Salmat Limited

ABN 11 002 724 638

Annual Report

for the year ended 30 June 2019

Salmat Limited ABN 11 002 724 638
Annual report 30 June 2019

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Salmat Limited

Appendix 4E

30 June 2019

SALMAT LIMITED

(ABN 11 002 724 638)

Appendix 4E

FULL-YEAR REPORT

For the year ended 30 June 2019

Results for announcement to the market

	Year ended 30-Jun-19 $m	Year ended 30-Jun-18 $m	% Change Increase / (Decrease)
Total revenue	251.0	250.2	0.3%
Underlying earnings before interest, income tax, depreciation and amortisation from continuing operations (Underlying EBITDA) [1]	19.0	20.3	-6.4%
Underlying profit after income tax for the period attributable to members from continuing operations [1]	12.1	11.4	6.1%
Statutory loss after income tax for the period attributable to members from continuing operations	(26.0)	(5.2)	400.0%
Net tangible asset backing	$0.38	$0.37	2.7%
Fully franked dividends			
Interim dividend - paid 18 April 2018	-	$0.01cps	
Special dividend - paid 5 July 2018	-	$0.08cps	
Final dividend - paid 4 October 2018	-	$0.02cps	
Interim dividend - paid 28 March 2019	$0.01cps	-	

Explanation of results

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

The information contained in this report is to be read in conjunction with the 2019 Annual Report and any announcements to the market by Salmat Limited during the period.

[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 After Tax for the year. For FY19 significant items included restructuring costs, collation proof of concept, industry review costs, impairment of investment in joint venture, impairment of joint venture IT assets, and impairment of goodwill. For FY18 significant items included restructuring costs and impairment of goodwill.

Salmat Limited
Directors' report
30 June 2019

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 2019.

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
Bart Vogel
Mark Webster

Operating and financial review

The Board presents the FY19 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 FY19 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 and digital creative, development services and contact centre services - which are provided via an innovative range of managed service delivery models.

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Key developments

Key developments during FY19 included:

- The separation of the Contact Centre business sold in May 2018 was completed by the end of the financial year with a loss of $1.8m reported in FY19 that primarily relates to executive and senior employees retained to manage the separation. The separation is now complete and these employees have left the business.
- The Board assessed a number of options aimed at addressing sustainability in the catalogue distribution network. At the end of the financial year these options are still being assessed by the Board.
- The Collation proof of concept was launched during the financial year as one of a number of innovation projects that were highlighted in the strategic review. The trial has been successful to date with positive results being returned on key measures in the distribution network.
- The Philippines-based MicroSourcing business continued to perform strongly, with further growth in both revenue and EBITDA. Investment was made in FY19 in two new facilities to set the business up for future growth.
- The Board was pleased to pay three fully franked dividends in FY19, including the payment of a special dividend in July 2018 , final dividend in October 2018 and interim dividend in April 2019.
- Salmat ended the year with a net cash position of $58.6 million.
- The Group maintained its strong operating cash flows before tax of $17.5 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.

2019 Operating result summary

$ million	2019	2018	% change (pcp)
Total revenue	251.0	250.2	0.3%
Underlying EBITDA[1]	**19.0**	**20.3**	**-6.4%**
Depreciation	(3.5)	(5.1)	-31.4%
Underlying EBITA[1]	**15.5**	**15.2**	**2.0%**
Amortisation	(1.3)	(1.1)	18.2%
Underlying EBIT[1]	**14.2**	**14.1**	**0.7%**
Net interest	0.7	(0.4)	NMF
Tax expense	(2.8)	(2.3)	21.7%
Underlying NPAT[1] from Continuing Operations	**12.1**	**11.4**	**6.1%**
Significant items (section 1.3)	(38.1)	(16.6)	129.5%
NLAT from Continuing Operations	**(26.0)**	**(5.2)**	**400.0%**

[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 After Tax for the year. For FY19 significant items included restructuring costs, collation proof of concept, industry review costs, impairment of investment in joint venture, impairment of joint venture IT assets, and impairment of goodwill. For FY18 significant items included restructuring costs and impairment of goodwill.

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Revenue from Continuing Operations of $251.0 million (FY18: $250.2m) was an improvement on the prior year due to both new business and increased spend by existing customers. FY19 revenue performance was adversely impacted by the introduction of a new accounting standard - *AASB 15 Revenue from Contracts with Customers* - which reduced Marketing Solutions revenue by $7.9 million. Overall the Managed Services segment performed well whilst Marketing Solutions continued to face industry challenges. Despite those challenges there were a pleasing number of new business wins throughout the year.

Underlying EBITDA from continuing operations of $19.0 million (2018: $20.3m) was lower than the prior year by $1.3 million. Managed Services EBITDA had growth in line with revenue whilst Marketing Solutions EBITDA declined due to the increasing cost of delivery and continued challenges encountered by the digital business.

The *business portfolio* section in the notes to the consolidated financial statements contains disclosure for Discontinued Operations. The loss after tax from Discontinued Operations was $1.8 million of separation costs relating to the sale of the Contact Centre business in FY18.

Underlying net profit after income tax from Continuing Operations of $12.1 million was higher than the prior year (FY18: $11.4m). Depreciation expense was lower as the Group has reduced IT asset purchases in recent years whilst adopting 'Cloud' and 'SaaS' based solutions. A positive net interest balance was the result of low debt levels and cash holdings in FY19.

There were $38.1 million of **significant items** in FY19 (FY18: $16.6m). Significant items included restructuring costs of $0.7 million; industry review fees of $0.7 million as the Group looked at potential options available to the catalogue industry; collation proof-of-concept costs of $0.8 million for the NSW trial being conducted; and impairment of $35.9 million detailed below.

The catalogue market faced a challenging year through continued competitive pricing pressure and volume decline in the Austalian and New Zealand markets. An impairment expense was recognised on the Marketing Solutions CGU of $32.5 million. The investment and related party loan held in relation to Reach Media were impaired in FY19, resulting in a $2.7 million impairment. Additionally, Reach Media's result included an IT asset write off in the joint venture loss of $0.6 million.

Net loss after tax from continuing operations for the year was $26.0 million (FY18: loss of $5.2m).

Segment results

Marketing Solutions
Marketing Solutions revenue of $162.4 million (FY18: $176.9m) was lower than the prior year as a result of a 2.6% decline in catalogue volumes in line with recent years and AASB 15 contributing $7.9 million. Print services had a positive year with double digit growth however this was offset somewhat by challenges within e-commerce and with client retention in the digital business.

Underlying EBITDA of $10.2 million (FY18: $16.6m) was lower than the prior year. The EBITDA result was driven by increases in catalogue weight and reduced volumes across the distribution network putting downward pressure on margins. The Reach Media loss in New Zealand of $0.2 million (FY18: profit of $0.4m) also impacted the segment result.

Managed Services
Managed Services revenue of $87.8 million (FY18: $72.8m) was an improvement compared to the prior year and continues to grow in line with the business plan. New business growth of $4.1 million was added in FY19 with a number of mid-sized and smaller clients joining MicroSourcing. Growth in the existing client base was evenly spread this year, across both larger and smaller clients, and continues to be a strength for MicroSourcing.

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Underlying EBITDA of $13.4 million (FY18: $10.5m) was also an improvement when compared to the prior year. MicroSourcing invested in new facilities during the year to service capacity constraints, plus additional marketing investment as they target new clients online. The investment in facilities and marketing has seen a reduction in margin for the second half of the year that is expected to improve in FY20.

Corporate
Corporate costs of $4.5 million (FY18: $6.8m) were lower than the prior year. Executive, Board and advisory costs have decreased in FY19 in line with the reduced business size post the sale of the Contact business.

2. Financial position and cash flows

The Group ended the year with a decrease in net assets of $31.9 million. Cash at the end of the year was $59.2 million (FY18: $79.1m) including dividend payments of $22.0 million.

Current assets and liabilities were lower in FY19 with a continued focus on working capital and is reflected in the improved operating cash result. Bad debts have remained consistent with the prior year with the exception of a MicroSourcing debt of $0.6 million that was written off in the second half.

Property, plant and equipment has increased as the Group invested in collation machinery in NSW and facilities across the Group. Depreciation has reduced in FY19 as a number of IT assets were fully written down at the end of FY18.

The Board has approved a $32.5 million impairment of goodwill in the Marketing Solutions cash generating unit due to the long term view of market conditions in the catalogue business and continuous shifts in market share. Contracts between the two major suppliers of catalogue distribution continue to change combined with long term volume declines.

The increase in non-current liabilities this year is due to MicroSouring customer deposits increasing as new customers join the business.

Operating cash inflows before tax of $17.5 million were higher than the prior year (FY18: $14.7m) as a result of improved working capital post separation of the Contact business. Tax payments reduced in FY19 on disposal of the overseas' operations that related to the Contact business. Payments for property plant and equipment were for collation machinery and facilities investment whilst the cash outflow to separate the Contact business was $7.2 million in FY19 and are not expected to continue.

3. Business strategies and risks

Business strategies

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 continued to pursue strategic priorities centred on the four key pillars of Marketing Solutions Evolution, Sales Excellence, Operational Sustainability and People. Specific initiatives for FY19 included continued development of the salmathub app for catalogue distribution; commencement of an automated catalogue collation trial; acceleration of Salmat's data insights program; and investment in new facilities and website for the MicroSourcing business.

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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 and the sustainability of this network, 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 few years. 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.

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 business. 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, which has led to a very competitive market place, and 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.

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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

Due to the statutory loss arising from the impairment of goodwill in FY19, Salmat is unable to pay a fully franked final dividend.

