	Consistent with FY17 no LTIs were issued to KMP during FY18.

Directors' report continued

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	61%	24%	15%
COO	79%	21%	—
CFO	86%	14%	—

Actual remuneration mix achieved:

The actual remuneration percentage achieved in 2018 for KMP is shown below:

%	Fixed remuneration		At risk – STI actual		At risk – LTI Actual	
	2018	2017	2018	2017	2018	2017
Current KMP						
Rebecca Lowde	104%	77%	0%	16%	(4%)	7%
Chris Walsh	95%	76%	0%	16%	5%	7%
Alex Panich	100%	39%	0%	61%	0%	0%

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 KMP, 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 KMP 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	FY18 budget	35%	Reflects focus on growing the business in a targeted and profitable manner.
	Revenue	FY18 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 KMP are met. The Board has final discretion to adjust remuneration to prevent any inappropriate reward outcomes.

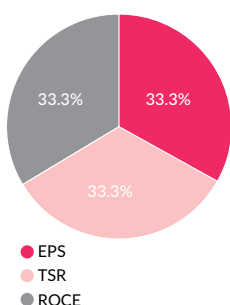
Performance and impact on variable remuneration Based on the results no STI payment has been approved under this plan. However, the following have been approved by the Board on sale of the Contact Centre business:

- Retention payments – CEO and COO
- Discretionary bonus – CFO

Directors' report continued

6. Long term incentives

Participants and description	<p>KMP 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 predefined performance hurdles for a three year period which are set by the People Performance Committee.</p> <p>An offer may be made to KMP 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.</p>
Value of grant of rights	<p>The number of rights granted to KMP is determined by dividing the value of their grant by the 5 day VWAP on the date of the grant. The value of an individual's grant is determined by the People Performance Committee based upon the individual's role and responsibilities within the Group.</p>
Performance measures	<p>The rights granted will have performance measures based 33% on EPS performance, 33% on TSR performance and 33% on ROCE.</p> <p>EPS</p> <p>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.</p> <p>TSR</p> <p>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.</p> <p>ROCE</p> <p>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.</p>
Legal rights	<p>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.</p>
Forfeiture and termination	<p>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 assessed.</p>
Timing and delivery	<p>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.</p>
Other information	<p>As part of the termination package, the COO was awarded his LTI under the plan rules. The rights relating to remaining KMP (the CEO) did not vest under the plan rules due to Board discretion.</p>



Directors' report continued

7. Executive remuneration disclosures

Remuneration expenses for KMP:

Details of the remuneration of KMP 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		
		Salary \$	Short Term Incentives \$	Retention/ Discretionary Bonus \$	Non-monetary benefits \$	Long service leave \$	Super-annuation \$	Termination \$	Rights \$	Total \$
Current KMP										
Rebecca Lowde ^{1, 2}	2018	629,129	—	429,225	9,861	4,962	20,049	—	(41,066) ⁴	1,052,160
	2017	443,071	98,572	—	7,305	2,233	19,616	—	44,519	615,316
Chris Walsh ²	2018	413,000	—	303,750	9,861	2,051	20,049	163,558	49,141	961,410
	2017	407,885	93,008	—	7,305	1,925	19,616	—	42,006	571,745
Alex Panich ³	2018	250,000	—	32,000	6,565	435	20,049	—	—	309,049
	2017	14,423	23,825	—	—	188	839	—	—	39,275
Former KMP										
Craig Dower	2018	—	—	—	—	—	—	—	—	—
	2017	731,078	—	—	6,696	(2,214)	20,428	784,089	(178,605) ⁴	1,361,472
Total	2018	1,292,129	—	764,975	26,287	7,448	60,147	163,558	8,075	2,322,619
	2017	1,596,457	215,405	—	21,306	2,132	60,499	784,089	(92,080)	2,587,808

1) Rebecca Lowde was appointed Salmat's acting CEO on 31 May 2017 and confirmed on 12 December 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 August 2018.

3) Alex Panich was appointed Salmat's acting CFO 5 June 2017 and confirmed on 13 August 2018.

4) Reflects forfeiture of rights granted under the 2016 LTI plan.

Performance based remuneration granted and forfeited during the year:

STI:	Total STI		
2018	Total opportunity	Awarded %	Forfeited %
Current KMP			
Rebecca Lowde	252,600	0%	100%
Chris Walsh	121,500	0%	100%
Alex Panich	40,000	0%	100%

LTI:

No rights have been granted in the 2018 period due to the strategic review continuing until March 2018.

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		Value per right at grant date ¹		Exercise price
				EPS	ROCE	EPS & ROCE	TSR	
Rights	December 2015	September 2018	December 2020	14 cents	6.5%	\$0.65	\$0.39	\$0.00

1) 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.

Directors' report continued

The achievement of the December 2015 grant is summarised below:

LTI Target	Final Achievement	Rights Awarded
Earnings per share	Not Achieved	0%
Return on capital employed	Not Achieved	0%
Total shareholder return	Not Achieved	0%

The table below shows the details of the rights per KMP. No LTIs vested in 2018.

Executive	Contractual LTI value	Number of rights granted ¹	Fair value of rights ²	Number of rights as at 30 June 2018
Rebecca Lowde	\$150,230	214,290	120,986	—
Chris Walsh ³	\$141,750	202,790	114,158	202,790

1) The 5 day VWAP was used to calculate the number of rights, and for the FY16 rights this was 70 cents.

2) 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.

3) Chris Walsh rights vested under the plan rules automatically upon his position being made redundant on the sale of the Contact Centre business.

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.

	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
2018					
Current Non-executive Directors – Ordinary shares					
Peter Mattick	44,924,165	—	—	(34,576)	44,889,589
Stuart Nash	7,992	—	—	—	7,992
Current KMP – Ordinary shares					
Rebecca Lowde	16,000	—	—	4,178	20,178
Alex Panich	15,000	—	—	—	15,000

8. Service agreements

KMP contracts specify remuneration components, benefits and notice provisions. KMP 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 ³
Rebecca Lowde – CEO ¹	649,274	3 months	6 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 KMP are not entitled to receive any additional retirement or termination benefits.
Alex Panich – CFO ²	295,562	3 months	3 months	

1) Rebecca Lowde was confirmed as CEO on 12 December 2017.

2) At the end of the financial year Alex Panich was still in an acting role that has subsequently been confirmed on 13 August 2018. The above table reflects contracts now in place.

3) 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).

Directors' report continued

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 pool 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.

\$A	2018			2017		
	Board and Committee fees	Post-employment superannuation	Total	Board and Committee fees	Post-employment superannuation	Total
Peter Mattick (Chairman)	238,704	19,398	258,102	238,700	19,615	258,315
John Thorn	49,084	4,663	53,747	113,945	10,824	124,769
Ian Elliot	—	—	—	59,162	5,620	64,782
Fiona Balfour	59,163	5,620	64,783	113,941	10,824	124,765
Mark Webster	113,684	10,800	124,484	113,684	10,800	124,484
Bart Vogel ¹	113,425	10,775	124,200	8,724	828	9,552
Stuart Nash ²	111,780	10,620	122,400	—	—	—
Total	685,840	61,876	747,716	648,156	58,511	706,667

1) Commenced role 29 May 2017.

2) Commenced role 1 August 2017.

10. Financial performance

We aim to align our KMP to our strategic objectives and the creation of shareholder wealth. The table below show 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	2018	2017	2016	2015	2014
Revenue	250,194	435,259	450,800	498,119	452,840
Underlying EBITDA	20,288	22,842	19,586	13,289	18,223
Profit/(loss) for the year from continuing operations	(5,154)	4,306	(8,029)	(100,550)	261
Return on capital employed ¹	10.4%	6.5%	4.7%	(1.0%)	2.5%

1) ROCE has been calculated from continuing operations with significant items being excluded

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

	2018	2017	2016	2015	2014
Dividend payments (\$'000)	1,997	—	—	11,986	23,972
Basic earnings/(loss) per share (cents) ¹	(2.6)	2.3	(5.0)	(62.9)	0.2
Share price at financial year end (\$)	0.66	0.39	0.44	0.72	1.62
Increase in share price (%)	69.2%	11.4%	38.9%	55.6%	16.5%

1) EPS has been calculated from continuing operations in 2018

Directors' report continued

Insurance of officers

During the financial year, Salmat Limited paid a premium of \$197,745 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 22.

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

Sydney

28 August 2018

Auditor's independence declaration



As lead auditor for the audit of Salmat Limited for the year ended 30 June 2018, 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.

A handwritten signature in black ink, appearing to read 'S. Horlin'.

Susan Horlin
Partner
PricewaterhouseCoopers

Sydney
28 August 2018

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Financial report

30 June 2018

Introduction

This is the financial report of Salmat Ltd and its subsidiaries (together referred to as 'the Group') and includes the Group's interest in associates and jointly controlled entities.

About this report

Note disclosures have been split into six separate sections to better understand how the business is performing. At the beginning of each section we have included a summary of the highlights for that particular area and items we would like to draw particular attention to.

