
SALMAT
2016 ANNUAL GENERAL MEETING
salmat
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DISCLAIMER

Company announcements and presentations can contain forward-looking statements. Words such as “believe”, “anticipate”, “plan”, “expect”, “intend”, “target”, “estimate”, “project”, “predict”, “forecast”, “guideline”, “should”, “aim” and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include but are not limited to: competition and product pricing in the markets in which we operate; general economic and market conditions; compliance with, and possible changes in, environmental and health and safety laws; dependence on cyclical markets; the supply and cost of materials; exposure to environmental or other legal proceedings; and risks of conducting business internationally. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those contained in forward-looking statements. Forward-looking statements speak only as of the date they are made.

CHAIRMAN'S ADDRESS

PETER MATTICK, CHAIRMAN

Welcome by Chairman, Peter Mattick

Good morning, ladies and gentlemen.

My name is Peter Mattick and I am the Chairman of Salmat Limited.

I am very pleased to welcome you on behalf of the Directors and management. We greatly appreciate your interest and attendance.

I have been advised by the Company Secretary that a quorum is present and as such I declare Salmat's 2016 Annual General Meeting open.

I would like to introduce to you my fellow Directors:

- Fiona Balfour, a Non-executive, Independent Director and Chair of the Technology and Innovation Committee.

- Ian Elliot, a Non-executive, Independent Director and Chair of the Remuneration and Compensation Committee.

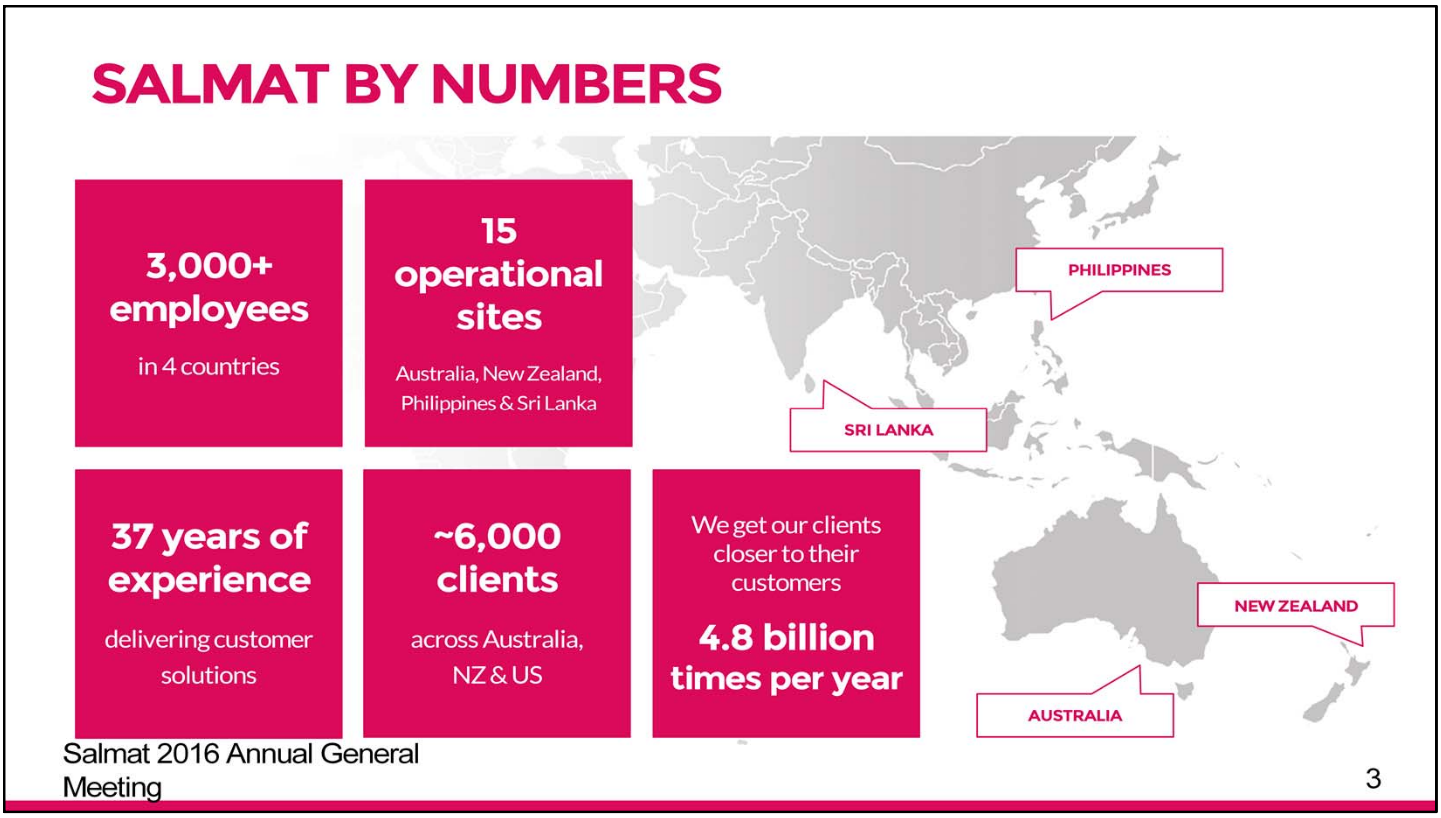
- John Thorn, our Lead Independent Director and Chair of the Audit, Risk and Compliance Committee.