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 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

No matter or circumstance has arisen since 30 June 2019 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.

Salmat Limited
Directors' report
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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. He is a Fellow of CPA Australia and the Australian Institute of Company Directors 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.

Stuart Nash
Non-executive Director (Independent)

Experience and expertise
Stuart is currently Chairman 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 CEO/CFO roles in a large, privately owned consumer foods business and over 20 years in finance with global firms including Macquarie Capital and Barclay's Capital, specialising in mergers and acquisitions, debt and equity capital markets and strategy. Stuart qualified as an 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.

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Bart Vogel
Non-executive Director (Independent)

Experience and expertise
Bart is the Chairman of Infomedia Limited and Invocare Limited. He is also a Non-executive Director of Macquarie Telecom Limited, BAI Communications and 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
100,000 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 27 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.

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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 2019, 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	12	12	4*	4*	3*	3*	2	2
Mark Webster	12	12	4	4	3	3	2	2
Bart Vogel	12	12	4	4	3	3	2	2
Stuart Nash	12	12	4	4	3	3	2	2

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.
* Attended by invitation

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Directors' Report
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Remuneration report

The Board presents the FY19 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 FY19.
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.

Salmat Limited
Directors' Report
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1. Remuneration at a glance

Remuneration outcomes in FY19:

Remuneration	FY19 outcomes
Fixed remuneration	During the year where acting roles were converted to permanent positions a salary increase was awarded. Where permanent roles have continued, salary increases have been awarded in line with the Group's annual merit review process.
Short-term incentives	STI was awarded to KMPs under the STI plan rules in FY19 due to the Group meeting 85% of budgeted underlying EBITDA. The FY19 STI plan was approved by the Board with executive management participating in STI. The FY19 STI plan included both financial and non-financial targets.
Long-term incentives	There was no issue of performance rights during the financial year.
Non-executive Director fees	The Board did not award increases in Non-executive Director fees in FY19. The Non-executive Directors' remuneration cap remains at $1.2m, as approved by shareholders at the 2009 AGM.

2. Remuneration governance

Who this covers

The Remuneration Report sets out remuneration information for Salmat's Non-executive Directors (listed in the Directors' Report on page 4) and key management personnel (KMP). KMP are the Chief Executive Officer and Chief Financial Officer who are the key individuals who have, or had, authority and responsibility for planning, directing and controlling the major activities of Salmat during the financial period and up to the date of this report.

Name	Title	Status
Rebecca Lowde	Chief Executive Officer (CEO)	Full year
Alex Panich[1]	Chief Financial Officer (CFO)	Full year

[1]Alex Panich was confirmed as CFO on 13 August 2018.

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Remuneration governance framework

The below represents Salmat's remuneration framework:

Salmat Board of Directors
The Board:
- Approves the overall remuneration policy and ensures it is competitive, fair and aligned with the long terms interests of the company.
- Reviews and approves recommendations made by the People and Performance committee for non-executive directors and KMP remuneration.
- Reviews and approves other recommendations made by the People and Performance committee.

People and Performance Committee*
The purpose of the People and Performance Committee is delegated authority by the Board to review and make recommendations on:
- Reviewing overall remuneration policies and ensuring they are in accordance with current best practice.
- Determining the remuneration arrangements for the CEO, including their STI, LTI and key performance targets.
- Reviewing the CEO's recommendations for the other KMP and senior staff remuneration and recommended performance targets.
- Reviewing succession plans of the CEO and senior executive team.
- The Group's compliance with occupational health and safety legislation.
- The Group's compliance with ASX Corporate Governance Guidelines on Diversity

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

Feedback from shareholders and investors

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

*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 FY19, no recommendation was sought on aspects of remuneration for KMP.

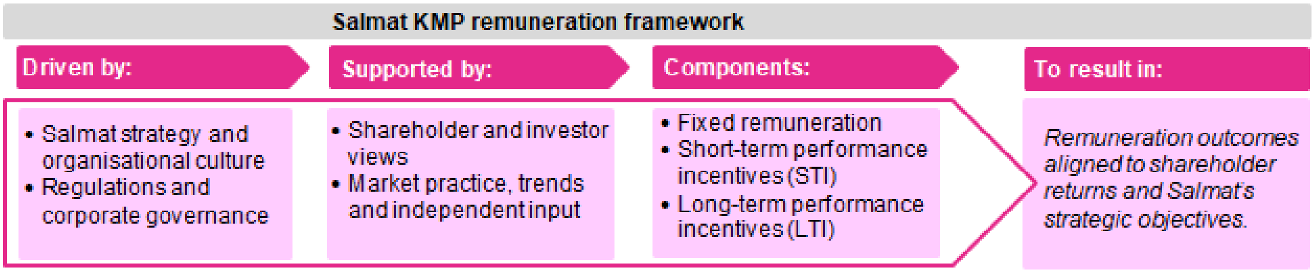
Securities trading policy

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.

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 FY18
Fixed remuneration - Fixed	When setting fixed remuneration and considering external benchmarks the People Performance Committee takes into account: • Group and individual performance; • Job size and complexity; • Individual's qualifications and experience; • Risk profile of the role; and • Internal relativities.	To provide base 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. 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: • **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 FY19. As the target of 85% was achieved STI under this plan was awarded. For KMP, the split of FY19 financial measures was 35% Group EBITDA and 35% Group Revenue.

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Component	Performance measure	Strategic objective and link to performance	Change from FY18
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: • **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 FY18 no LTIs were issued to KMP during FY19.

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	72%	28%	0%
CFO	78%	22%	0%

Actual remuneration mix achieved:

The actual remuneration percentage achieved in FY19 for KMP is shown below:

	Fixed remuneration		At risk - STI actual		At risk - LTI Actual	
%	**FY19**	FY18	**FY19**	FY18	**FY19**	FY18
Current KMP						
Rebecca Lowde	**79%**	104%	**21%**	0%	**0%**	-4%
Alex Panich	**82%**	100%	**18%**	0%	**0%**	0%

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30 June 2019

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

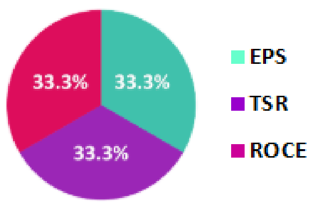
<table>
<tr><td>Participants and description</td><td>All KMP are eligible for participation in the STI. The STI is the 'at risk' remuneration component subject to the achievement of pre-defined individual, Group and line of business performance hurdles which are set annually by the People Performance 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.</td></tr>
<tr><td>Performance measures</td><td>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.

<table>
<tr><th>Metric</th><th>Target</th><th>Weighting</th><th>Reason for selection</th></tr>
<tr><td>EBITDA</td><td>FY19 budget</td><td>35%</td><td>Reflects focus on growing the business in a targeted and profitable manner.</td></tr>
<tr><td>Revenue</td><td>FY19 budget</td><td>35%</td><td>Retention and growth of customer base, and increasing market share.</td></tr>
<tr><td>Individual performance metrics</td><td>Specific to individuals</td><td>30%</td><td>Targeted metrics have been chosen that are critical to individual roles.</td></tr>
</table></td></tr>
<tr><td>Timing and delivery</td><td>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.</td></tr>
<tr><td>Assessment of hurdles</td><td>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.</td></tr>
<tr><td>Performance and impact on variable remuneration</td><td>Based on the final results of the Group an STI payment has been approved by the Board.</td></tr>
</table>

Salmat Limited
Directors' Report
30 June 2019

6. Long term incentives

Participants and description	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. 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.
Value of grant of rights	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.
Performance measures  	The rights granted will have performance measures based 33% on EPS performance, 33% on TSR performance and 33% on ROCE. **EPS** A positive cumulative three year growth target is set by the Board for the performance period. Vesting will not occur unless 90% of the cumulative EPS target is achieved. **TSR** Salmat's Total Shareholder Return (TSR) will be measured relative to the constituents of the ASX small industrials index (XSIAI). Vesting will not occur unless the Group is at or above the 50th percentile and the rights will then vest in a straight line until the Group is at or above the 75th percentile, where 100% of the rights will vest. **ROCE** The ROCE target (expressed as a percentage) is an average over three years. Vesting will not occur unless 90% of the ROCE target is achieved.
Legal rights	Rights granted as part of the LTI Plan do not carry voting or dividend rights nor can the holders attend shareholders meetings; however, shares allocated upon vesting of rights and exercise of options will carry the same rights as other ordinary shares.
Forfeiture and termination	Rights will lapse if performance measures are not met. There is a service condition attached to each tranche of performance rights in that the executive must also be employed by the company at the release date of the Group's financial results of the relevant financial year on which the final performance measures are assessed.
Timing and delivery	For future grants the performance measures will be assessed immediately prior to the release of Salmat's financial statements in August, 3 years from the date of issue. The rights will vest subject to the satisfaction of performance hurdles. Rights vest and the resulting shares are transferred to the senior executive at no cost to the executive. The rights will expire five years after they have been granted.
Other information	The Board decided not to issue any LTIs in FY19. During the year the Board awarded the CEO a discretionary bonus in lieu of forfeiture relating to LTIs under the FY16 plan rules.