Where accounting policy and critical judgements have been made in the preparation of the financial statements we have assisted by shading in pink and highlighting with the following symbol:



We have also included in italics the Group's accounting policies which have replaced 'Note 1' in previous financial reports.

Areas shaded in grey relate to adoption of new accounting standards and discuss the Group's impact and approach on adoption of these standards.

Information has been included in the financial report where it has been considered material and relevant to the understanding of the financial statements. Disclosure is considered material if, for example:

- The dollar value is significant in size (quantitative factor).
- The dollar value is significant in nature (qualitative factor).
- The Group's result cannot be understood without specific disclosure (qualitative factor).
- It is critical to allow a user to understand the significant changes in the Group's business during the period such as sale of businesses (qualitative factor).
- It relates to an aspect of the Group's operations that is important to its future performance.

Consolidated income statement

For the year ended 30 June 2018

Continuing operations	Notes	2018 \$'000	2017 \$'000
Revenue	1.4	250,194	258,486
Other income	1.3	110	1,430
Employee benefits expenses		(89,415)	(92,744)
Freight, distribution and communication expenses		(104,795)	(107,954)
Property related expenses		(16,223)	(15,428)
Equipment related expenses		(11,909)	(12,769)
Other expenses from ordinary activities		(8,745)	(9,898)
Depreciation and amortisation expense	1.4	(6,147)	(8,316)
Impairment loss	1.3	(15,300)	(1,314)
Finance costs	1.4	(987)	(2,332)
Share of net profits of joint venture accounted for using the equity method	4.1	359	462
(Loss)/Profit before income tax		(2,858)	9,623
Income tax expense	1.5	(2,296)	(945)
(Loss)/Profit from continuing operations		(5,154)	8,678
Profit/(Loss) from discontinued operation		35,009	(4,372)
Profit for the year		29,855	4,306
Attributable:			
Owners of the company		29,855	4,264
Non-controlling interests		—	42
		29,855	4,306
		Cents	Cents
Earnings per share for (loss)/profit from continuing operations attributable to owners of the company:			
Basic (loss)/earnings per share	1.1	(2.6)	4.7
Diluted (loss)/earnings per share	1.1	(2.6)	4.6
Earnings per share for profit attributable to owners of the company:			
Basic earnings per share	1.1	15.0	2.3
Diluted earnings per share	1.1	14.9	2.3

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

Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Profit for the year		29,855	4,306
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations	3.4	(574)	(394)
Reclassification of foreign currency translation to income statement	4.2	726	—
<i>Items that may not be reclassified subsequently to profit or loss</i>			
Actuarial gains on retirement benefit obligation		343	76
Other comprehensive income/(loss) for the year, net of tax		495	(318)
Total comprehensive income		30,350	3,988
Attributable:			
Owners of the company		30,350	4,131
Non-controlling interests		—	(143)
		30,350	3,988
Continuing operations		(5,385)	8,495
Discontinued operations		35,735	(4,507)
		30,350	3,988

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

Consolidated statement of financial position

As at 30 June 2018

	Notes	Consolidated	
		2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents	3.1	79,117	34,816
Trade and other receivables	2.1	29,534	52,055
Other current assets	2.2	4,409	4,815
Total current assets		113,060	91,686
Non-current assets			
Receivables and other non-current assets	2.2	4,121	5,502
Investments	4.1	1,855	1,546
Property, plant and equipment	2.4	5,127	10,864
Deferred tax assets	1.5	9,492	12,845
Intangible assets	2.5	55,780	88,082
Total non-current assets		76,375	118,839
Total assets		189,435	210,525
Current liabilities			
Trade and other payables	2.3	45,631	45,105
Provisions	2.6	7,440	10,336
Borrowings	3.1	642	5,970
Other financial liabilities		—	4,583
Current tax payable		266	1,016
Total current liabilities		53,979	67,010
Non-current liabilities			
Provisions	2.6	2,035	3,135
Borrowings	3.1	—	20,016
Deferred tax liabilities	1.5	1,911	2,101
Retirement benefit obligations		434	689
Other non-current liabilities	2.7	1,703	714
Total non-current liabilities		6,083	26,655
Total liabilities		60,062	93,665
Net assets		129,373	116,860
Equity			
Contributed equity	3.3	226,570	226,585
Reserves	3.4	(20,160)	(20,457)
Retained earnings		(77,037)	(89,268)
Equity attributable to owners of the company		129,373	116,860
Total equity		129,373	116,860

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 2018

Consolidated	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Non-controlling interest \$'000	Total equity \$'000
Balance at 1 July 2017		226,585	(20,457)	(89,268)	—	116,860
Profit for the year		—	—	29,855	—	29,855
Other comprehensive income		—	152	343	—	495
Total comprehensive income for the year		—	152	30,198	—	30,350
Transactions with owners in their capacity as owners:						
Dividends provided for or paid	1.2	—	—	(17,967)	—	(17,967)
Cost of share-based payments	3.4	—	145	—	—	145
Purchase of shares through share trust	3.3	(15)	—	—	—	(15)
		(15)	145	(17,967)	—	(17,837)
Balance at 30 June 2018		226,570	(20,160)	(77,037)	—	129,373
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	1.2	—	—	—	(1,692)	(1,692)
Cost of share-based payments	3.4	—	35	—	—	35
Issue of share capital	3.3	16,609	—	—	—	16,609
Derecognition of Non-controlling interest	3.4	—	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

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 2018

	Notes	Consolidated	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		403,743	477,743
Payments to suppliers and employees (inclusive of goods and services tax)		(389,055)	(456,770)
		14,688	20,973
Income taxes paid		(2,118)	(1,861)
Net cash inflow from operating activities	6.7	12,570	19,112
Cash flows from investing activities			
Proceeds from sale of businesses		68,114	—
Transaction costs on sale of businesses		(1,850)	—
Payments for property, plant and equipment		(1,930)	(5,405)
Payments for intangible assets		(823)	(1,912)
Proceeds from sale of shares of an investment	1.3	—	1,430
Proceeds from loan to joint venture		687	857
Payments of other financial liabilities (previous acquisitions)		—	(6,593)
Interest received		571	485
Net cash inflow/(outflow) from investing activities		64,769	(11,138)
Cash flows from financing activities			
Repayment of borrowings		(25,589)	(6,854)
Proceeds from borrowings drawdown		—	5,000
Interest and finance costs paid		(884)	(1,469)
Proceeds from rights issue	3.3	—	15,072
Transaction costs from rights issue	3.3	—	(1,077)
Purchase of shares through the share trust	3.3	(15)	—
Dividends paid	1.2	(1,997)	—
Transaction with non-controlling interest		(4,483)	(24,307)
Dividends paid to non-controlling interest	1.2	—	(1,692)
Net cash outflow from financing activities		(32,968)	(15,327)
Net increase/(decrease) in cash and cash equivalents		44,371	(7,353)
Cash and cash equivalents at the beginning of the financial year		34,816	42,911
Effect of exchange rate changes on cash and cash equivalents		(70)	(742)
Cash and cash equivalents at end of year	3.1	79,117	34,816

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

Notes to the consolidated financial statements

For the year ended 30 June 2018

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Notes to the consolidated financial statements continued

SECTION 1: KEY PERFORMANCE METRICS

This section provides insight into how the Group has performed in the current year, with the headline results being:

- Basic earnings per share (EPS) for Salmat Limited being 15.0 cents per share.
- Annual fully franked dividend declared of 2.0 cents per share subsequent to year end.
- Profit after tax for the Group of \$29.9m.

With the sale of the Contact Centre and other businesses during the year the Contact segment has been renamed to 'Managed Services' and the Media+Digital segment has been renamed to 'Marketing Solutions' which reflects the way management view and run the business.

1.1 Earning/(loss) per share

	Consolidated	
	2018 \$'000	2017 \$'000
Basic earnings per share		
From continuing operations	(2.6)	4.7
From discontinued operations	17.6	(2.4)
Total basic earnings per share	15.0	2.3
Diluted earnings per share		
From continuing operations	(2.6)	4.6
From discontinued operations	17.5	(2.3)
Total diluted earnings per share	14.9	2.3
Profit for the year	29,855	4,305
Weighted average number of shares on issue used to calculate basic EPS ('000)	199,014	186,421
Weighted average number of shares on issue used to calculate diluted EPS ('000)	199,992	189,213

Calculation methodology

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the financial year. Diluted EPS is calculated on the same basis, except that it excludes the impact of any potential commitments the Group has to issue shares in the future. For the current period the only future commitments the Group has are for employee share-based payments

1.2 Dividends

	Consolidated	
	2018 \$'000	2017 \$'000
Dividends paid		
Dividend paid to non-controlling interests	—	1,692
Interim dividend paid to owners of Salmat Limited of 1.0 cent per share	1,997	—
Dividend paid as per Statement of Cash Flows	1,997	1,692
Dividends declared		
Special dividend payable of 8.0 cents per share paid 5 July 2018	15,970	—
In addition to the above dividends, since the year end the Directors have recommended the payment of a final fully franked ordinary dividend of \$3,992,500 (2.0 cents per fully paid share on record date 4 September 2018) to be paid on 4 October 2018.		
The franked portions of any dividends recommended after 30 June 2018 will be franked out of existing franking credits.		
Franking credits available for the Australian Group subsequent financial years based on a tax rate of 30% (2017- 30%)	25,882	33,583

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

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the end of each reporting period; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the end of each reporting period.