- Mark Webster, a Non-executive, Independent Director.

From our executive team, I'd like to introduce Craig Dower, our Chief Executive Officer; and Stephen Bardwell, our Company Secretary.

Also in attendance today is Sue Horlin, representing our auditor, PricewaterhouseCoopers.

Noted is an apology for today's meeting from Rebecca Lowde, our Chief Financial Officer. Rebecca is currently overseas, having won a scholarship to attend a senior international management program in Singapore.



Salmat today, compared with 12 months ago, is a business transformed.

This evolution has taken a lot of hard work, change and patience, but it is now largely complete.

Today, Salmat is a business with just over 3,000 staff in four countries. The majority of our operations remain Australian-based, but we also have a presence in New Zealand, Sri Lanka and increasingly, the Philippines.

Our 6,000 clients range from some of Australia's largest businesses and government departments, through to small businesses creating letterbox campaigns via Salmat's Local Direct Network portal.

We continue to offer a select range of Media, Digital and Contact services that enable around 4.8 billion points of customer communication each year.

The Board's vision for the future is that Salmat will be the first choice partner for businesses wanting to reach consumers, convert them into new customers and maintain high ongoing standards of customer service and communication.

Salmat has always been a marketing services business, but today we offer a far more sophisticated suite of integrated communication options than ever before. We have exited older model channels such as door to door sales while building out capabilities in digital and sophisticated contact centre services.

In January 2015, we launched a business transformation program to overhaul Salmat's operations and set the business on a new path to growth. Three decades of entering new markets and departing others, acquiring and divesting businesses had contributed to Salmat's organisational complexity. It was time to untangle and simplify our operations.

As we approach the two-year mark of that program, we can see the benefits starting to flow through. Salmat's product and service suite has been refined, so that we focus on the areas where we already hold or are able to challenge for market leadership.

Behind the scenes, Salmat's operations and processes have been significantly simplified. Fixed costs and duplication have been removed. World-class systems and best practices have been implemented. And we are starting to grow. Our EBITDA margin is heading in the right direction and has increased over the past four consecutive half year periods.

I'll let Craig take you through some of the specific achievements shortly, but suffice to say, the past 12 months has been exciting and has seen our business transform. This change will help Salmat to remain a relevant, thriving business in a changing market environment.

As many of you would have recently seen, one of those changes is the proposed merger of Salmat's competitor, PMP, with printer IPMG. We have been asked how this merger might impact Salmat.

Over the past 37 years, Salmat has always competed successfully with our differentiated distribution offering, to the extent that we now distribute more than 50% of what PMP prints for distribution. So while the merger will no doubt impact the print industry, we see little impact on our leadership in distribution.