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7. Executive remuneration disclosures

Remuneration expenses for KMP:

Details of KMP remuneration for 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	
		Cash Salary $	Short term incentives $	Retention / Discretionary Bonus $	Non-monetary benefits $	Long service leave $	Super-annuation $	Termination $	Rights $	Total $
Current KMP										
Rebecca Lowde[1]	**2019**	**646,731**	**208,455**	**89,282**	**6,300**	**8,649**	**28,576**	**-**	**-**	**987,993**
	2018	629,129	-	429,225	9,861	4,962	20,049	-	(41,066)[2]	1,052,160
Alex Panich[3]	**2019**	**271,157**	**66,041**	**-**	**6,300**	**1,371**	**20,049**	**-**	**-**	**364,918**
	2018	250,000	-	32,000	6,565	435	20,049	-	-	309,049
Former KMP										
Chris Walsh	**2019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2018	413,000	-	303,750	9,861	2,051	20,049	163,558	49,141	961,410
Total	**2019**	**917,888**	**274,496**	**89,282**	**12,600**	**10,020**	**48,625**	**-**	**-**	**1,352,911**
	2018	1,292,129	-	764,975	26,287	7,448	60,147	163,558	8,075	2,322,619

[1] Rights to shares granted under the FY16 LTI scheme are expensed over the performance period. For FY16, these rights were issued on 14 December 2015 and the performance period was until August 2018.

[2] Reflects forfeiture of rights granted under the FY16 LTI plan.

[3] Alex Panich was confirmed as CFO on 13 August 2018.

Performance based remuneration granted and forfeited during the year:

STI	Total STI		
2019	**Total opportunity**	**Awarded %**	**Forfeited %**
Current KMP			
Rebecca Lowde	260,406	80%	20%
Alex Panich	82,500	80%	20%

LTI

No performance rights have been granted in FY19 and there are no existing LTI plans in effect.

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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.

2019	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
Current Non-Executive Directors - Ordinary shares					
Peter Mattick	44,889,589	-	-	-	44,889,589
Stuart Nash	7,992	-	-	-	7,992
Bart Vogel	-	-	100,000	-	100,000
Current KMP - Ordinary shares					
Rebecca Lowde	20,178	-	-	-	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[2]
Rebecca Lowde - CEO	$671,495	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[1]	$295,531	3 months	3 months	

[1] Alex Panich was confirmed as CFO on 13 August 2018

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

9. Non-executive director remuneration

Remuneration policy

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

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Directors' Report
30 June 2019

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.

	2019			2018		
	Board and Committee fees	**Post-employment superannuation**	**Total**	Board and Committee fees	Post-employment superannuation	Total
Peter Mattick (Chairman)	238,703	21,404	260,107	238,704	19,398	258,102
Mark Webster	113,684	10,800	124,484	113,684	10,800	124,484
Bart Vogel	113,425	10,775	124,200	113,425	10,775	124,200
Stuart Nash	124,200	11,799	135,999	111,780	10,620	122,400
John Thorn	-	-	-	49,084	4,663	53,747
Fiona Balfour	-	-	-	59,163	5,620	64,783
Total	**590,012**	**54,778**	**644,790**	685,840	61,876	747,716

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	**2019**	**2018**	**2017**	**2016**	**2015**
Revenue	251,031	250,194	435,259	450,800	498,119
Underlying EBITDA	19,036	20,288	22,842	19,586	13,289
(Loss)/Profit for the year from Continuing Operations	(25,958)	(5,154)	4,306	(8,029)	(100,550)
Return on Capital employed[1]	14.4%	10.4%	6.5%	4.7%	(1.0%)

[1] ROCE has been calculated from Continuing Operations with significant items excluded

Salmat Limited

Directors' Report

30 June 2019

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

	2019	2018	2017	2016	2015
Dividend payments ($000)	21,915	1,997	-	-	11,986
Basic (loss)/earnings per share (cents)[1]	(13.0)	(2.6)	2.3	(5.0)	(62.9)
Share price at financial year end ($)	0.49	0.66	0.39	0.44	0.72
(Decrease)/Increase in share price (%)	(25.8%)	69.2%	11.4%	38.9%	55.6%

[1] EPS has been calculated from continuing operations in FY19

Insurance of officers

During the financial year, Salmat Limited paid a premium of $305,307 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 Group.

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 or on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001.*

Salmat Limited
Directors' Report
30 June 2019

Non-audit services

The Group may decide to engage 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 25.

Rounding of amounts

The Group 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
27 August 2019

Auditor's Independence Declaration

As lead auditor for the audit of Salmat Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) 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.

Jason Hayes
Partner
PricewaterhouseCoopers

Sydney
27 August 2019

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Salmat Limited

Financial Report
30 June 2019

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 new accounting standard adoption 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.

Financial Report

Consolidated income statement

For the year ended 30 June 2019

Continuing Operations	Notes	2019 $'000	2018 $'000
Revenue	1.4	**251,031**	250,194
Other Income		**867**	110
Employee benefits expenses		**(96,820)**	(89,415)
Depreciation and amortisation expense	1.4	**(4,797)**	(6,147)
Freight and distribution expenses		**(100,043)**	(104,795)
Property related expenses		**(17,616)**	(16,223)
Equipment related expenses		**(7,677)**	(11,909)
Other expenses from ordinary activities		**(11,938)**	(8,745)
Impairment loss	1.3	**(32,545)**	(15,300)
Impairment loss of investment in joint venture	1.3	**(2,711)**	-
Finance costs	1.4	**(108)**	(987)
Share of net (losses)/profits of associates accounted for using the equity method	4.1	**(797)**	359
Loss before income tax		**(23,154)**	(2,858)
Income tax expense	1.5	**(2,804)**	(2,296)
Loss for the year from Continuing Operations		**(25,958)**	(5,154)
(Loss)/Profit from Discontinued Operations		**(1,832)**	35,009
(Loss)/Profit for the year		**(27,790)**	29,855
Earnings per share for (loss)/profit from Continuing Operations attributable to owners of the company:			
Basic earnings per share	1.1	**(13.0)**	(2.6)
Diluted earnings per share	1.1	**(13.1)**	(2.6)
Earnings per share for (loss)/profit attributable to owners of the company:			
Basic earnings per share	1.1	**(13.9)**	15.0
Diluted earnings per share	1.1	**(14.0)**	14.9

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

Financial Report

Consolidated statement of comprehensive income
For the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
(Loss)/Profit for the year		**(27,790)**	29,855
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	3.4	**2,230**	(574)
Reclassification of foreign currency translation to income statement		**-**	726
Items that may not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on retirement benefit obligation		**(419)**	343
Other comprehensive income for the year, net of tax		**1,811**	495
Total comprehensive (loss)/income		**(25,979)**	30,350
Continuing Operations		**(24,089)**	(5,385)
Discontinued Operations		**(1,890)**	35,735
Total comprehensive (loss)/income		**(25,979)**	30,350

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

Financial Report

Consolidated statement of financial position
For the year ended 30 June 2019

		Consolidated	
		2019	2018
	Notes	$'000	$'000
Current assets			
Cash and cash equivalents	3.1	**59,188**	79,117
Trade and other receivables	2.1	**26,968**	29,534
Other current assets	2.2	**3,899**	4,409
Total current assets		**90,055**	113,060
Non-current assets			
Receivables and other non current assets	2.2	**3,316**	4,121
Property, plant and equipment	2.4	**7,143**	5,127
Intangible assets	2.5	**22,683**	55,780
Investments accounted for using the equity method	4.1	**-**	1,855
Deferred tax assets	1.5	**7,275**	9,492
Total non-current assets		**40,417**	76,375
Total assets		**130,472**	189,435
Current liabilities			
Trade and other payables	2.3	**22,537**	45,631
Current borrowings	3.1	**634**	642
Current tax payable		**315**	266
Current provisions	2.6	**2,975**	7,440
Total current liabilities		**26,461**	53,979
Non current liabilities			
Other non current liabilities	2.7	**2,470**	1,703
Deferred tax liability	1.5	**1,707**	1,911
Non current provisions	2.6	**1,608**	2,035
Retirement benefit obligation		**726**	434
Total non-current liabilities		**6,511**	6,083
Total liabilities		**32,972**	60,062
Net assets		**97,500**	129,373
Equity			
Issued capital	3.3	**226,499**	226,570
Reserves	3.4	**(18,174)**	(20,160)
Retained Earnings	3.5	**(110,825)**	(77,037)
Equity attributable to owners of the company		**97,500**	129,373
Total equity		**97,500**	129,373

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

Financial Report

Consolidated statement of changes in equity
For the year ended 30 June 2019

Consolidated	Notes	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total equity $'000
Balance at 1 July 2018		**226,570**	**(20,160)**	**(77,037)**	**129,373**
Change in accounting policy - adoption of AASB15	3.5	-	-	89	89
Restated total equity at the beginning of the financial year		**226,570**	**(20,160)**	**(76,948)**	**129,462**
Loss for the year		-	-	(27,790)	(27,790)
Other comprehensive income/(loss)		-	2,230	(419)	1,811
Total comprehensive income/(loss) for the period		**-**	**2,230**	**(28,209)**	**(25,979)**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	3.5	-	-	(5,960)	(5,960)
Cost of share-based payments	3.4	-	(244)	-	(244)
Purchase of shares through share trust	3.3	(71)	-	-	(71)
Reclassification from reserves to retained earnings[1]	3.5	-	-	292	292
		(71)	**(244)**	**(5,668)**	**(5,983)**
Balance at 30 June 2019		**226,499**	**(18,174)**	**(110,825)**	**97,500**

[1] Remeasurement of retirement benefit obligation balance due to closure of the defined benefit fund for Managed Services employees.