Notes to the consolidated financial statements continued

SECTION 1: KEY PERFORMANCE METRICS continued

1.3 Segment information

A description of each segment is reported below:

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, e-commerce, search (SEO, SEM and display advertising) and email.

Managed Services The Managed Services segment provides outsourced business solutions - including back-office processes and digital creative, development services and contact centre services - which are provided via an innovative range of managed service delivery models.

Segment disclosures are consistent with 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.

Segment performance is evaluated based on EBITDA before significant items. Financing, corporate costs (costs of strategic planning decisions, and compliance), and income tax are managed on a Group basis and are not allocated to operating segments.

	Marketing Solutions \$'000	Managed Services \$'000	Corporate Costs \$'000	Total \$'000
2018				
External service revenue	176,858	72,765		249,623
Finance income				571
Total revenue				250,194
Underlying EBITDA before significant items	16,552	10,528	(6,792)	20,288
Depreciation and amortisation expense				(6,147)
Net finance costs				(417)
Underlying profit before income tax from continuing operations				13,724
Significant items				(16,582)
Loss before income tax from continuing operations				(2,858)
Income tax expense				(2,296)
Loss for the year from continuing operations				(5,154)
2017				
External service revenue	191,214	66,614		257,828
Finance income				658
Total revenue				258,486
Underlying EBITDA before significant items	17,565	9,115	(6,432)	20,248
Depreciation and amortisation expense				(8,316)
Net finance costs				(1,673)
Underlying profit before income tax from continuing operations				10,259
Significant items				(636)
Profit before income tax from continuing operations				9,623
Income tax expense				(945)
Profit for the year from continuing operations				8,678

Notes to the consolidated financial statements continued

SECTION 1: KEY PERFORMANCE METRICS continued

	Consolidated	
	2018 \$'000	2017 \$'000
Significant items included in total expenses		
Impairment of goodwill (note 2.5)	15,300	—
Restructuring costs	1,282	646
Profit on sale of shares of investment	—	(1,430)
Fair value adjustment on other financial liabilities	—	(826)
Impairment of investment in joint venture	—	1,314
Strategic review costs	—	932
Significant items¹	16,582	636

1) Tax benefits have not been assigned for significant items due to the Group remaining in a tax loss position in Australia

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

	Segment revenues		Segment assets	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Australia	176,797	189,496	132,346	141,683
New Zealand	58	1,385	—	15,590
Philippines	72,764	66,895	33,447	26,287
Other	4	52	14,150	14,120
Total	249,623	257,828	179,943	197,680
Unallocated: deferred tax asset			9,492	12,845
Total			189,435	210,525

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 2018 two clients generated 8.7% and 8.3% of total revenue. In 2017 two clients generated 8.4% and 7.9% of total revenue.

1.4 Revenue and expenses

Revenue

	Consolidated	
	2018 \$'000	2017 \$'000
The Group derives the following type of revenue:		
Services	249,623	257,828
Finance income	571	658
Total	250,194	258,486

The Group recognises revenue when the amount of revenue can be reliably measured, and it is probable that future economic benefits will flow to the entity. 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.

Where payment terms extend beyond 12 months, the receivable and associated revenue is discounted to its present value if the impact of discounting is material. The unwinding of this is recognised as finance income. Finance income also includes interest income from cash balances.

Notes to the consolidated financial statements continued

SECTION 1: KEY PERFORMANCE METRICS continued

New accounting standard: AASB 15 Revenue from contracts with customers

The revenue accounting policies and methods of computation applied by the Group in this consolidated report are the same as those applied by the Group in the financial report for the year ended 30 June 2017. Revenue is currently recognised when it is probable that work performed will result in revenue whereas under the new standard (AASB 15), revenue is recognised when control of a good or service transfers to a customer. AASB 15 will be effective for the Group from 1 July 2018 and the Group will apply the modified retrospective approach. The Group expects the largest impact to be on digital products within the Marketing Solutions segment. Minimal impact is expected for Letterbox distribution within the Marketing Solutions segment, and the Managed Services segment.

AASB 15 establishes a comprehensive framework for determining the timing and quantum of revenue recognised. The Group has considered the potential implications of AASB 15. Details of the new requirements of AASB 15 as well as their potential impact on the Group's consolidated financial statements are described below.

Operating segment	Type of revenue and potential implications	Quantum of impact
Marketing Solutions	<p>The Marketing Solutions segment delivers relevant, targeted and integrated communications across all digital and traditional channels. We have considered this segment in two parts:</p> <p>1) Letterbox distribution (including digital catalogues)</p> <p>The contracted terms and the way in which the Group operates these service contracts results in revenue predominantly being derived from four performance obligations (print, distribution to walkers, hosting digital catalogues and recycling). There may be different combinations of these within each customer contract.</p> <p>The performance obligations are fulfilled over time, and the total transaction price for each customer contract is allocated across performance obligations. The transaction price is allocated to each performance obligation based on contracted prices. The total transaction price may include variable consideration.</p> <p>Customers are in general invoiced on a monthly basis for an amount that is calculated on either a schedule of rates that are aligned with the stand alone selling prices for each performance obligation. Payment is received following invoice on normal commercial terms.</p> <p>2) Digital products</p> <p>The digital business provides a number of integrated and targeted communication services. The contracted terms and the way in which the Group provides these services varies and is specific to customers.</p> <p>The Group has identified a number of performance obligations within these contracts that due to the more prescriptive guidance included in AASB 15 and changes in elements of contracts as a result of the sale of the Contact Centre business, are likely to be classified as an agency arrangement, rather than principal.</p>	<p>1) Letterbox distribution – expected to have a low impact.</p> <p>Revenue will continue to be recognised in the accounting period in which the services are rendered as the customer consumes the benefit as the services are performed.</p> <p>The Group has considered variable consideration (i.e. performance bonuses or penalties) in its assessment, but has concluded the amount of variable consideration in any one financial year is not material to revenue (\$ < 1m).</p> <p>The Group expects there will be some other small changes for how revenue is recognised for the hosting of digital catalogues. However this has been concluded to not be material.</p> <p>2) Digital products – expected to have an impact.</p> <p>While this analysis is ongoing, the impact to total revenue could be up to \$10m per annum. This is not expected to impact total profit.</p>
Managed Services	<p>The MicroSourcing business provides Philippines-based outsourced business solutions. The contracted terms and the way in which the Group operates these service contracts results in revenue predominantly being derived from one performance obligation (the provision of outsourcing services). This performance obligation is fulfilled overtime, as the customer benefits from the outsourcing services as they are performed.</p> <p>Customers are in general invoiced on a monthly basis for an amount that is calculated on either a schedule of rates or a cost plus basis. As there is only one performance obligation, the contract price is aligned to this. Payment is received following invoice on normal commercial terms.</p>	<p>It is expected that the new standard will have limited impact on this operating segment.</p> <p>Revenue will continue to be recognised in the accounting period in which the services are rendered based on the monthly invoices.</p> <p>While these are outsourcing services, the MicroSourcing sites are easily adaptable for each client, and so there are limited contract fulfilment costs.</p>

Notes to the consolidated financial statements continued

SECTION 1: KEY PERFORMANCE METRICS continued

Expenses

	Consolidated	
	2018 \$'000	2017 \$'000
Depreciation		
Plant and equipment	5,028	7,166
Amortisation		
Customer intangibles	1,119	1,150
Depreciation and amortisation expense	6,147	8,316
Finance costs	987	2,332
Net loss /(gain) on disposal of property, plant and equipment	73	(25)
Rental expense relating to operating leases	8,690	8,805
Net foreign exchange gains	(228)	(2)
Defined contribution superannuation expense	3,484	4,079
Share based payments expense	15	35
Fair value adjustment on other financial liabilities	—	(826)
Impairment of goodwill and intangible assets	15,300	—
Impairment of investment in joint venture	—	1,314

1.5 Income tax and deferred tax

The income tax expense 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.