FINANCIAL RESULTS – OVERVIEW

Full year to 30 June 2016

$ million	2016	2015	% change
Revenue	450.8	498.1	-9.5%
Underlying EBITDA	19.6	13.3	+47.4%
Depreciation & Amortisation	(13.6)	(14.7)	-7.5%
Net interest	(1.8)	(1.7)	+5.9%
Underlying profit/(loss) before income tax	4.2	(3.1)	*
Significant items	(6.8)	(91.3)	-92.6%
(Loss) before income tax	(2.6)	(94.4)	+97.2%
Income tax expense	(3.4)	(3.6)	-5.6%
Net (loss) after tax	(6.0)	(98.0)	+93.9%

* no meaningful figure

The business transformation impacted Salmat's FY16 results largely as expected, with a reduction in the top line but growth at the bottom line.

Having conducted a strategic review of Salmat's product and service offering, a number of non-core services were discontinued during the year, having a net impact of around $38 million on revenue.

Despite this revenue drop, underlying EBITDA was up by 47.4% on the previous year. This was primarily the result of transformation-related cost-saving initiatives and a focus on higher margin services.

Significant item net costs of $6.8 million included transformation restructuring costs and a fair value adjustment on acquisitions, offset by profit on the sale of an investment in an associate and a small online learning business. This was a substantial reduction on the FY15 significant item cost, which mainly comprised a one-off non-cash impairment for goodwill and intangibles.

Given the large variation in significant items and their one-off nature, the underlying result before tax is probably a more accurate reflection of events than the net result. Here we saw a turnaround from a $3.1 million loss in FY15 to a $4.2 million profit in FY16.

So overall, while revenue was lower for the year as anticipated due to the exited services, Salmat's bottom line showed an improvement that can be directly attributed to the transformation effort.

CAPITAL RAISING

Raising $15 million to fund consideration for final 50% acquisition of MicroSourcing International

- Considered a range of options before settling on entitlement offer.
- Popular offer: 94% of institutional and 78% of retail shareholders took up their entitlements (balance absorbed by top-up requests).
- Thank you for your participation.

Following Board and management consideration of Salmat's capital management options, we elected to proceed with a share entitlement offer last month in order to fund consideration relating to the acquisition of the remaining 50% of MicroSourcing: a Philippines-based managed services business that has performed very well for Salmat.

This included an institutional entitlement offer for major shareholders and a retail entitlement offer for all eligible retail shareholders, raising a total of $15 million.

Both the institutional offer and retail offer were well received. 94% of eligible institutional holders participated in the offer and there were a number of new large shareholders who also sought shares. Including top-up requests, 82% of the retail offer was taken up. The balance of retail shares was acquired by institutional sub-underwriters.