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 period		-	152	30,198	30,350
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	3.4	-		(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

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

Financial Report

Consolidated statement of cash flows
For the year ended 30 June 2019

	Notes	Consolidated 2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**288,626**	403,743
Payments to suppliers and employees (inclusive of goods and services tax)		**(271,170)**	(389,055)
		17,456	14,688
Income taxes paid		**(654)**	(2,118)
Net cash inflow from operating activities	6.7	**16,802**	12,570
Cash flows from investing activities			
Payments for property, plant and equipment		**(6,213)**	(1,930)
Proceeds from sale of property, plant and equipment		**69**	-
Payments for Intangibles		**(137)**	(823)
Interest received		**742**	571
(Payment)/proceeds from loan to joint venture		**(754)**	687
Proceeds from sale of business		**673**	68,114
Costs associated with sale of business		**(7,216)**	(1,850)
Net cash (outflow) / inflow from investing activities		**(12,836)**	64,769
Cash flows from financing activities			
Purchase of shares through the share trust	3.3	**(71)**	(15)
Dividends paid	1.2	**(21,915)**	(1,997)
Interest and finance costs paid		**(19)**	(884)
Repayment of borrowings		**(2,955)**	(25,589)
Transaction with non-controlling interest		**-**	(4,483)
Net cash outflow from financing activities		**(24,960)**	(32,968)
Net (decrease) / increase in cash and cash equivalents		**(20,994)**	44,371
Cash and cash equivalents at the beginning of the period		**79,117**	34,816
Effects of exchange rate changes on cash and cash equivalents		**1,065**	(70)
Cash and cash equivalents at the end of the year	3.1	**59,188**	79,117

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

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Financial Report

Notes to the consolidated financial statements

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 a loss of (13.9) cents per share**
- **Loss after tax from Continuing Operations was $26.0 million (FY18: loss $5.2m)**
- **(Loss)/Profit after tax for the Group was ($27.8) million (FY18: profit $29.9m)**

1.1 Earnings per share

	Consolidated	
	2019	2018
	$'000	$'000
Basic earnings per share		
From Continuing Operations	**(13.0)**	(2.6)
From Discontinued Operations	**(0.9)**	17.6
Total basic (loss)/earnings per share	**(13.9)**	15.0
Diluted earnings per share		
From Continuing Operations	**(13.1)**	(2.6)
From Discontinued Operations	**(0.9)**	17.5
Total diluted (loss)/earnings per share	**(14.0)**	14.9
Loss for the year from Continuing Operations	**(25,958)**	(5,154)
(Loss)/Profit from Discontinued Operations	**(1,832)**	35,009
(Loss)/Profit for the year	**(27,790)**	29,855
Weighted average number of shares on issue used to calculate basic EPS (‘000)	**199,531**	199,014
Weighted average number of shares on issue used to calculate diluted EPS (‘000)	**199,678**	199,992

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.

1.2 Dividends

	Consolidated	
	2019	2018
Dividends paid	**$'000**	$'000
FY18 Interim dividend paid to owners of Salmat Limited of 1.0 cents per share	**-**	1,997
FY18 Special dividend paid to owners of Salmat Ltd of 8.0 cents per share	**15,955**	-
FY18 Final dividend paid to owners of Salmat Ltd of 2.0 cents per share	**3,993**	-
FY19 Interim dividend paid to owners of Salmat Limited of 1.0 cents per share	**1,967**	-
Dividend paid as per Consolidated Statement of Cash Flows	**21,915**	1,997

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Notes to the consolidated financial statements

Section 1: Key performance metrics

	Consolidated	
	2019	2018
Dividends declared	**$'000**	$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2018- 30%)	**23,315**	25,882

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

a) franking credits that will arise from the payment of the amount of the provision for income tax;

b) franking debits that will arise from the payment of dividends recognised as a liability at the end of each reporting period; and

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

1.3 Segment Information

A description of each segment is reported below:

Marketing Solutions	The Marketing Solutions division delivers relevant, targeted and integrated communications across all digital and traditional channels. Salmat's solutions enable clients to interact and engage with their customers through national letterbox distribution, digital catalogues, pre-shopping website Lasoo, 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.

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Notes to the consolidated financial statements

Section 1: Key performance metrics (continued)

2019	Marketing Solutions $'000	Managed Services $'000	Corporate Costs $'000	Total $'000
External service revenue	**162,352**	**87,833**		**250,185**
Finance income				846
Total revenue				251,031
Underlying EBITDA before significant items	**10,184**	**13,371**	**(4,519)**	**19,036**
Depreciation and amortisation expense				(4,797)
Net Finance costs				739
Underlying profit before income tax from Continuing Operations				**14,978**
Significant items				(38,132)
Loss before income tax from Continuing Operations				**(23,154)**
Income tax expense				(2,804)
Loss after tax from Continuing Operations				**(25,958)**

2018	Marketing Solutions $'000	Managed Services $'000	Corporate Costs $'000	Total $'000
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 after tax from Continuing Operations				**(5,154)**

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Notes to the consolidated financial statements

Section 1: Key performance metrics (continued)

	Consolidated	
	2019	2018
Significant items included in total expenses	**$'000**	$'000
Restructuring costs	**659**	1,282
Industry review costs	**743**	-
Collation proof of concept	**837**	-
Impairment of Joint Venture [2,3]	**2,711**	-
Impairment included in share of Joint Venture loss [4]	**637**	-
Impairment of goodwill [5]	**32,545**	15,300
Significant items	**38,132**	16,582

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

[2] A loss allowance of $1,589,000 was recognised against the joint venture related party loan during the year (note 2.2)

[3] Impairment expense of $1,122,000 was applied against the carrying value of the investment in Reach Media joint venture during the year (note 4.1)

[4] The FY19 share of joint venture losses included an impairment expense of $637,000 on IT assets written off during the year (note 4.1)

[5] During the year the Group recognised a $32.5 million impairment of goodwill in the Marketing Solutions cash generating unit due to the long term view of market conditions in the catalogue business and continuous shifts in market share. (refer note 2.5)

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

	Segment revenues		Segment assets	
	2019	2018	**2019**	2018
	$'000	$'000	**$'000**	$'000
Australia	**162,352**	176,797	**60,206**	132,346
Philippines	**87,833**	72,764	**47,926**	33,447
Other	**-**	62	**15,065**	14,150
Total	**250,185**	249,623	**123,197**	179,943
Unallocated: deferred tax asset			**7,275**	9,492
Total			**130,472**	189,435

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 FY19 two clients generated 9.3% and 8.3% of total revenue. In FY18 two clients generated 8.7% and 8.3% of total revenue.

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Notes to the consolidated financial statements
Section 1: Key performance metrics (continued)

1.4 Revenue and expenses

Revenue

	Consolidated	
	2019	2018
	$'000	$'000
The Group derives the following types of revenue:		
Service revenue	**250,185**	249,623
Timing of revenue recognition		
Over time	**98,365**	93,742
At a point in time	**151,820**	155,881
	250,185	249,623
Finance income	**846**	571
Total revenue	**251,031**	250,194

Disaggregation of revenue from contracts with customers (note 1.3) provides details of revenue by operating and geographical segment.

AASB 15 *Revenue from contracts with customers*

The Group has adopted *AASB 15 Revenue from Contracts with Customers* from 1 July 2018. AASB 15 supersedes *AASB 118 Revenue* and applies to all revenue arising from contracts with customers, unless those contracts are within the scope of other standards. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

In adopting AASB 15 the Group has applied the following practical expedients. Adoption of the portfolio approach, as it reasonably expects that the effects of applying the standard under this approach will not differ materially than if applied to individual contracts. In addition, contract acquisition costs are expensed as they are incurred, as the expected costs have an amortisation period of less than twelve months. The Group also elected not to disclose the remaining performance obligations for variable consideration.

The Group adopted AASB 15 using the modified retrospective approach, applied to those contracts which were not completed as of 1 July 2018, and recognised a net increase to opening retained earnings (note 3.5), an increase to Trade and other receivables (note 2.1) and an increase in Trade and other payables (note 2.3), at the date of initial application.

The implementation of AASB 15 impacted revenue during the year where an agency relationship exists that resulted in a $7.9 million (2018: $7.2m) reduction to revenue due to the reclassification of third party costs. There was no other material impact on the Group's financial statements.

Results for reporting periods beginning after 1 July 2018 are presented under AASB 15, while the comparative information was not restated and continues to be reported under accounting standards in effect for those periods.

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Notes to the consolidated financial statements

Section 1: Key performance metrics (continued)

Revenue is recognised when the Group transfers control of the good or service to a customer. The transaction price for each contract is measured at fair value and may include variable pricing such as rebates and volume discounts. The 'most-likely' method is used when estimating variable consideration to the extent that it is highly probable that a significant reversal of revenue will not occur.

Where an arrangement includes multiple performance obligations, the transaction price will be allocated to each distinct performance obligation based on the stand alone selling prices ("SSP"). The SSP is the price at which the group would sell a promised good or service separately to a customer in comparable circumstances. Where it has been determined in accordance with AASB 15 that the Group is acting as an agent, revenue is recognised as the amount of any service fees to which the Group expects to be entitled net of any third party costs.

The Group assesses credit risk at contract inception. If a contract meets the credit risk criteria, it is not reassessed unless there is a significant change in facts or circumstances.

Assets and liabilities related to contracts with customers

Contract assets relate to the Group's rights to consideration in exchange for services that the entity has transferred to a customer but not invoiced at reporting date. Contract assets are classified as Trade and other receivables and disclosed in note 2.1 as accrued revenue.

Contract liabilities primarily relate to consideration received in advance from customers, for which the performance obligation is yet to be satisfied. Contract liabilities are classified as Trade and other payables and disclosed in note 2.3 as deferred revenue. Contract liabilities also include refundable customer deposits as disclosed in note 2.7.