	Consolidated	
	2018 \$'000	2017 \$'000
Current tax	1,972	2,827
Adjustments for current tax of prior periods	(283)	12
Total current tax expense	1,689	2,839
Deferred tax		
Decrease in deferred tax assets	3,353	221
Decrease in deferred tax liabilities	(276)	(272)
Total deferred tax expense	3,077	(51)
Total income tax expense	4,766	2,788
Income tax is attributable to:		
Profit from continuing operations	2,296	945
Profit from discontinued operations	2,470	1,843
Total income tax expense	4,766	2,788

Notes to the consolidated financial statements continued

SECTION 1: KEY PERFORMANCE METRICS continued

Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated	
	2018 \$'000	2017 \$'000
(Loss)/profit from continuing operations	(2,858)	9,623
Profit/(loss) from discontinued operations	37,479	(2,529)
Profit before tax	34,621	7,094
Tax at the Australian tax rate of 30% (2017 – 30%)	10,386	2,128
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-allowable deductions	471	131
Non-taxable income including sale of business	(13,508)	(429)
Allowable items	(168)	(688)
Tax impact of fair value adjustment and discounting of other liabilities	—	(159)
Adjustments for current tax of prior periods	(283)	12
Difference in overseas tax rates	(1,020)	(1,517)
Share of profits and impairment loss of investment in joint venture	(108)	256
Goodwill impairment	4,590	—
Unrecognised tax losses	4,406	3,054
Total income tax expense	4,766	2,788
Tax losses		
Gross unused tax losses for which no deferred tax asset has been recognised	49,360	34,673
Potential benefit at 30%	14,808	10,402



Key judgement and estimate

The Group's deferred tax assets include an amount of \$4.8 million which relates to recognised tax losses. 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 2018. Management has exercised its judgement, and concluded that the recognised tax losses will be recoverable using the estimated future taxable income based on the business forecasts built off historical trends and budget information. The Group is expected to generate taxable income from FY19. The unrecorded tax losses of \$14.8 million 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.

Notes to the consolidated financial statements continued

SECTION 1: KEY PERFORMANCE METRICS continued

Deferred tax

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. 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 assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities.

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.

Non-current deferred tax assets

	Consolidated	
	2018 \$'000	2017 \$'000
The balance comprises temporary differences attributable to:		
Doubtful debts	106	191
Employee benefits	1,125	3,540
Property, plant & equipment	766	1,279
Other provisions	2,672	3,012
Tax losses	4,823	4,823
	9,492	12,845
Movements:		
Opening balance at 1 July	12,845	12,743
Charged to the income statement	(3,353)	(221)
Credited from equity	—	323
Closing balance at 30 June	9,492	12,845
Non-current deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Intangible assets	1,911	2,101
Movements:		
Opening balance at 1 July	2,101	2,430
Credited to the income statement	(276)	(272)
Charged to equity	86	(57)
Closing balance at 30 June	1,911	2,101

Tax consolidated Group

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. The entities in the tax consolidated Group are part of a tax sharing and funding agreement.

Notes to the consolidated financial statements continued

SECTION 2: OPERATING ASSETS AND LIABILITIES

This section highlights the primary operating assets used and liabilities incurred to support the Group's operating activities. Highlighted are the following items at the end of the year

- The Group continues to hold adequate provision for bad debts with a reduction in write offs during the year.
- An impairment expense on the Marketing Solutions CGU of \$15.3m was incurred due to continuing industry decline in the catalogue business plus ongoing pricing pressure in the market and non-performance of some of the digital business.
- A provision of \$3.9 million has been recognised at the end of the financial year in relation to separation costs for the Contact Centre business. Payments to suppliers of \$3.1 million were paid prior to the end of financial year relating to contract termination costs.

2.1 Trade and other receivables

	Consolidated	
	2018 \$'000	2017 \$'000
Trade receivables	26,393	46,802
Provision for impairment	(489)	(736)
	25,904	46,066
Other receivables	3,630	5,989
	29,534	52,055

Trade receivables are non-interest bearing, generally have 7-45 day terms. Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

As at 30 June 2018 current trade receivables of the Group with a nominal value of \$489,269 (2017: \$735,658) were impaired and this estimate is made when collection of the full amount is no longer probable.

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

	Consolidated	
	2018 \$'000	2017 \$'000
At 1 July	736	1,813
Allowance for impairment recognised during the year	138	536
Receivables written off during the year as uncollectible	(380)	(1,612)
Net exchange difference on translation of foreign operations	(5)	(1)
At 30 June	489	736

As of 30 June 2018, trade receivables of \$8,487,126 (2017: \$10,045,323) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The Group does not hold any collateral as security. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2018 \$'000	2017 \$'000
1-30 days	4,103	6,371
31-60 days	735	1,178
Greater than 60 days	3,649	2,496
	8,487	10,045

New accounting standard: 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. This standard is not yet effective, but will be adopted by the Group from 1 July 2018.

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. From analysis performed to date the Group does not expect the new guidance to have a material impact on the classification and measurement of these.

Notes to the consolidated financial statements continued

SECTION 2: OPERATING ASSETS AND LIABILITIES continued

2.2 Other assets

	Consolidated – Current		Consolidated – Non-Current	
	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Prepayments	3,986	4,404	330	33
Inventories	57	230	–	–
Related party receivable – Reach Media NZ Limited (joint venture)	–	–	800	1,538
Withholding tax receivables	82	38	–	–
Recoverable deposits	284	143	1,781	1,717
Non-current trade receivables	–	–	1,210	2,214
	4,409	4,815	4,121	5,502

Related party transaction

The loan to Reach Media NZ Limited is considered to be a transaction with a related party. 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. This loan is made on normal commercial terms and conditions, and interest is concluded to be at market rates.

2.3 Trade and other payables

	Consolidated	
	2018 \$'000	2017 \$'000
Trade payables	9,335	7,436
Accrued expenses	19,166	32,622
Dividends payable	15,970	–
Other payables – deferred revenue	1,160	5,047
	45,631	45,105

Trade payables and other payables are non-interest bearing and are normally settled on supplier agreed terms.

Notes to the consolidated financial statements continued

SECTION 2: OPERATING ASSETS AND LIABILITIES continued

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost comprises expenditure that is directly attributable to the acquisition of the item and subsequent costs incurred to replace parts that are eligible for capitalisation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset or, in the case of leasehold improvements and leased assets, over the period of the lease or useful life of the asset, whichever is shorter. 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.



Plant and equipment
\$'000

Key judgement and estimate - Useful life	3 - 7 years
2018	
Cost	
Opening balance	115,314
Additions for the period	1,930
Disposals during the period including sale of businesses	(16,685)
Foreign currency translation impact	(318)
Closing balance	100,241
Accumulated depreciation	
Opening balance	(104,450)
Depreciation charge – continuing and discontinued operations	(6,430)
Disposals during the period including sale of businesses	15,335
Foreign currency translation impact	431
Closing balance	(95,114)
Carrying value 30 June 2018	5,127
2017	
Cost	
Opening balance	112,051
Additions for the period	6,657
Disposals during the period	(1,597)
Foreign currency translation impact	(1,797)
Closing balance	115,314
Accumulated depreciation	
Opening balance	(98,610)
Depreciation charge - continuing and discontinued operations	(8,913)
Disposals during the period	1,521
Foreign currency translation impact	1,552
Closing balance	(104,450)
Carrying value 30 June 2017	10,864

Notes to the consolidated financial statements continued

SECTION 2: OPERATING ASSETS AND LIABILITIES continued

2.5 Intangible assets

The Group's intangible assets comprises goodwill and other intangible assets. Goodwill 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. Other intangible assets include software assets, developed internally and customer relationships obtained through business combinations. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and provision for impairment. Amortisation charges are expensed in the income statement on a straight-line basis over those useful lives. Estimated useful lives are reviewed annually.

	Goodwill \$'000	Software Assets \$'000	Customer Intangible \$'000	Total \$'000
Key judgements and estimates - Amortisation policy	N/A	3 years	12 years	
Year ended 30 June 2018				
Opening net book amount	73,258	5,079	9,745	88,082
Additions	—	823	—	823
Amortisation charge – continuing and discontinued operations	—	(4,117)	(1,119)	(5,236)
Disposals on sale of businesses	(11,573)	(1,572)	—	(13,145)
Impairment	(15,300)	—	—	(15,300)
Foreign currency translation impact	179	—	377	556
Closing net book amount	46,564	213	9,003	55,780
At 30 June 2018				
Cost	154,561	11,120	13,730	179,411
Accumulated amortisation and impairment	(108,847)	(10,907)	(7,277)	(127,031)
Foreign currency translation impact	850	—	2,550	3,400
Net book amount	46,564	213	9,003	55,780
Year ended 30 June 2017				
Opening net book amount	73,382	6,576	11,212	91,170
Additions	—	1,912	—	1,912
Amortisation charge - continuing and discontinued operations	—	(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

The Reach platform was decommissioned in line with the roll out of the new Contact Centre platform R2. The Reach platform was fully written off and the R2 platform was sold as part of the the sale of the Contact Centre business.

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. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. 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). 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.

Results of impairment tests for intangible assets

With the sale of the Contact Centre business during the year, the Group disposed of the goodwill attached to this business. This was previously held in the Contact CGU. On this disposal, goodwill remaining in this CGU only relates to MicroSourcing and so consistent with segment reporting, this CGU has been renamed Managed Services.

During the year the Group recognised an impairment of \$15.3 million in the Marketing Solutions CGU in order to bring the carrying value in line with its recoverable amount. This was driven by continuing industry decline in the catalogue business plus ongoing pricing pressure in the market and non-performance of some of the Digital business.

Notes to the consolidated financial statements continued

SECTION 2: OPERATING ASSETS AND LIABILITIES continued

The lowest level at which goodwill is monitored is at a segment level, and so a segment and CGU summary of goodwill allocation is presented below.