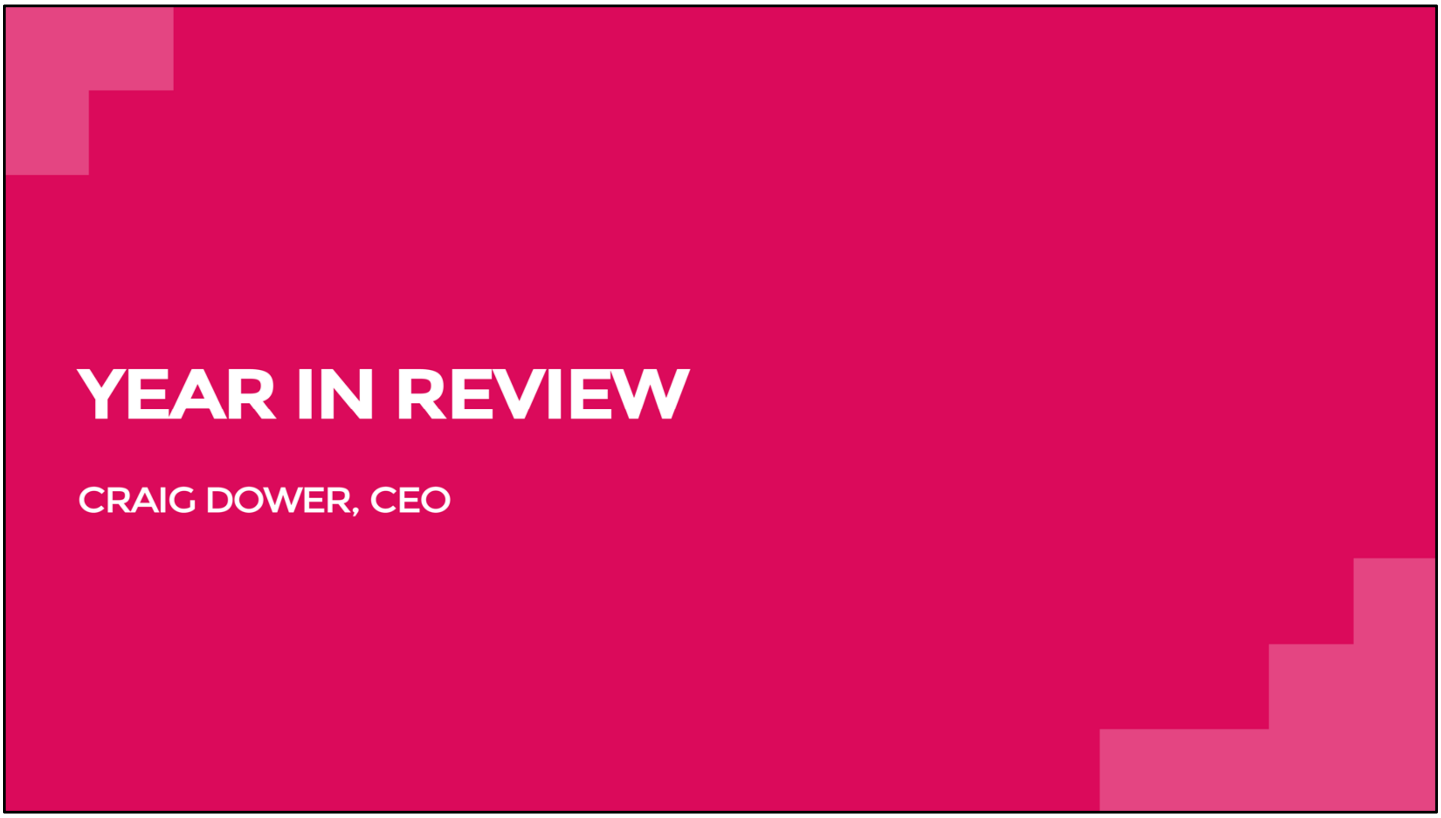
We sincerely thank our shareholders for your interest and patronage of this raising and look forward to delivering a solid return on your investment. We are fortunate to have a substantial base of long-term shareholders, many of whom have been investors since we listed in December 2002 and we thank you for your ongoing support.

The Board elected not to pay a dividend in FY16 as we continued to retain cash to fund Salmat's transformation and acquisitions. Dividends are considered by the Board as part of the overall capital management strategy and we will revisit this discussion over the coming year.

Finally, thank you to the Salmat team and my fellow Board members for your contribution over the past 12 months. It has been another busy year involving a lot of change. Your consistent efforts during this period of adjustment are appreciated.

I am now very pleased to invite our CEO, Craig Dower to give his perspective on the past financial year and take you through Salmat's current priorities before we address the formal items on the agenda.

Thank you.

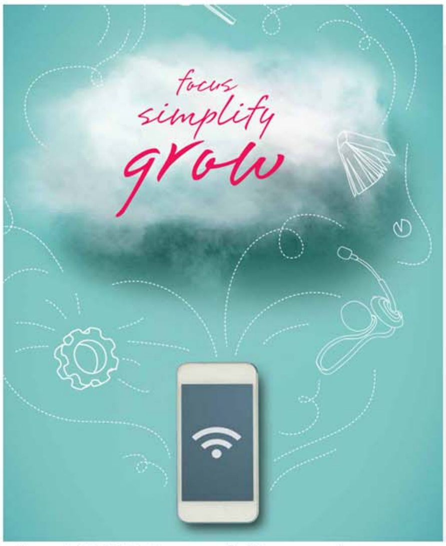


Presentation by CEO, Craig Dower

Thank you, Peter and good morning, ladies and gentlemen.