Revenue recognised in relation to contract liabilities

The following table shows the amount of revenue recognised in the current reporting period, relating to carried-forward contract liabilities.

	Consolidated	
	2019	2018
	$'000	$'000
Deferred revenue	**347**	3,140
	347	3,140

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Notes to the consolidated financial statements

Section 1: Key performance metrics (continued)

<table>
<tr><th>Operating segment</th><th>Performance obligations, timing and measurement</th></tr>
<tr><td>Marketing Solutions</td><td>The Marketing Solutions segment delivers relevant, targeted and integrated communications across digital and traditional channels. We have considered this segment in two parts:

Letterbox distribution
Letterbox distribution services are provided in Australia and include digital catalogues and print services. Letterbox distribution and print services are recognised at a point in time, digital catalogue is recognised over time.
● Letterbox distribution revenue is measured on the number of catalogues assigned for distribution. The performance obligation, catalogue distribution, is satisfied when the catalogue has been assigned for distribution.
● Digital catalogue revenue is measured by the number of pages online, time online and number of interactions. The performance obligation, to provide online catalogue services, is satisfied once the pages are available online.
● Print services revenue is measured by the volume of stock printed. The performance obligation, to provide print services, is satisfied when the material becomes available for collection.

Digital Services
E-commerce and a number of digital marketing solutions are provided in Australia. Digital services revenue is recognised over time.
● E-commerce revenue consists of website development, maintenance and hosting. Website development is measured using time and materials, maintenance is measured on contracted hours, any unused hours are deferred and recognised in line with contract terms, hosting is measured as the amount of service fees. The performance obligations for website development, maintenance and hosting, are satisfied as the services are performed.
● Digital marketing revenue is measured based on media spend, service fees and campaign performance. The performance obligation, to provide digital marketing services, is satisfied as the services are performed.</td></tr>
<tr><td>Managed Services</td><td>The Managed Services segment provides outsourced business solutions, including back-office processes and digital creative, development services and contact centre services. This segment has been considered below.

Outsourced business solutions
Outsourced business solutions are provided in the Philippines. Revenue is recognised over time, on a cost plus service fee basis. The performance obligation, to provide outsourced business services, is satisfied as the services are performed.</td></tr>
</table>

Financing components

In the event that 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.

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Notes to the consolidated financial statements

Section 1: Key performance metrics (continued)

Expenses

	Consolidated	
	2019	2018
	$'000	$'000
Depreciation		
Plant and equipment	**3,493**	5,028
Amortisation		
Customer Intangibles	**1,304**	1,119
Depreciation and amortisation expense	**4,797**	6,147

Finance costs	**108**	987
Net loss on disposal of property, plant and equipment	**58**	73
Rental expense relating to operating leases	**10,434**	8,690
Net foreign exchange losses/(gains)	**577**	(228)
Defined contribution superannuation expense	**3,046**	3,484
Share based payments expense	**(125)**	15
Impairment of goodwill and intangible assets	**32,545**	15,300
Impairment of investment in joint venture	**2,711**	-

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 unused tax losses.

	Consolidated	
	2019	2018
	$'000	$'000
Current tax	**847**	1,972
Adjustments for current tax of prior periods	**35**	(283)
Total current tax expense	**882**	1,689
Deferred tax		
Decrease in deferred tax assets	**2,217**	3,353
Decrease in deferred tax liabilities	**(295)**	(276)
Total deferred tax expense	**1,922**	3,077
Total income tax expense	**2,804**	4,766

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Notes to the consolidated financial statements

Section 1: Key performance metrics (continued)

Income tax is attributable to:

	Consolidated 2019 $'000	2018 $'000
Profit from Continuing Operations	**2,804**	2,296
Profit from Discontinued Operations	**-**	2,470
Total income tax expense	**2,804**	4,766

Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated 2019 $'000	2018 $'000
Loss from Continuing Operations	**(23,154)**	(2,858)
(Loss)/Profit from Discontinued Operations	**(1,832)**	37,479
(Loss)/Profit before tax	**(24,986)**	34,621
Tax at the Australian tax rate of 30% (2018 - 30%)	**(7,496)**	10,386
Tax effect of amounts which are not deductible (taxable) in calculating taxable income		
Non-allowable deductions	**548**	471
Non-taxable income including sale of business	**33**	(13,508)
Allowable items	**(425)**	(168)
Adjustments for current tax of prior periods	**35**	(283)
Difference in overseas tax rates	**(1,247)**	(1,020)
Share of profits	**239**	(108)
Impairment loss of investment in joint venture	**498**	-
Goodwill impairment	**9,764**	4,590
Unrecognised tax losses	**855**	4,406
Total income tax expense	**2,804**	4,766

Tax losses

	2019	2018
Gross unused tax losses for which no deferred tax asset has been recognised	**51,368**	48,518
Potential benefit at 30%	**15,410**	14,555

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Notes to the consolidated financial statements

Section 1: Key performance metrics (continued)

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 2019. Management has exercised its judgement, and concluded that it is probable 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 FY20. The unrecorded tax losses of $51.4 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.

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	
	2019	2018
	$'000	$'000
	$'000	$'000
The balance comprises temporary differences attributable to:		
Doubtful debts	**75**	106
Employee benefits	**959**	1,125
Property, plant & equipment	**143**	766
Other provisions	**1,271**	2,672
Tax losses	**4,827**	4,823
	7,275	9,492
Movements:		
Opening Balance at 1 July	**9,492**	12,845
Charged to the income statement	**(2,217)**	(3,353)
Closing Balance at 30 June	**7,275**	9,492

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Notes to the consolidated financial statements

Section 1: Key performance metrics (continued)

Non-current deferred tax liabilities

	Consolidated 2019 $'000	2018 $'000
The balance comprises temporary differences attributable to:		
Intangible assets	**1,707**	1911
Movements:		
Opening Balance at 1 July	**1,911**	2,101
Credited to the income statement	**(295)**	(276)
Charged from equity	**91**	86
Closing Balance at 30 June	**1,707**	1,911

Tax Consolidated Group

Salmat Limited and its wholly-owned Australian controlled entities have implemented 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.

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Notes to the consolidated financial statements

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 an increase in bad debt write offs this year due to a MicroSourcing customer default of $0.6m.**
- **The Board has approved a $32.5 million impairment of goodwill in the Marketing Solutions cash generating unit due to the long term view of market conditions in the catalogue business and continuous shifts in market share. Contracts between the two major suppliers of catalogue distribution continue to change combined with long term volume declines.**
- **The business separation provision provided for at the end of FY18 has been fully utilised with no further provision required.**

2.1 Trade and other receivables

	Consolidated	
	2019 $'000	2018 $'000
Trade receivables	**24,677**	26,393
Provision for impairment loss	**(381)**	(489)
	24,296	25,904
Accrued revenue	**2,090**	2,332
Other receivables	**582**	1,298
	26,968	29,534

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.

On 1 July 2018, the Group adopted AASB 15 Revenue from Contracts with Customers, resulting in a change in accounting policy and a restatement of Trade and other receivables, representing an increase of $0.2m to the amount recognised at the date of initial application.

As at 30 June 2019 the Group's current trade receivables with a nominal value of $0.4 million (FY18: $0.5m) 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	
	2019 $'000	2018 $'000
At 1 July	**489**	736
Allowance for impairment recognised during the year	**976**	138
Receivables written off during the year as uncollectible	**(1,077)**	(380)
Net exchange difference on translation of foreign operations	**(7)**	(5)
At 30 June	**381**	489

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Notes to the consolidated financial statements

Section 2: Operating assets and liabilities (continued)

At 30 June 2019, trade receivables of $3.4 million (FY18: $4.8m) 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	
	2019 $'000	2018 $'000
1-30 days	**2,758**	3,953
31-60 days	**518**	646
Greater than 60 days	**91**	209
	3,367	4,808

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets at each reporting date. The Group calculates its impairment provision based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2.2 Other assets

	Consolidated - Current		Consolidated - Non-Current	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Prepayments	**2,744**	3,986	**277**	330
Inventories	**93**	57	**-**	-
Related party receivable - Reach Media NZ Limited (joint venture)[1]	**-**	-	**-**	800
Withholding tax receivable	**815**	82	**-**	-
Recoverable deposits	**247**	284	**2,654**	1,781
Non-current Trade receivables	**-**	-	**385**	1,210
	3,899	4,409	**3,316**	4,121

[1] The related party receivable from the Reach Media joint venture was assessed as unlikely to be recovered and a loss allowance $1,589,000 equal to the loan value was recognised.

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.

During the year, a loss allowance equal to the total amount outstanding was recognised and interest payments on the loan were ceased to assist the joint venture's operating cash flows.

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Notes to the consolidated financial statements

Section 2: Operating assets and liabilities (continued)

2.3 Trade and other payables

	Consolidated	
	2019	2018
	$'000	$'000
Trade payables	**5,656**	9,335
Accrued expenses	**15,715**	19,166
Dividends payable	**-**	15,970
Deferred revenue	**499**	347
Other payables	**667**	813
	22,537	45,631

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

On 1 July 2018, the Group adopted AASB 15 Revenue from Contracts with Customers, resulting in a change in accounting policy and a restatement of Trade and other payables, representing an increase of $0.1m to the amount recognised at the date of initial application (1 July 2018).