	Marketing Solutions \$'000	Managed Services \$'000	Total \$'000
2018 Goodwill	32,546	14,018	46,564
2017 Goodwill	54,034 ¹	19,224 ¹	73,258

1) The 2017 amount includes the Contact Centre and Marketing Solutions businesses goodwill now disposed of.

Impact of possible changes in key assumptions



Key judgement and estimate

The recoverable amount of a CGU is determined based on a value-in-use using a discounted cash flow calculation. 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 business forecasts and projections, utilising budget information and historical trends. The average five-year growth rate is 5.5% for Managed Services and a decline of 4.8% for Marketing Solutions.
- Growth rates to extrapolate cash flows beyond the five-year period of 2.0% for Managed Services and 0% for Marketing Solutions.
- A discount rate applied to forecast pre-tax cash flows for Managed Services of 10.5% (2017 Contact: 14.1%) and Marketing Solutions of 16.7% (2017: 14.8%). The equivalent post-tax discount rate is 9.5% for Managed Services (2017 Contact: 10.3%) and 10.3% for Marketing Solutions (2017: 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, business risk specific to that segment and operating in different geographic locations.

All other things being equal, if the following reasonably possible changes occurred in the Marketing Solutions cash flow models key assumptions, the Group would have had to make the following changes to the impairment charge recognised:

- an increase in the average annual revenue decline rates by 0.5% (to 5.3%) equates to an increase in the impairment charge of \$4,243,000, and a reduction in average annual revenue decline rates by 0.5% (to 4.3%) equates to headroom of \$4,934,000; or
- an increase in the post-tax discount by 0.5% equates to an increase in the impairment charge of \$1,298,000 and a decrease in the post-tax discount rate by 0.5% equates to a decrease in the impairment charge of \$1,438,000; or
- an increase in the terminal growth rate of 0.5% equates to a decrease in the impairment charge of \$875,000 and a decrease in the terminal growth rate of 0.5% equates to an increase in the impairment charge of \$780,000.

For the Managed Services CGU, sensitivity analysis on changes to the revenue growth, discount rate and long-term growth rates would not result in an outcome where impairment would be required.

2.6 Provisions

Provisions are:

- Recognised when the Group has a present obligation as a result of a past event, it is probable that cash will be required to settle the obligation and a reliable estimate can be made.
- Measured at the present value of management's best estimate of the cash outflow required to settle the obligation.

Where a provision is non-current and the effect is material, provisions are discounted and the unwind of the discount is recognised as a financing cost in the income statement.

	Consolidated	
	2018 \$'000	2017 \$'000
Provisions		
Current		
Employee benefits - long service leave	1,750	3,565
Employee benefits - annual leave	1,749	6,771
Separation of business provision	3,941	—
	7,440	10,336
Non-current		
Employee benefits - long service leave	317	732
Other provisions - lease make good	1,718	2,403
	2,035	3,135
Total provisions	9,475	13,471

Notes to the consolidated financial statements continued

SECTION 2: OPERATING ASSETS AND LIABILITIES continued

Provision categories	Description	Key judgement
Employee benefits	<p>Liabilities for wages and salaries, including non-monetary benefits, and annual leave which are expected to be settled within 12 months of the reporting date. All other short-term employee benefit obligations are presented as payables.</p> <p>Liabilities for long service leave are measured at the present value of estimated future payments for the services provided by employees up to the reporting date.</p>	<p>Expected future wages and salary levels.</p> <p>Experience of employee departures.</p> <p>Periods of service (Long service leave only).</p>
Lease make good provision	The Group has leased properties in various locations across Australia and Asia. In most instances, Salmat is required to make good the premises to the original state they were in when Salmat signed the lease.	Future costs associated with restoring sites to their original condition.
Separation provision	<p>The separation provisions relate to both onerous contracts and expected restructuring costs as a result of the sale of the Contact Centre business. The onerous contracts relate to the rental of buildings and supplier contracts which are not able to be fully used.</p> <p>A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting the obligations under the contract.</p> <p>A provision for restructuring is recognised when a constructive obligation to restructure arises. At present there is a detailed formal plan for changes in the Group as a result of the sale of the Contact Centre business.</p>	<p>Surplus lease space which the Group is not using and contracts the Group has entered into that are now unprofitable.</p> <p>Future costs associated with restructuring the business</p>

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

	Consolidated	
	2018 \$'000	2017 \$'000
Carrying amount at start of year	2,403	2,747
Additional provision recognised	222	1,152
Provision utilised	(179)	(1,490)
Disposals on sale of businesses	(698)	—
Foreign currency translation impact	(30)	(6)
Carrying amount at end of year	1,718	2,403

	Consolidated	
	2018 \$'000	2017 \$'000
2.7 Other non-current liabilities		
Refundable customer deposits	1,319	295
Other payables	384	419
	1,703	714

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 consolidated financial statements continued

SECTION 3: GROUP'S CAPITAL AND RISKS

The Group is exposed to a number of market and financial risks, and this section outlines these key risks and how they are managed. Management uses a wide range of metrics to assist in maintaining an efficient capital structure.

The key outcomes are outlined below:

- The Group ended the year in a net cash position of \$78.5m (2017: \$8.8m) with a dividend of \$16.0 million paid on the 5th of July 2018.
- With the sale of businesses during the year the Group has been able to pay down all its banking facilities with a small amount of \$0.6 million relating to financing of insurance premiums.

3.1 Capital management

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.

	Consolidated	
	2018 \$'000	2017 \$'000
Borrowings		
Current		
Bank loans	642	5,954
Lease liabilities	—	16
Total current borrowings	642	5,970
Non-current		
Bank loans	—	19,962
Lease liabilities	—	54
Total non-current borrowings	—	20,016
Total borrowings	642	25,986
Total cash and cash equivalents	79,117	34,816
Net cash	78,475	8,830
Movements in total borrowings presented below:		
Total borrowings at beginning of period	25,986	28,257
Net cash flows (repayments, interest & finance costs paid, drawdowns)	(26,473)	(3,323)
Foreign exchange adjustments	(264)	214
Other non-cash movements	1,393	838
Total borrowings at the end of the period	642	25,986

With the sale of the Contact Centre business the existing facility agreement that included an AUD and USD loan was repaid in full. A new facility agreement has been put in place that only includes bank guarantees and an overdraft facility.

At 30 June 2018 no cash is held with term deposits (2017: nil). \$210,037 (2017: \$236,014) of cash is held in trust and is restricted for use for the settlement of short-term and long-term incentives.

Notes to the consolidated financial statements continued

SECTION 3: GROUP'S CAPITAL AND RISKS continued

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

	Consolidated	
	2018 \$'000	2017 \$'000
Floating rate		
Bank overdraft	500	1,000
Loan facilities	—	28,001
Guarantee facility	2,987	8,000
	3,487	37,001
Used at balance date		
Loan facilities	—	26,001
Guarantee facility	1,908	4,392
	1,908	30,393
Unused at balance date		
Bank overdrafts	500	1,000
Loan facilities	—	2,000
Guarantee facility	1,079	3,608
	1,579	6,608

The bank overdraft facilities may be drawn at any time. The current interest rates on loan facilities are 3.53% to 4.37% (2017: 3.53% to 4.7%) and on bank overdraft the interest is 4.17% (2017: up to 4.17%).

3.2 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 uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of market 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 and seeks to minimise potential adverse effects on the financial performance of the Group. The Board provides written principles for overall risk management, as well as policies covering specific areas.

The Group holds the following financial instruments:

	Consolidated	
	2018 \$'000	2017 \$'000
Financial assets		
Cash and cash equivalents	79,117	34,816
Trade and other receivables	31,544	55,807
	110,661	90,623
Financial liabilities		
Trade and other payable	45,668	41,625
Borrowings	642	25,986
Other financial liabilities	—	4,583
	46,310	72,194

Notes to the consolidated financial statements continued

SECTION 3: GROUP'S CAPITAL AND RISKS continued

a) Market risk

i) Foreign exchange risk

Each individual entity within the Group records its transactions in its relevant functional currency, which is the currency of the economic environment in which the entity primarily generates and expends cash. For all entities within the Group with a functional currency that is not the Australian dollar:

- Assets and liabilities are translated at the closing exchange rate at the date of that balance sheet; and
- Income and expenses are translated at year to date average exchange rates.

On consolidation, all exchange differences arising from translation are recognised in other comprehensive income and accumulated as a separate component of equity in the foreign currency translation reserve.

The Group's income and operating cash flows are not materially exposed to any particular foreign currency. Each business unit operates in its own functional currency with little exposure to foreign exchange transactions. Customer, supplier and employee related transactions are for the most part contained within the country of operations.

ii) Interest rate risk

The Group's main interest rate risk arises from long-term borrowings with variable interest rates. 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 2017 and 2018, the Group's borrowings at variable rate were mainly denominated in Australian dollars and US dollars. As at 30 June 2018 the Group has no banking debt and remain in a net cash position, so the Group's exposure to interest rate risk is considered minimal, as there is no debt to service.