It’s a pleasure to welcome you here today and share with you how your company is performing.

WE HAVE CHANGED THE WAY WE WORK



- **Thoroughly reviewed all aspects of the business for best practice**
- **Partnered with global leaders to take Salmat's operations to the cloud**
- **Salmat is leaner and more agile**
- **The new framework is in place: Salmat is now 'match fit' and ready to grow**

As Peter mentioned, Salmat is now almost two years into a major business transformation. This has involved not just tweaking a few systems and processes, but taking a full audit of the business and making changes at the fundamental level of what we do and how we do it.

So what were these changes?

We took a good look at the services we offered: did they make sense? Were we the best at doing it? Did they actually make a profit? Was there a market growth opportunity? Anything that didn't meet our criteria was wound down or sold. We put a more stringent process in place to qualify new business opportunities and ensure that any work we pursued was worthwhile.

We also did a thorough audit of internal systems, processes and business practices. Given the various business units, as well as the numerous acquisitions over the years, there were many areas of duplication and complexity, incurring unnecessary time, effort and expense. There was also a variety of ways of doing what was essentially the same thing, so we looked to establish and roll out world-class systems and consistent best practice guidelines across the business.

One of the key changes we made was establishing strategic partnerships with global industry leaders and moving from expensive, resource-intensive legacy systems to the cloud, wherever possible.

For example, we established partnerships with Workday and Google to install new cloud-based finance, HR and business operating systems. These two changes alone have massively simplified and improved our internal effectiveness. They have helped change our culture, providing greater transparency, greater collaboration and increased accountability.

We have partnered with Interactive Intelligence and several other industry leaders to migrate our Contact Centre business into the cloud. This will further position us as an industry leader in Contact as we implement several new contracts secured in recent months and migrate all of our existing customers to that platform over the next 12-18 months.

We have also partnered with Amazon Web Services, which is substantially changing our overall cost of service delivery. We have decommissioned or moved more than 2000 servers out of data centres and into the cloud over the past 18 months.

This key shift in approach has changed the business significantly. We have access to some of the most innovative thinking and technology in the world. We no longer need to buy and maintain servers, nor pay for software licences we don’t use. A large portion of our cost base has shifted from fixed to variable, from capital expenditure to operating expenditure, so that we are more flexible and our costs are more aligned with our growing revenue.

OUR FY16 GOALS

What we achieved

Continued optimisation

- Products and services review phase two completed
- Workday phase two completed
- Service delivery improvement achieved
- Invested in sales effectiveness: benefits accruing

Collaboration platform

- Google platform fully operational
- Workday platform successfully extended
- Commenced process to move Contact to cloud

Marketing

- 'It starts with Salmat' campaign launched
- Marketing team aligned with sales team
- Sales support focus to drive revenue growth