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Notes to the consolidated financial statements

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**
2019	
Cost	
Opening balance	100,241
Additions for the period	5,722
Disposals during the period	(2,793)
Net exchange difference on translation of foreign operations	1,387
Closing balance	**104,557**
Accumulated depreciation	
Opening balance	(95,114)
Depreciation charge	(3,672)
Disposals during the period	2,582
Net exchange difference on translation of foreign operations	(1,210)
Closing balance	**(97,414)**
Carrying value 30 June 19	**7,143**
2018	
Cost	
Opening balance	115,314
Additions for the period	1,930
Disposals during the period included sale of business	(16,685)
Net exchange difference on translation of foreign operations	(318)
Closing balance	**100,241**
Accumulated depreciation	
Opening balance	(104,450)
Depreciation charge	(6,430)
Disposals during the period included sale of business	15,335
Net exchange difference on translation of foreign operations	431
Closing balance	**(95,114)**
Carrying value 30 June 18	**5,127**

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Notes to the consolidated financial statements
Section 2: Operating assets and liabilities (continued)

2.5 Intangible assets

The Group's intangible assets comprise of 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 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 Relationships $'000	Total $'000
Key judgements and estimates - Amortisation policy	**N/A**	**3 years**	**12 years**	
Year ended 30 June 2019				
Opening net book amount	46,564	213	9,003	55,780
Additions	-	137	-	137
Amortisation charge	-	(92)	(1,251)	(1,343)
Impairment	(32,546)	-	-	(32,546)
Disposals	-	-	-	-
Net exchange difference on translation of foreign operations	203	-	452	654
Closing net book amount	**14,221**	**258**	**8,204**	**22,683**
At 30 June 2019				
Cost	154,561	11,257	13,730	179,548
Accumulated amortisation and impairment	(141,392)	(10,999)	(8,528)	(160,919)
Net exchange difference on translation of foreign operations	1,052	-	3,002	4,054
Net book amount	**14,221**	**258**	**8,204**	**22,683**
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)
Net exchange difference on translation of foreign operations	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)
Net exchange difference on translation of foreign operations	850	-	2,550	3,400
Net book amount	**46,564**	**213**	**9,003**	**55,780**

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Notes to the consolidated financial statements

Section 2: Operating assets and liabilities (continued)

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

During the year the Group recognised a $32.5 million (FY18: $15.3m) impairment of goodwill in the Marketing Solutions cash generating unit due to the long term view of market conditions in the catalogue business and continuous shifts in market share.

With the sale of the Contact centre business during the prior 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. 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
2019 Goodwill	**-**	**14,221**	**14,221**
2018 Goodwill	32,546	14,018	46,564

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 2.9% (FY18: 5.5%) for Managed Services and a decline of 8.1% (FY18: 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 post tax discount rate applied to forecast cash flows for Managed Services of 9.5% (FY18: 9.5%) and Marketing Solutions of 10.3% (FY18: 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.

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

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Notes to the consolidated financial statements

Section 2: Operating assets and liabilities (continued)

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	
Provisions	**2019**	2018
	$'000	$'000
Current		
Employee benefits - long service leave	**1,615**	1,750
Employee benefits - annual leave	**1,360**	1,749
Separation sale of business provision	**-**	3,941
	2,975	7,440
Non-current		
Employee benefits – long service leave	**299**	317
Other provisions – lease make good	**1,309**	1,718
	1,608	2,035
Total provisions	**4,583**	9,475

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Notes to the consolidated financial statements

Section 2: Operating assets and liabilities (continued)

Provision categories	Description	Key judgement
Employee benefits	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. 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.	Expected future wages and salary levels. Experience of employee departures. Periods of service (Long service leave only).
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	The separation provision in FY18 has been fully utilised in the current financial year as elements of onerous contracts, employee entitlements and restructuring costs have completed post separation of the Contact centre business.	Expected future costs relating to separation activities and onerous contracts have completed.

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

	Consolidated	
	2019	2018
	$'000	$'000
Carrying amount at beginning of year	**1,718**	2,403
Additional provision recognised	**146**	222
Provision utilised	**(560)**	(179)
Disposals on sale of businesses	**-**	(698)
Foreign currency translation impact	**5**	(30)
Carrying amount at end of year	**1,309**	1,718

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Notes to the consolidated financial statements

Section 2: Operating assets and liabilities (continued)

2.7 Other non-current liabilities

	Consolidated	
	2019	2018
	$'000	$'000
Refundable customer deposits	**2,296**	1,319
Other payables	**174**	384
	2,470	**1,703**

The refundable customer deposits represent the security bonds collected from customers by MicroSourcing International Ltd. Bonds are 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 customers to MicroSourcing.

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Notes to the consolidated financial statements

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 $58.6m (FY18: $78.5m).**
- **The Group utilises short term financing options for large insurance and contract renewals where appropriate to mitigate against material operating cash flow movements.**

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.

Borrowings	**Consolidated**	
	2019	2018
	$'000	$'000
Current		
Short term financing	**634**	642
Total current borrowings	**634**	642
Total cash and cash equivalents	**59,188**	79,117
Net cash	**58,554**	78,475

	Consolidated	
	2019	2018
	$'000	$'000
Total borrowings at beginning of the year	**642**	25,986
Net Cash flows (repayments, interest & finance costs paid, drawdowns)	**(2,955)**	(26,473)
Foreign exchange adjustments	**-**	(264)
Other non-cash movements	**2,947**	1,393
Total borrowings at the end of the year	**634**	642

Financial Report

Notes to the consolidated financial statements

Section 3: Group's capital and risks (continued)

Borrowing facilities

At 30 June 2019 the Group's facility agreement only included bank guarantees and an overdraft facility.

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

	Consolidated	
	2019	2018
	$'000	$'000
Floating rate		
Bank overdraft	**500**	500
Guarantee facility	**2,987**	2,987
	3,487	3,487
Used at balance date		
Guarantee facility	**1,236**	1,908
	1,236	1,908
Unused at balance date		
Bank overdrafts	**500**	500
Guarantee facility	**1,751**	1,079
	2,251	1,579

The bank overdraft facilities may be drawn at any time. The current interest rate on the bank overdraft facility is 5.00% (FY18: 4.17%).

Financial Report

Notes to the consolidated financial statements
Section 3: Group's capital and risks (continued)

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	
	2019	2018
	$'000	$'000
Financial assets		
Cash and cash equivalents	**59,188**	79,117
Trade and other receivables	**27,353**	31,544
	86,541	110,661
Financial liabilities		
Trade and other payable	**22,212**	45,668
Borrowings	**634**	642
	22,846	46,310

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 was adopted by the Group on 1 July 2018. The classification and measurement requirements of AASB 9 did not have a significant impact on the Group and as a result no adjustments have been made to comparatives or opening retained earnings.

The Group classifies financial assets as either those measured at amortised cost or those measured at fair value (either through profit or loss (FVTPL) or other comprehensive income (FVTOCI)). The classification depends on the Group's business model for managing the financial assets, determined by the contractual cash flows. For assets measured at fair value, gains and losses will be recorded in profit or loss or other comprehensive income.

Financial assets are recognised on the date at which the Group enters into a contractual obligation. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or all the risks and rewards of ownership have been substantially transferred.

At initial recognition, the Group measures a financial asset using either fair value or amortised cost. Transaction costs attributable to the acquisition of a financial asset are expensed through profit or loss.

Financial liabilities designated as either held-for-trading *or* fair-value-through-profit or loss, *are measured at fair value. Changes in credit risk are recognised in other comprehensive income with no recycling to profit and loss.*

Financial Report

Notes to the consolidated financial statements

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.

As at 30 June 2019 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.

The Group applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets at each reporting date. The Group calculates its impairment provision based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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 55. As at 30 June 2019, the Group's exposure to customers with a balance greater than $1 million totalled $9.6 million (FY18: $5.9 million) across 6 customers (FY18: 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.

Financial Report

Notes to the consolidated financial statements

Section 3: Group's capital and risks (continued)

Maturities of financial liabilities

The table below analyses 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	6 - 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount liabilities
At 30 June 2019	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade payables	22,038	-	174	-	-	22,212	22,212
Borrowings including interest	634	-	-	-	-	634	634
Total financial liabilities	**22,672**	**-**	**174**	**-**	**-**	**22,846**	**22,846**
At 30 June 2018							
Trade payables	45,284	-	209	175	-	45,668	45,668
Borrowings including interest	642	-	-	-	-	642	642
Total financial liabilities	**45,926**	**-**	**209**	**175**	**-**	**46,310**	**46,310**

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 2019.

3.3 Contributed 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 Group 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 2019 the Group had a net cash position of $58.6 million (FY18: $78.5m). 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.

At 30 June 2019 $21,966 (FY18: $210,037) of cash is held in trust for employee share schemes and is restricted to the use of settlement of short-term and long-term employee share scheme incentives.

Financial Report

Notes to the consolidated financial statements
Section 3: Group's capital and risks (continued)

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 regarding the Group's residual assets.

The Group 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.

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

	2019		2018	
Ordinary share capital	**Number of shares '000**	**$'000**	Number of shares '000	$'000
Balance at beginning of period ordinary share capital	**199,629**	**226,570**	199,651	226,585
Purchase of shares through share trust	**(107)**	**(71)**	(22)	(15)
	199,522	**226,499**	199,629	226,570
Treasury shares				
Balance at 1 July 2018	**346**	**191**	324	176
Purchase of shares through share trust	**107**	**71**	22	15
Employee share scheme vesting & issue	**(312)**	**(140)**	-	-
Balance at 30 June 2019	**141**	**122**	346	191

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.