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. This ensures the credit risk of clients is assessed and appropriate account limits are set. Customers that do not meet minimum credit criteria are required to pay up front. Customers 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 44. As at 30 June 2018, the Group's exposure to customers with a balance greater than \$1 million totalled \$5.9 million (2017: \$9.2 million) across 5 customers (2017: 5). 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 funding through available credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, and surplus funds are generally only invested in highly liquid instruments.

Maturities of financial liabilities

The table 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.

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 liabilities \$'000
At 30 June 2018							
Trade payables	45,284	—	209	175	—	45,668	45,668
Borrowings including interest	642	—	—	—	—	642	642
	45,926	—	209	175	—	46,310	46,310
At 30 June 2017							
Trade payables	41,207	—	209	209	—	41,625	41,625
Borrowings including interest	644	6,342	20,300	—	—	27,286	25,916
Finance lease liabilities	16	—	54	—	—	70	70
Other financial liabilities	4,608	—	—	—	—	4,608	4,583
Total non-derivatives	46,475	6,342	20,563	209	—	73,589	72,194

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. There are no material Level 1 – 3 financial liabilities held by the Group at 30 June 2018.

Notes to the consolidated financial statements continued

SECTION 3: GROUP'S CAPITAL AND RISKS continued

3.3 Contributed equity

Ordinary 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.

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

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.

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. 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.

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 2018 the Company had a net cash position of \$78,475,000 (2017: \$8,815,000). The Group continues to monitor cash closely and are assessing future capital structures to ensure the Group is able to continue as a going concern.

Set out below is a full reconciliation of share capital for the period:

	2018		2017	
	Number of shares '000	\$'000	Number of shares '000	\$'000
Ordinary share capital				
Balance at beginning of period ordinary share capital	199,339	226,585	159,489	209,976
MicroSourcing share issue ¹	—	—	4,820	2,300
Purchase of shares through share trust	(22)	(15)	—	—
Capital raising proceeds - net of transaction costs	—	—	35,030	14,309
Balance at end of the period	199,317	226,570	199,339	226,585
Treasury shares				
Balance at beginning of period	324	176	324	176
Purchase of shares through share trust	22	15	—	—
Balance at end of the period	346	191	324	176

1) MicroSourcing founders were issued shares as part of the deferred sale agreement

Notes to the consolidated financial statements continued

SECTION 3: GROUP'S CAPITAL AND RISKS continued

3.4 Reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of performance rights and options as an expense.

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in the Foreign currency translation reserve ('FCTR'). When a foreign operation is disposed of, the amount within FCTR related to that entity is transferred to the income statement as an adjustment to the profit or loss on disposal.

Transaction with non-controlling interest reserve

The transaction with non-controlling interest ('NCI') reserve arose mainly from the MicroSourcing acquisition in 2013, where there was a commitment made to purchase the remaining 50% of shares. Initial recognition was through this reserve, and in 2017 when the remaining 50% was purchased the non-controlling interest was derecognised through this reserve.

	Consolidated		
	Share-based payments reserve	Foreign currency translation reserve \$'000	Transaction with NCI reserve \$'000
Other reserves			
Balance 1 July 2017	2,372	1,810	(24,639)
Shares and options expense	145	—	—
Exchange differences on translation of foreign operations	—	(574)	—
Reclassification of foreign exchange currency reserve to income statement	—	726	—
Balance 30 June 2018	2,517	1,962	(24,639)
Balance 1 July 2016	2,337	2,009	(33,402)
Shares and options expense	35	—	—
Exchange differences on translation of foreign operations	—	(199)	—
Translation with non-controlling interests	—	—	8,763
Balance 30 June 2017	2,372	1,810	(24,639)

Notes to the consolidated financial statements continued

SECTION 4: BUSINESS PORTFOLIO

This section provides further insight into the business portfolio of the Group with a summary of the sale and profit on sale of discontinued business operations.

A summary of the discontinued operations in the current year are as follows:

- Contact Centre – Sale of the Contact Centre business for \$53.0 million on the 18th of May 2018 to funds advised by 5V Capital. The Contact Centre business included operations in Australia, New Zealand and the Philippines with approximately 2,200 employees.
- MessageNet – Sale of the MessageNet Pty Ltd company to Message4U Pty Ltd for \$14.8 million on the 29th of December 2017. The proceeds from this sale comprised of a payment of \$14.6m and a deferred element of \$0.2 million to be paid in 12 months.
- Interactive Services – Trade sale of the customers and products to Oxygen8 for \$0.5 million on the 31st of October 2017.
- The Fuse platform was discontinued during the year and sold for an immaterial amount.

4.1 Group interests and related parties

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 ultimate parent entity is Salmat Limited. The Group's material subsidiaries and interests in these at the end of the reporting period are as follows:

			Equity Holding	
			2018 %	2017 %
Salmat MediaForce Pty Limited ¹	Australia	Ordinary	100	100
Salmat Contact Solutions Australia Pty Limited ¹	Australia	Ordinary	—	100
Salmat Contact Solutions New Zealand Limited	New Zealand	Ordinary	—	100
Salmat Digital Pty Limited ¹	Australia	Ordinary	100	100
Salmat Direct Sales Pty Limited ¹	Australia	Ordinary	100	100
Netstarter Pty Limited	Australia	Ordinary	100	100
MicroSourcing Philippines Inc	Philippines	Ordinary	100	100
MicroSourcing International Ltd	Hong Kong	Ordinary	100	100

1) 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.

Investments

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

Set out below are the investments of the Group at 30 June 2018.

		Ownership interest		Carrying amount/fair value	
Name of Company	Principal activity	2018 %	2017 %	2018 \$'000	2017 \$'000
Unlisted – no quoted prices available					
Reach Media NZ Limited, New Zealand (Joint Venture)	Unaddressed mail distribution	50	50	1,855	1,546
Online Media Holdings Pty Ltd (AFS) ¹	Online location based services	16	16	—	—
				1,855	1,546

1) During 2017 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.

Notes to the consolidated financial statements continued

SECTION 4: BUSINESS PORTFOLIO continued

	Consolidated	
	2018 \$'000	2017 \$'000
Carrying amount at the beginning of the financial year	1,546	3,107
Impairment loss	—	(2,013)
Foreign exchange (loss)	(50)	(10)
Share of profits recognised	359	462
Carrying amount at the end of the financial year	1,855	1,546

The carrying amount of equity-accounted investments are reviewed annually by the Directors to ensure it is not in excess of the recoverable amount of these investments. The impairment loss in 2017 was partially offset in the income statement by deferred profit recognised at the time of acquisition.

4.2 Discontinued operations

A discontinued operation is a component of the entity that has been disposed of that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations. The results of discontinued operations are presented separately in the statement of profit or loss. The comparative figures are also restated to exclude the results of discontinued operations.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group).

a) Description

During the period, the Group sold the following:

- Contact Centre – Sale of the Contact Centre business for \$53.0 million on the 18th of May 2018 to funds advised by 5V Capital. The Contact Centre business included operations in Australia, New Zealand and the Philippines with approximately 2,200 employees.
- MessageNet – Sale of the MessageNet Pty Ltd company to Message4U Pty Ltd for \$14.8 million on the 29th of December 2017. The proceeds from this sale comprised of a payment of \$14.6m and a deferred element of \$0.2 million to be paid in 12 months.
- Interactive Services – Trade sale of the customers and products to Oxygen8 for \$0.5 million on the 31st of October 2017.
- The Fuse platform was discontinued in the period and was sold for an immaterial amount.

The current year earnings and gain on sale for all of the above transactions are included in discontinued operations. The net gain on sale from the combination of these transactions was \$51.8 million. The Group's net assets were reduced by \$12.6 million including goodwill of \$11.6 million that was written off on disposal. There was a small amount of tax payable in the Philippines on the sale of the Contact Centre business.

b) Financial performance and cash flow information of discontinued operations

The financial performance and cash flow information presented below.

	2018 \$'000	2017 \$'000
Revenue	123,047	176,763
Expenses from ordinary activities	(137,897)	(179,292)
Loss before income tax	(14,850)	(2,529)
Income tax expense	(1,989)	(1,843)
Loss for the period from the discontinued operations	(16,839)	(4,372)
Gain on sale of the discontinued operations after income tax, see (c) below	51,848	—
Profit/(Loss) from discontinued operations	35,009	(4,372)
Net cash outflow from operating activities	(3,721)	(1,937)
Net cash outflow from investing activities	(1,221)	(2,705)
Net decrease in cash generated by the discontinued operations	(4,942)	(4,642)

Notes to the consolidated financial statements continued

SECTION 4: BUSINESS PORTFOLIO continued

	2018 \$'000
c) Details of the sale of the businesses	
Consideration received or receivable:	
Cash	68,114
Fair value of contingent consideration	186
Total disposal consideration	68,300
Less: Carrying amount of net assets sold	(12,554)
Gain on sale before transaction costs	55,746
Less: Working capital adjustments	(1,376)
Less: Transaction costs	(2,767)
Gain on sale after transaction costs	51,603
Add: Reclassification of foreign currency translation reserve	726
Income tax expense on gain	(481)
Gain on sale after income tax	51,848
The carrying amount of assets and liabilities as at the date of sale were:	
	\$'000
Cash	60
Trade and other receivables	16,072
Other current assets	1,034
Current tax receivable	22
Property, plant and equipment	1,390
Goodwill and intangible assets	13,144
Total assets	31,722
Trade creditors and other payables	11,377
Current provisions	6,772
Non-current provision	930
Retirement benefit obligation	89
Total liabilities	19,168
Net assets	12,554

Notes to the consolidated financial statements continued

SECTION 5: EMPLOYEE REMUNERATION

This section should be read in conjunction with the remuneration report as set out in the Directors' report, which contains detailed information regarding the setting of remuneration for Key Management Personnel. Employee expenses and employee provisions are shown in note 1.4 and note 2.6 respectively and provides financial insight into employee remuneration arrangements.