Salmat has fundamentally restructured the business and our cost base

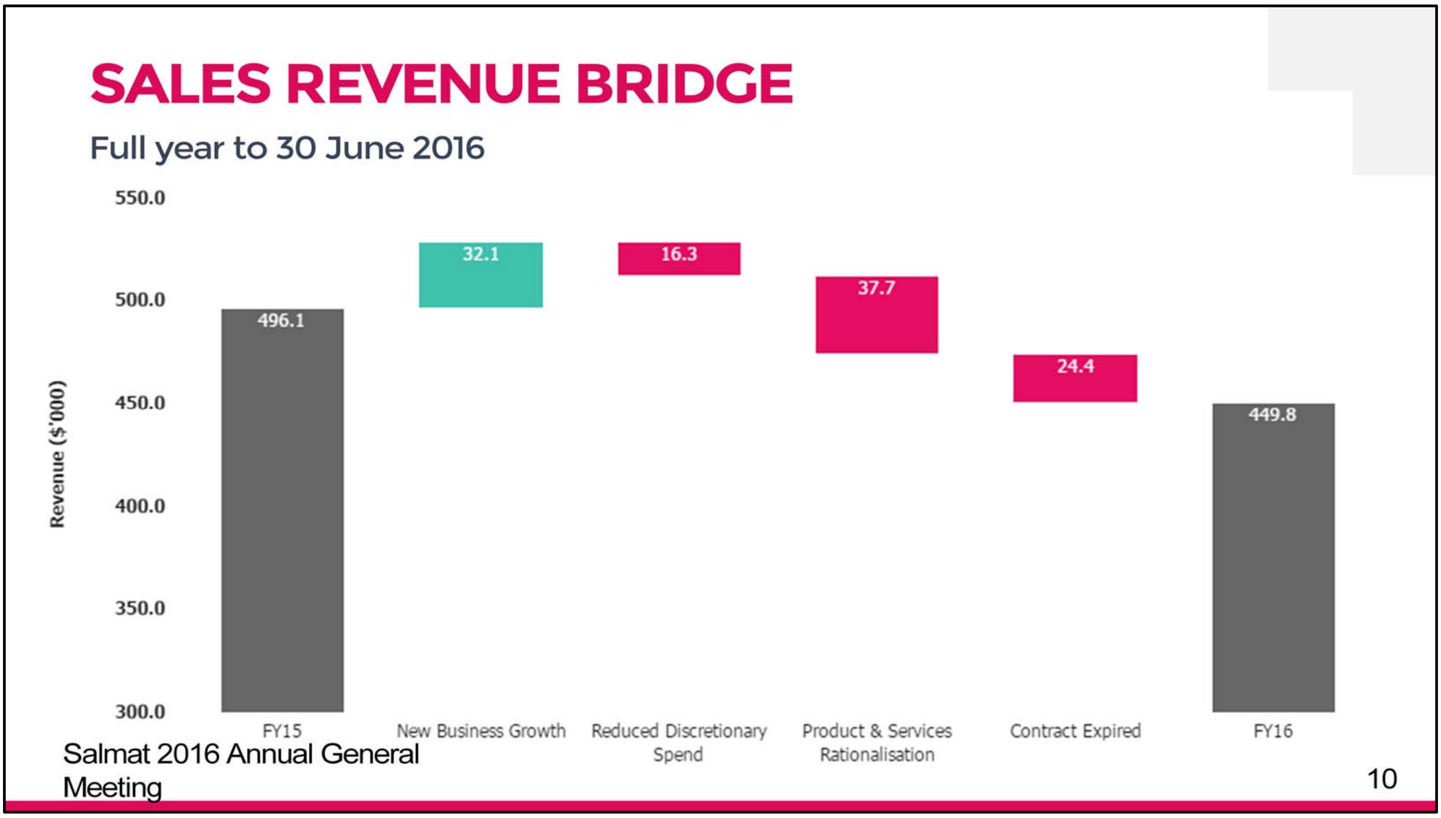
Last year, I talked about the next steps to be taken in the three key areas of continued optimisation, collaboration platforms and marketing.

In line with our focus on improved project execution, I'm pleased to say that we successfully realised what we set out to achieve.

We've made a few adjustments along the way - notably in Sales and Marketing - as the year progressed and we focussed on getting back to basics, but all the key projects were completed.

Overall, Salmat is now a leaner and more agile business. We have a clear vision of what we do and how we do it.

The 'big rocks' have been dealt with. We have taken out over 600 roles and layers of management through the transformation program. This has been a difficult process and period for the company, but that phase is now complete. There will always be room for continuous improvement but the we have now moved our focus to sales and growing profitable revenue.