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Notes to the consolidated financial statements

Section 3: Group's capital and risks (continued)

Other reserves	Share based payments reserve $'000	Consolidated Foreign currency translation reserve $'000	Business acquisition reserve $'000	Total $'000
Balance 1 July 2018	2,517	1,962	(24,639)	(20,160)
Shares and options expense	(244)	-	-	(244)
Exchange differences on translation of foreign operations	-	2,230	-	2,230
Balance 30 June 2019	**2,273**	**4,192**	**(24,639)**	**(18,174)**
Balance 1 July 2017	2,372	1,810	(24,639)	(20,457)
Shares and options expense	145	-	-	145
Exchange differences on translation of foreign operations	-	(574)	-	(574)
Reclassification of foreign exchange currency reserve to income statement	-	726	-	726
Balance 30 June 2018	**2,517**	**1,962**	**(24,639)**	**(20,160)**

3.5 Retained earnings

Retained earnings	Consolidated **2019** **$'000**	2018 $'000
Balance 1 July 2018	**(77,037)**	(89,268)
Recognition of asset for revenue not previously recognised[1]	**163**	-
Recognition of liability for revenue not previously recognised[1]	**(74)**	-
Change in accounting policy - adoption of AASB15	**89**	-
Restated total equity at the beginning of the financial year	**(76,948)**	(89,268)
(Loss)/Profit for the year	**(27,790)**	29,855
Other comprehensive (loss)/income	**(419)**	343
Total comprehensive (loss)/income	**(28,209)**	30,198
Dividends provided for or paid	**(5,960)**	(17,967)
Reclassification from reserves to retained earnings[2]	**292**	-
	(5,668)	(17,967)
Balance 30 June 2019	**(110,825)**	(77,037)

[1] On 1 July 2018, the Group adopted AASB 15 Revenue from Contracts with Customers, resulting in a change in accounting policy and a restatement of retained earnings at the date of initial application (1 July 2018)

[2] Remeasurement of retirement benefit obligation balance due to closure of the defined benefit fund for Managed Services employees.

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Notes to the consolidated financial statements

Section 4: Business portfolio

This section provides further insight into the business portfolio of the Group with a summary of the investments held and any profit/(loss) on sale of it's Discontinued Business Operations.

A summary of the Discontinued Operations in the current year are as follows:

- **Post sale of the Contact Centre business to funds advised by 5V Capital in FY18 the Group has incurred costs to separate the businesses. Loss after tax from Discontinued Operations for the year was $1.8 million with the Group expecting no additional costs in relation to the separation to be incurred.**
- **The Reach Media share of joint venture losses were $0.8 million for the year that included an impairment loss of $0.6 million on IT assets written off.**
- **The $1.1 million (FY18: $1.9m) investment relating to the Reach Media joint venture was impaired during the year as the Directors assessed the amount to be not recoverable.**

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	
			2019	2018
			%	%
Salmat MediaForce Pty Limited [1]	Australia	Ordinary	**100**	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 reports in accordance with ASIC Corporations (Wholly-owned Companies) Instrument 2016/785.

Financial Report

Notes to the consolidated financial statements
Section 4: Business portfolio (continued)

Investments

Under the equity method of accounting, the investment's 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 2019.

Name of Company	Principal activity	Ownership interest		Carrying amount / fair value	
		2019	2018	**2019**	2018
		%	%	**$'000**	$'000
Unlisted – no quoted prices available					
Reach Media NZ Limited, New Zealand (Joint Venture)[2]	Unaddressed mail distribution	**50**	50	**-**	1,855
Online Media Holdings Pty Ltd (AFS)[1]	Online location based services	**16**	16	**-**	-
				-	1,855

[1] The Group has concluded the fair value of the Online Media investment should remain $ NIL as there is no active market for this investment

[2] The $1.1 million investment (FY18: $1.9m) relating to the Reach Media joint venture was impaired during the year as the Directors assessed the amount to not be recoverable.

	Consolidated	
	2019	2018
	$'000	$'000
Carrying amount at the beginning of the financial year	**1,855**	1,546
Impairment Loss	**(1,122)**	-
Foreign exchange loss	**64**	(50)
Share of (losses) / profits recognised after income tax[1]	**(797)**	359
Carrying amount at the end of the financial year	**-**	1,855

[1] The FY19 share of joint venture losses includes an impairment expense of $637,000 on IT assets written off during the year

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 $1.1 million investment in the current year (FY18: $1.9m) relating to the Reach Media joint venture was fully impaired as the Directors assessed the amount to not be recoverable.

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Notes to the consolidated financial statements

Section 4: Business portfolio (continued)

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 and 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 FY18 financial year, the Group sold products from the Marketing Solutions and Managed Services segments. Transactions that continued to impact the Group in the FY19 financial year:

- Contact - Sale of the Contact centre business to funds advised by Five 5 Capital for $53.0m on the 18th of May 2018. The Contact centre business included operations in Australia, New Zealand and the Philippines.

(b) Financial performance and cash flow information of Discontinued Operations

The financial performance and cash flow information presented below.

	Consolidated	
	2019	2018
	$'000	$'000
Revenue	**-**	123,047
Other income	**(73)**	-
Expenses from ordinary activities	**(1,572)**	(137,897)
Loss before income tax	**(1,645)**	(14,850)
Income tax expense	**-**	(1,989)
Loss for the period from Discontinued Operations	**(1,645)**	(16,839)
Gain on sale of the Discontinued Operations after income tax	**(187)**	51,848
(Loss)/profit from Discontinued Operations[1]	**(1,832)**	35,009

	2019	2018
	$'000	$'000
Net cash outflow from operating activities	**-**	(3,721)
Net cash outflow from investing activities	**(7,216)**	(1,221)
Net decrease in cash from Discontinued Operations[1]	**(7,216)**	(4,942)

[1] FY18 Discontinued Operations include the sale of MessageNet - MessageNet Pty Ltd to Message4U Pty Ltd for $14.8m on the 29th of December 2017. Interactive Services - Trade sale of the customers and products were sold to Oxygen8 for $0.5m on the 31st of October 2017. The Fuse platform was discontinued and sold for an immaterial amount.

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Notes to the consolidated financial statements

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), Earnings Per Share (EPS) and Return on Capital Employed (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 rights.

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

Financial Report

Notes to the consolidated financial statements

Section 5: Employee remuneration (continued)

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

Grant Date	Expiry date	Exercise price	Balance at beginning 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 – 2019								
Dec 15	Sept 18	-	540,312	-	-	(540,312)	-	-
Total		**-**	**540,312**	**-**	**-**	**(540,312)**	**-**	**-**
Consolidated – 2018								
Dec 15	Sept 18	-	1,031,341	-	(491,029)	-	540,312	540,312
Total			**1,034,341**	**-**	**(491,029)**	**-**	**540,312**	**540,312**

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

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

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

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

	Consolidated	
	2019	2018
	$'000	$'000
Employee option plan expense	**(130)**	145
Share based payments made under FY16 plan	**(114)**	-
	(244)	145

Financial Report

Notes to the consolidated financial statements
Section 5: Employee remuneration (continued)

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 2019.

5.3 Key management personnel

	Consolidated	
	2019	2018
	$	$
Short-term employee benefits	**1,884,278**	2,769,231
Long-term benefits	**10,020**	7,448
Post employment benefits - Defined contribution fund contributions	**103,403**	122,023
Share-based payments	**-**	8,075
Termination payments	**-**	163,558
	1,997,701	**3,070,335**

Detailed remuneration disclosures for key management personnel and the Board are provided in the remuneration report on pages 13-23. There are no transactions with key management personnel, the Board or entities related to them, other than remuneration detailed.

Financial Report

Notes to the consolidated financial statements

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	
	2019	2018
	$'000	$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**11,203**	9,116
Later than one year but not later than five years	**22,271**	20,598
Later than five years	**-**	1,733
	33,474	31,447

Financial Report

Notes to the consolidated financial statements

Section 6: Other disclosures (continued)

New accounting standard: *AASB 16 Leases*

The IAS has issued IFRS 16 Leases, a new standard for the accounting of leases, replacing IAS 17 Leases. The AASB has issued an equivalent standard, AASB 16 Leases. The standard introduces a single, on-balance sheet lease accounting model for lessees and removes the distinction between finance and operating leases. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group is required to adopt AASB 16 for annual reporting periods beginning on or after 1 January 2019. Earlier adoption is permitted, however, the Group does not intend to adopt the standard before its effective date. The Group plans to apply AASB 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

The Group has progressed its assessment of the expected impact of the future adoption of AASB 16 on its consolidated financial statements. The Group has collated lease information and is finalising its assessment of the key assumptions and inputs to be applied for the adoption of the new standard. Based on the information currently available, the Group expect to recognise:

- New right-of-use assets and lease liabilities for marketing solutions distribution warehouses and managed services office operating leases in the consolidated balance sheet as at 1 July 2019. The right-of-use asset consists of the initial lease liability, initial direct costs, estimate of restoration or dismantling costs and any lease payments made to the lessor before or at commencement date less any lease incentives received. The lease liability is measured at the present value of minimum lease payments for the lease term;
- Increase in EBITDA as current rental and occupancy expense in the consolidated income statement is separated into depreciation for the right of use asset and interest expense on the lease liability;
- Increase in operating cash flow as the lease repayments considered as financing rather than operating cash flows in the consolidated cash flow statement.

The Group has identified a small number of commitments covered by the short-term and low-value lease exception and will recognise the lease payments as expenses.

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.

(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.