5.1 Share-based payments

The fair value of options 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. The total expense is recognised over the vesting period. At the end of each period, the Group revises its estimates of the number of options 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.

Employee option plan

The Salmat Executive 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 number of rights that vest depends on Salmat's Total Shareholder Return (TSR), EPS and ROCE. 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.

Once vested, the right remains exercisable for a period of two 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 – 2018								
Dec 15	Sept 18	—	1,031,341	—	(491,029)	—	540,312	540,312
Total			1,031,341	—	(491,029)	—	540,312	540,312
Consolidated – 2017								
Dec 15	Sept 17	—	2,439,781	—	(1,408,440)	—	1,031,341	—
Total			2,439,781	—	(1,408,440)	—	1,031,341	—

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:

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

Notes to the consolidated financial statements continued

SECTION 5: EMPLOYEE REMUNERATION continued

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

	Consolidated	
	2018 \$'000	2017 \$'000
Employee option plan expense	145	35
	145	35

5.2 Retirement benefit obligations

All Philippines employees of the Group are entitled to benefits from the superannuation plan on retirement, disability or death. The one defined benefit scheme is for MicroSourcing International Limited. The defined benefit plan expense is determined 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 2018.

5.3 Key management personnel

	Consolidated	
	2018 \$	2017 \$
Short-term employee benefits	2,769,231	2,481,324
Long-term benefits	7,448	2,132
Post-employment benefits - Defined contribution fund contributions	122,023	119,010
Share-based payments	8,075	(92,080)
Termination payments	163,558	784,089
	3,070,335	3,294,475

Detailed remuneration disclosures for key management personnel and the Board are provided in the remuneration report on pages 13-20. There are no transactions with key management personnel, the Board or entities related to them, other than remuneration detailed.

Notes to the consolidated financial statements continued

SECTION 6: OTHER DISCLOSURES

This section includes additional financial information that is required by the accounting standards and the *Corporations Act 2001*.

6.1 Commitments, contingent liabilities and guarantees

a) Lease commitments

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.

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	
	2018 \$'000	2017 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	9,116	16,610
Later than one year but not later than five years	20,598	41,986
Later than five years	1,733	7,510
	31,447	66,106

New accounting standard: 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 \$31.5m. Management has considered these same commitments in the context of the new standard.

At 30 June 2018, had this standard been applied there would have been recognition of an asset and a liability for future payments in the region of \$25-\$30m. The rental expense of \$8.7m (note 1.4) 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 \$10-\$15m.

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. 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 effective date.

b) Contingent liabilities

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. The Group maintains insurance cover to minimise the potential effects of such claims, and where appropriate, provisions have been made.

c) Guarantees

	2018 \$'000	2017 \$'000
Guarantees in respect of performance under contracts and premise leases	1,908	4,392
	1,908	4,392

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.

Notes to the consolidated financial statements continued

SECTION 6: OTHER DISCLOSURES continued

6.2 Remuneration of auditors

	Consolidated	
	2018 \$	2017 \$
Amounts received, or due and receivable by auditors of the company:		
PricewaterhouseCoopers:		
<i>Remuneration for audit or review of the financial reports</i>		
PricewaterhouseCoopers – Australian firm	384,410	358,700
PricewaterhouseCoopers – Overseas firm	74,900	76,796
<i>Remuneration for other assurance services</i>		
PricewaterhouseCoopers – Australian firm	–	55,000
Total audit and other assurance services	459,310	490,496
<i>Remuneration for other services ¹</i>		
PricewaterhouseCoopers – Australian firm		
Tax compliance	129,702	20,000
Compliance	–	87,000
Consulting and advice	1,811,000	713,000
Total non-audit services	1,940,702	820,000

1) 2018 non-audit services included Financial and Tax advice associated with the sale of the Contact Centre business. 2017 non-audit services related to Financial, IT and Tax consulting advice associated with the strategic review performed across the business, and due diligence procedures associated with the capital raising 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. This work was performed by a separate team to the audit team.

6.3 Parent entity financial information

a) Summary financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements except for 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.

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

	Parent entity	
	2018 \$'000	2017 \$'000
Statement of financial position		
Current assets	67,131	33,192
Non-current assets	101,511	25,253
Total assets	168,642	58,445
Current liabilities	38,169	12,971
Non-current liabilities	1,100	18,429
Total liabilities	39,269	31,400
Shareholders' equity		
Contributed equity	226,570	226,585
Reserves	(5,768)	(3,674)
Retained earnings	(91,429)	(195,866)
	129,373	27,045
Profit/(loss) for the year	118,981	(39,985)
Total comprehensive income/(loss) for the year	118,981	(39,985)

Notes to the consolidated financial statements continued

SECTION 6: OTHER DISCLOSURES continued

6.4 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
- Salmat Digital Pty Limited
- Salmat MSI Pty Limited
- Salmat International Pty Limited

Contact Solutions Pty Limited has been removed as a party from the deed, following the sale of the Contact Centre business. As such, the prior year comparative has been updated to reflect this.

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.

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 2018 of the Closed Group.

	2018 \$'000	2017 \$'000
Consolidated income statement		
(Loss)/profit before income tax	(59,247)	36,479
Income tax expense	(3,577)	(102)
(Loss)/profit after tax	(62,824)	36,377
(Loss)/profit for the year	(62,824)	36,377
Consolidated statement of comprehensive income		
(Loss)/profit for the year	(62,824)	36,377
Other comprehensive income		
Exchange differences on translation of foreign operations	(1,542)	165
Other comprehensive (loss)/income for the year, net of tax	(1,542)	165
Total comprehensive (loss)/income for the year	(64,366)	36,542
	2018 \$'000	2017 \$'000
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	13,191	(30,192)
(Loss)/profit for the year	(62,824)	26,720
Change of entities within the Closed Group	—	16,663
Dividends provided for or paid	(17,967)	—
Retained earnings at the end of the financial year	(67,600)	13,191

Notes to the consolidated financial statements continued

SECTION 6: OTHER DISCLOSURES continued

Set out below is a consolidated statement of financial position as at 30 June 2018 of the Closed Group.

	2018 \$'000	2017 \$'000
Current assets		
Cash and cash equivalents	62,244	24,554
Trade and other receivables	21,217	21,689
Inventories	57	50
Other current assets	3,554	4,634
Total current assets	87,072	50,927
Non-current assets		
Receivables	6,824	2,018
Investments	59,306	213,447
Property, plant and equipment	2,754	6,294
Deferred tax assets	9,334	7,235
Intangible assets	7,063	11,262
Total non-current assets	85,281	240,256
Total assets	172,353	291,183
Current liabilities		
Trade and other payables	44,684	22,323
Net intercompany payables outside the Closed Group	669	34,288
Borrowings	642	5,954
Provisions	3,160	4,223
Total current liabilities	49,155	66,788
Non-current liabilities		
Borrowings	—	19,962
Other financial liabilities	383	—
Provisions	1,967	2,189
Total non-current liabilities	2,350	22,151
Total liabilities	51,505	88,939
Net assets	120,848	202,244
Equity		
Contributed equity	226,570	226,585
Reserves	(38,122)	(37,532)
Retained earnings	(67,600)	13,191
Total equity	120,848	202,244

Notes to the consolidated financial statements continued

SECTION 6: OTHER DISCLOSURES continued

6.5 Corporate information and other significant accounting policies

a) Corporate information

The financial report of Salmat Limited and the entities it controlled for the year ended 30 June 2018 was authorised for issue in accordance with a resolution of the Directors on 28 August 2018.

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.

b) 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.

c) 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.

d) 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.

e) Comparative amounts

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

6.6 Events occurring after the reporting period

The Directors have recommended the payment of a final fully franked ordinary dividend of \$3,992,500 (2.0 cents per fully paid share on record date 4 September 2018) to be paid on 4 October 2018.

Except for the matter discussed above, no other matter or circumstance has arisen since 30 June 2018 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.