Financial Report

Notes to the consolidated financial statements

Section 6: Other disclosures (continued)

(c) Guarantees

	2019 $'000	2018 $'000
Guarantees in respect of performance under contracts and premise leases	**1,236**	1,908
	1,236	1,908

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

6.2 Remuneration of auditors

	Consolidated	
	2019 $	2018 $
Amounts received, or due and receivable, by auditors of the company:		
PricewaterhouseCoopers:		
Remuneration for audit or review of the financial reports		
PricewaterhouseCoopers – Australian firm	**271,310**	462,055
PricewaterhouseCoopers – Overseas firm	**87,748**	74,900
Total audit and other assurance services	**359,058**	536,955
Remuneration for other services[1]		
PricewaterhouseCoopers – Australian firm		
Tax services	**33,660**	165,540
Consulting and advice	**-**	1,855,418
Total non-audit services	**33,660**	2,020,958

[1] FY19 non-audit services included Financial and Tax advice associated with the sale of the Contact centre business. FY18 non-audit services included Financial and Tax advice associated with the sale of the Contact centre business. 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.

Financial Report

Notes to the consolidated financial statements

Section 6: Other disclosures (continued)

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	
	2019	**2018**
	$'000	**$'000**
Statement of financial position		
Current assets	**35,773**	67,131
Non-current assets	**38,292**	101,511
Total assets	**74,065**	168,642
Current liabilities	**12,577**	38,169
Non-current liabilities	**265**	1,100
Total liabilities	**12,842**	39,269
Shareholders' equity		
Contributed equity	**226,498**	226,570
Reserves	**(2,530)**	(5,768)
Retained earnings	**(162,745)**	(91,429)
	61,223	129,373
(Loss)/profit for the year	**(65,356)**	118,982
Total comprehensive (loss)/income for the year	**(65,356)**	118,982

Financial Report

Notes to the consolidated financial statements
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

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 2019 of the Closed Group.

	2019 $'000	2018 $'000
Consolidated income statement		
Loss before income tax	**(13,413)**	(59,247)
Income tax expense	**(2,227)**	(3,577)
Loss after tax	**(15,640)**	(62,824)
Loss for the year	**(15,640)**	(62,824)
Consolidated statement of comprehensive income		
Loss for the year	**(15,640)**	(62,824)
Other comprehensive income	**-**	-
Exchange differences on translation of foreign operations	**(1,594)**	(1,542)
Other comprehensive loss for the year, net of tax	**(1,594)**	(1,542)
Total comprehensive loss for the year	**(17,234)**	(64,366)
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**(67,600)**	13,191
Loss for the year	**(15,640)**	(62,824)
Change in accounting policy - adoption of AASB15	**162**	-
Dividends provided for or paid	**(5,960)**	(17,967)
Retained earnings at the end of the financial year	**(89,038)**	(67,600)

Financial Report

Notes to the consolidated financial statements

Section 6: Other disclosures

Set out below is a consolidated statement of financial position as at 30 June 2019 of the Closed Group.

	2019 $'000	2018 $'000
Current assets		
Cash and cash equivalents	32,752	62,244
Trade and other receivables	19,277	21,217
Net intercompany receivables outside the Closed group	17,526	-
Other current assets	2,441	3,611
Total current assets	**71,996**	**87,072**
Non-current assets		
Receivables	5,924	6,824
Investments	34,967	59,306
Property, plant and equipment	2,098	2,754
Deferred tax assets	7,119	9,334
Intangible assets	7,382	7,063
Total non-current assets	**57,490**	**85,281**
Total assets	**129,486**	**172,353**
Current liabilities		
Trade and other payables	18,699	44,684
Net intercompany payables outside the Closed group	8,423	669
Borrowings	634	642
Provisions	2,672	3,160
Total current liabilities	**30,428**	**49,155**
Non-current liabilities		
Other financial liabilities	174	383
Provisions	1,384	1,967
Total non-current liabilities	**1,558**	**2,350**
Total liabilities	**31,986**	**51,505**
Net assets	**97,500**	**120,848**
Equity		
Contributed equity	226,499	226,570
Reserves	(39,961)	(38,122)
Retained Earnings	(89,038)	(67,600)
Total equity	**97,500**	**120,848**

Financial Report

Notes to the consolidated financial statements
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 2019 was authorised for issue in accordance with a resolution of the Directors on 27 August 2019.

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 2, 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.

Financial Report

Notes to the consolidated financial statements

Section 6: Other disclosures

6.6 Events occurring after the reporting period

No matter or circumstance has arisen since 30 June 2019 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.

6.7 Reconciliation of (loss)/profit after income tax to net cash inflow from operating activities

	Consolidated	
	2019	2018
	$'000	$'000
(Loss)/Profit for the year	**(27,790)**	29,855
Depreciation and amortisation	**4,797**	11,665
Non-cash impairment	**32,545**	15,300
Non-cash Impairment of investment in joint venture	**2,711**	-
Non-cash financing costs	**81**	104
Non-cash financing income	**(104)**	(118)
Interest revenue	**(742)**	(453)
Finance costs	**19**	884
Non-cash employee benefits	**(130)**	145
Non-cash retirement benefits	**290**	(158)
Net loss on sale of non-current assets	**142**	72
Sale of business	**187**	(51,848)
Share of net loss/(profit) of joint venture	**797**	(359)
Change in operating assets and liabilities, net of effects from purchase of controlled entities		
Decrease in trade and other receivables	**2,572**	6,582
Decrease in other assets	**562**	515
Decrease in receivables and other non current assets	**1,059**	624
Increase/(Decrease) in trade and other payables	**382**	(4,613)
Increase/(Decrease) in provision for income taxes payable	**25**	(219)
Decrease in provision for deferred income tax	**1,919**	3,067
(Decrease)/Increase in other provisions	**(2,520)**	1,525
Net cash inflow from operating activities	**16,802**	12,570

Directors' Declaration
30 June 2019

In the Directors' opinion:

a) the financial statements and notes set out on pages 26 to 73 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 2019 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 6.5(c) 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
27 August 2019

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 2019 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 2019
- 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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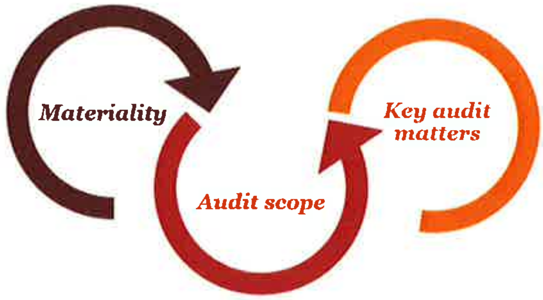
Our audit approach

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 $0.46 million, which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation and amortisation 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 $32.5m, 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 an audit in respect of the Group's operations in Australia and New Zealand. Acting under our instruction, component auditors performed an audit over the Microsourcing business in the Philippines.
- The audit team included specialists and experts on information technology, valuations and tax.

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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. We communicated the key audit matters to the Audit and Risk Committee.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of goodwill in the Marketing Solutions [$Nil] and Managed Services [$14.2m] Cash Generating Units ('CGUs') *(Refer to note 2.5)* The Group prepared a discounted cash flow model for each CGU (the models) to estimate the recoverable amount for both CGUs. In undertaking the impairment testing, the Group made a number of assumptions in the models that are subjective and judgmental. This is 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. An impairment of $32.5m was recognised during the year in relation to the goodwill within the Marketing Solutions CGU. Prior to the impairment assessment, the goodwill had a carrying value of $32.5m. The discounted cash flow model for the Managed Services CGU calculated a recoverable amount above the carrying value and no impairment was recognised during the year in relation to goodwill for this CGU. The key assumptions and related disclosures are included 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 performed the following procedures amongst others: • We evaluated the Group's cash flow forecasts included in the discounted cash flow models to assess the carrying value of the Marketing Solutions and Managed Services CGUs and the process by which they were developed. • We, with the assistance of PwC valuation experts, tested the methodology supporting the Group's models by: - Considering whether the cash flows were based on supportable assumptions, by comparing these to the historical performance, forecasts in FY20 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 CGUs. - Assessing the discount rate used in the model, which included a review of the calculation methodology and assessment of inputs. - Considering the sensitivity of the models to changes in key assumptions by applying other values within a range that we assessed as being reasonably possible.

Recoverability of deferred tax asset [$4.8m] for unused tax losses [$16m] *(Refer to note 1.5)* The Group has recognised a deferred tax asset of $4.8m for unused tax losses of $16m. In addition, there are further unused tax losses of $51.4m with a potential benefit of $15.4m in respect of which a deferred tax asset has not been recognised. In order to assess the recoverability of the deferred tax asset, the Group exercised judgement in estimating future taxable income using historical trends and budget information. This is a key audit matter due to the history of tax losses incurred by the Group in the past three years, the magnitude of the balance and the judgements made by the Group when estimating future taxable income and the extent to which recoverability of the available tax losses is probable. The Group concluded that it is probable that the recognised tax losses are recoverable based on expected future taxable income.	We performed the following procedures, amongst others: • We tested the Group's estimate of future taxable income by: - Evaluating the historical accuracy of the Group's budget information by comparing Board approved budgets with reported actuals for the past year. - Testing the FY19 statement of taxable income. This included comparing data used in the statement to source documentation, testing the mathematical accuracy of the statement and performing recalculations. - Considering historical trends and developing an understanding of the main drivers behind tax losses incurred in current and previous years. This included evaluating whether the main drivers of the tax losses over the last 3 years are likely to recur in future years. - Evaluating the Group's assessment of future profits based on current market and economic conditions, and an estimate of future market and economic conditions, to assess the extent to which recoverability of the available tax losses is probable.

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 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and accordingly we do not, and will 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 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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 23 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Salmat Limited for the year ended 30 June 2019 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

Jason Hayes
Partner

Sydney
27 August 2019