Notes to the consolidated financial statements continued

SECTION 6: OTHER DISCLOSURES continued

6.7 Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2018 \$'000	2017 \$'000
Profit for the year	29,855	4,306
Depreciation and amortisation - continuing and discontinued operations	11,666	13,472
Non-cash impairment	15,300	1,314
Non-cash financing costs	104	839
Non-cash financing income	(118)	(183)
Non-cash employee benefits	145	413
Non-cash retirement benefits	(158)	(68)
Fair value adjustment – other financial liabilities	–	(826)
Net loss/(gain) on sale of non-current assets	72	(25)
Profit on sale of shares of investment	–	(1,430)
Sale of business	(51,848)	–
Share of net profit of joint venture	(359)	(462)
Interest revenue	(453)	(485)
Finance costs	884	1,469
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
Decrease/(increase) in trade and other receivables	6,581	(2,284)
Decrease in other assets	515	3,146
Decrease in receivables and other non current assets	624	191
(Decrease)/Increase in trade and other payables	(4,613)	2,095
(Decrease)/Increase in provision for income taxes payable	(219)	309
Decrease/(Increase) in deferred income tax	3,067	(255)
Increase/(Decrease) in other provisions	1,525	(2,424)
Net cash inflow from operating activities	12,570	19,112

Directors' declaration

30 June 2018

In the Directors' opinion:

- a) the financial statements and notes set out on pages 23 to 58 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 2018 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 6.4 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 6.4.

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 members 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 2018 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 2018
- 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 consolidated 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.

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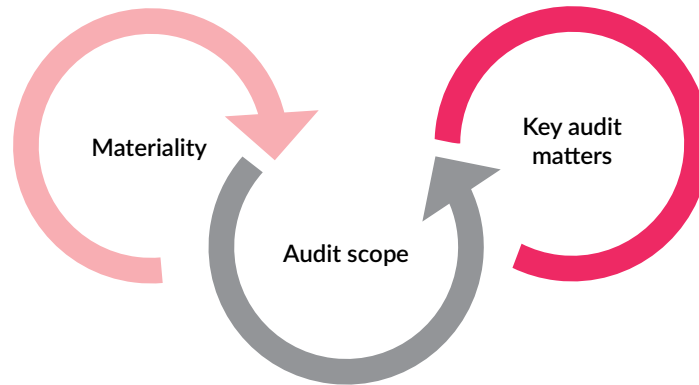
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Independent auditor's report continued

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.



Materiality

- For the purpose of our audit we used overall Group materiality of \$0.4 million, which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation and amortization of continuing operations ('EBITDA'), adjusted for the impact of unusual or infrequently occurring items (as described below).
- 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 Group EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is not as volatile as other profit and loss measures. We adjusted for the impact of the impairment recognised on the Marketing solutions cash generating unit of \$15.3m, as this was an infrequently occurring item impacting the Group's EBITDA.
- We utilised a 2.5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- As described in the Directors' report, the Group's main trading activities are marketing services for its customers in the Australasian marketplace. 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, valuation and tax.

Key audit matters

- Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:
 - Presentation of the sale of the Contact centre business and products in the Marketing Solutions segment as discontinued operations.
 - Valuation of goodwill in the Marketing solutions cash generating unit ('CGU').
 - Revenue recognition for Contact centre contracts.
- These 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.

Independent auditor's report continued

Key audit matter

Presentation of the sale of the Contact centre business and products in the Marketing Solutions segment as discontinued operations

(Refer to note 4.2, \$35.0m)

During the financial year, the Group entered into and completed three agreements to sell its Contact centre business and products from the Marketing solutions segment. The carrying value of the assets sold was \$12.6m, and a gain after tax of \$51.8m has been recognised.

We considered the presentation of the Contact centre business and marketing solutions products into discontinued operations to be a key audit matter, as this presentation is important to understand the financial results of the continuing Group.

How our audit addressed the key audit matter

We read the associated sale agreements to develop an understanding of the terms of the transactions and performed the following procedures:

- Assessed that the profit and loss information disclosed as discontinued operations related only to the Contact centre business, and the Marketing solution products that were sold.
- Together with PwC tax experts, we assessed any potential tax implications of these sales.
- Evaluated the calculation of the total gain recognised on the sales by:
 - Agreeing the purchase price and associated working capital adjustments to the sale agreements.
 - Agreeing the value of the assets and liabilities derecognised as a result of the sale to the relevant completion balance sheets for each transaction.
 - Agreeing the goodwill disposed of had been measured based on its relative value within the CGU where it was previously included.
 - Selected a sample of revenue and expense transactions, and through inspection of the supporting documentation, considered the period for which the service had been provided or received. For services received or provided in the period before the completion date, we checked that the transaction was recorded in the completion balance sheets.

Valuation of goodwill in the Marketing Solutions Cash Generating Unit ('CGU')

(Refer to note 2.5, \$32.5m)

An impairment of \$15.3m was recognised during the year in relation to the goodwill within the Marketing Solutions Cash Generating Unit (CGU). Prior to the impairment assessment, the goodwill had a carrying value of \$47.8m.

The Group prepared a discounted cash flow model (the model) to estimate the recoverable amount of the CGU. In undertaking the impairment testing, the Group made a number of assumptions in the model that are subjective and judgmental. This was a key audit matter because of the magnitude of the balance and the judgements made by the Group when estimating the recoverable amount of the CGU.

The key assumptions and related disclosures can be found in note 2.5 of the financial report and include revenue forecasts, long-term growth rates and the discount rate used to discount the estimated cash flows.

We evaluated the Group's cash flow forecasts included in the model to assess the carrying value of the Marketing Solutions CGU and the process by which they were developed.

We, with the assistance of PwC valuation experts, tested the methodology supporting the Group's model by:

- Considering whether the cash flows were based on supportable assumptions, by comparing these to the historical performance, forecasts in FY19 budgets and other evidence including industry information.
- Comparing the long term market growth assumptions to a sample of external Australian market data, overlaid with our consideration of the historic trends in the CGU.
- Assessing the the discount rate used in the model, which included calculating our own acceptable range of discount rates.
- Considering the sensitivity of the model to changes in key assumptions by applying other values within range that we independently assessed as being reasonably possible.

Revenue recognition for Contact centre contracts

(Refer to note 4.2 - Contact centre revenue is included within total discontinued revenue of \$123m)

The Group has contracts with multiple customers for the provision of Contact centre services. There are bespoke terms and conditions for each customer.

Revenue recognition for Contact centre 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 centre contracts:

- Performed tests of the operating effectiveness of the Group's relevant key controls over the recognition of revenue, which included the internal review and approval of all invoices prior to recognition and distribution to the customer.
- Selected and read a sample of customer contracts (targeted on those material to the total Group's revenue balance), to develop an understanding of the key terms and conditions of the contracts.
- For the selected sample of customer contracts compared the contract pricing from each contract to a monthly invoice and the Contact centre services provided by the Group for that month.

Independent auditor's report continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Director's report, 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 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 have 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 13 to 20 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Salmat Limited for the year ended 30 June 2018 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



Susan Horlin
Partner

Sydney
28 August 2018

Shareholder information

as at 10 September 2018

Shares and Options

Shares on issue 199,663,080

Performance rights on issue 540,312

Distribution of shareholdings as at 10 September 2018

Range	Securities	% issued capital	Total holders
1 to 1,000	364,109	0.18	963
1,001 to 5,000	1,989,199	1.00	782
5,001 to 10,000	1,824,321	0.91	244
10,001 to 100,000	6,913,247	3.46	256
100,001 and Over	188,572,204	94.45	42
Total	199,663,080	100.00	2,287

There were 788 holders of a less than marketable parcel of shares.

Top 20 holders of ordinary fully paid shares as at 10 September 2018

Name	Units	% issued capital
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	44,239,530	22.16
TEAMDATE PTY LIMITED	35,674,680	17.87
TEAMNEWS PTY LIMITED	34,917,120	17.49
J P MORGAN NOMINEES AUSTRALIA LIMITED	28,711,188	14.38
CITICORP NOMINEES PTY LIMITED	14,536,179	7.28
TEAMNEWS PTY LTD <MATTICK FAMILY A/C>	8,227,952	4.12
NATIONAL NOMINEES LIMITED	5,351,897	2.68
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,078,324	1.54
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	957,895	0.48
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 PTY LTD <INVESTMENT A/C>	500,000	0.25
G CHAN PENSION PTY LIMITED <CHAN SUPER FUND ACCOUNT>	340,000	0.17
MR MARK HERDMAN & MRS HEATHER FLETCHER HERDMAN <THE CONSTANTIA A/C>	303,192	0.15
TEAMNEWS PTY LTD <MATTICK FAMILY A/C>	282,189	0.14
PETER WILFRED MATTICK	250,000	0.13
FISHER FAMILY SUPERANNUATION PTY LTD <FISHER S/F A/C>	239,500	0.12

Substantial holders as at 8 August 2018

Name	Units	% issued capital
Mr Peter Mattick	44,821,551	22.45
Salter Family	44,326,407	22.20
Allan Gray Investment Mgt	37,924,728	18.99
Investors Mutual	29,218,311	14.63
Celeste Funds Mgt	11,351,265	5.69

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

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North Sydney NSW 2060

Phone: 1300 725 628
Fax: (02) 9928 6652
www.salmat.com.au

DIRECTORS

Peter Mattick Chairman
Stuart Nash Non-executive Director (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

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Sydney South NSW 1235
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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 Wednesday 28 November 2018
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 2018
Half year results February 2019
Full year results August 2019

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

SALMAT.COM.AU