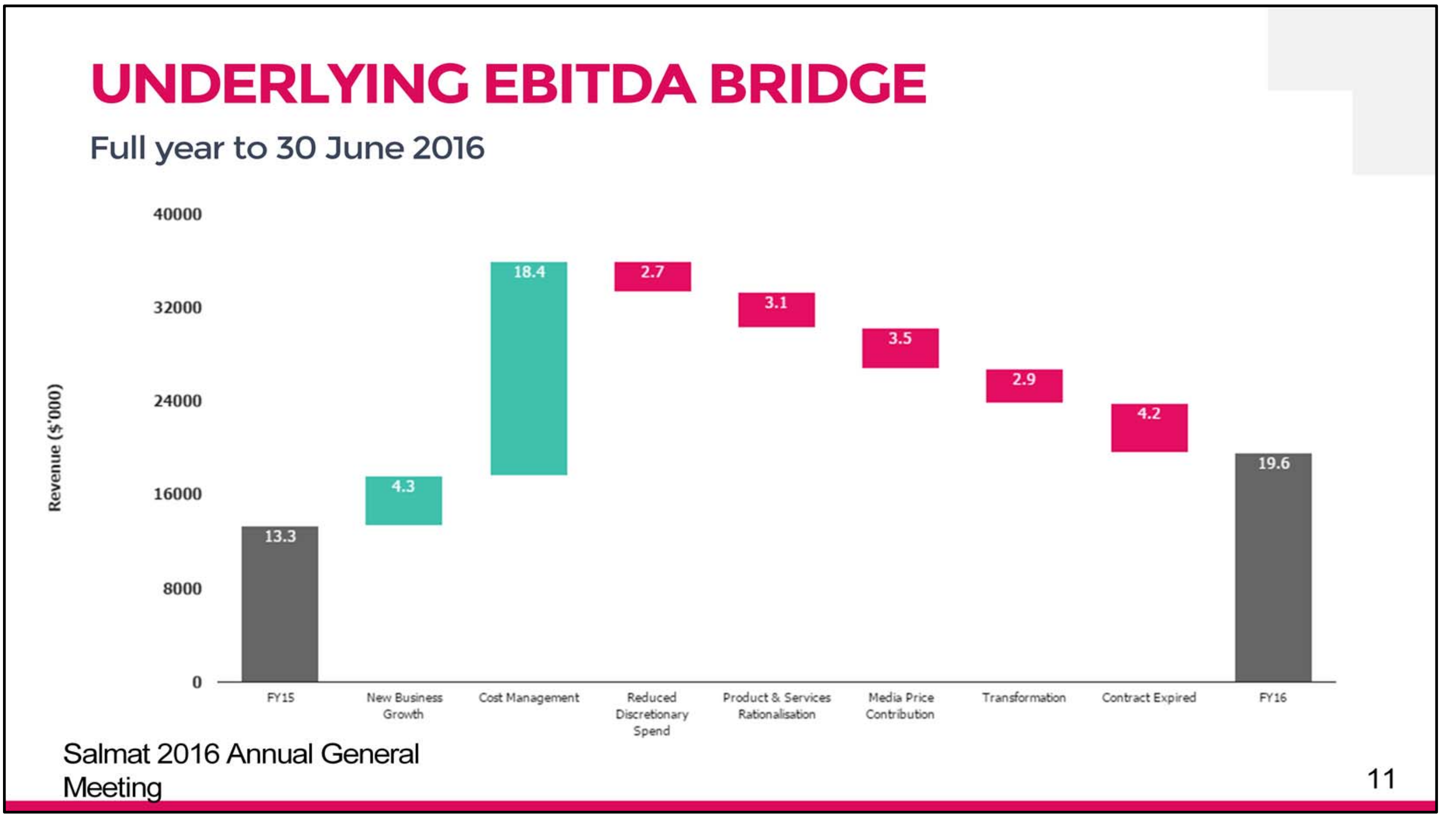
In terms of the impact of the transformation on financial results for the year, I want to briefly take you through the key items.

Sales revenue was down $46.3 million on the prior year. The largest negative impact was the almost $38 million in discontinued revenue following the product and services rationalisation.

New business growth was lower than we would have liked, however we had a number of new business wins recently that will contribute to the FY17 results. We have also made some changes to the sales team and sales support geared at driving further growth.

Reduced discretionary spend occurred across a number of volume-based areas such as letterbox, as client spending patterns fluctuated in response to external and internal factors.

While a number of contracts expired due to clients taking business in house or not renewing the work - particularly in Contact - Salmat had a very strong year of contract retention. In the Media business, a number of major letterbox contracts came up for renewal in FY16 and we successfully retained all of these contracts.

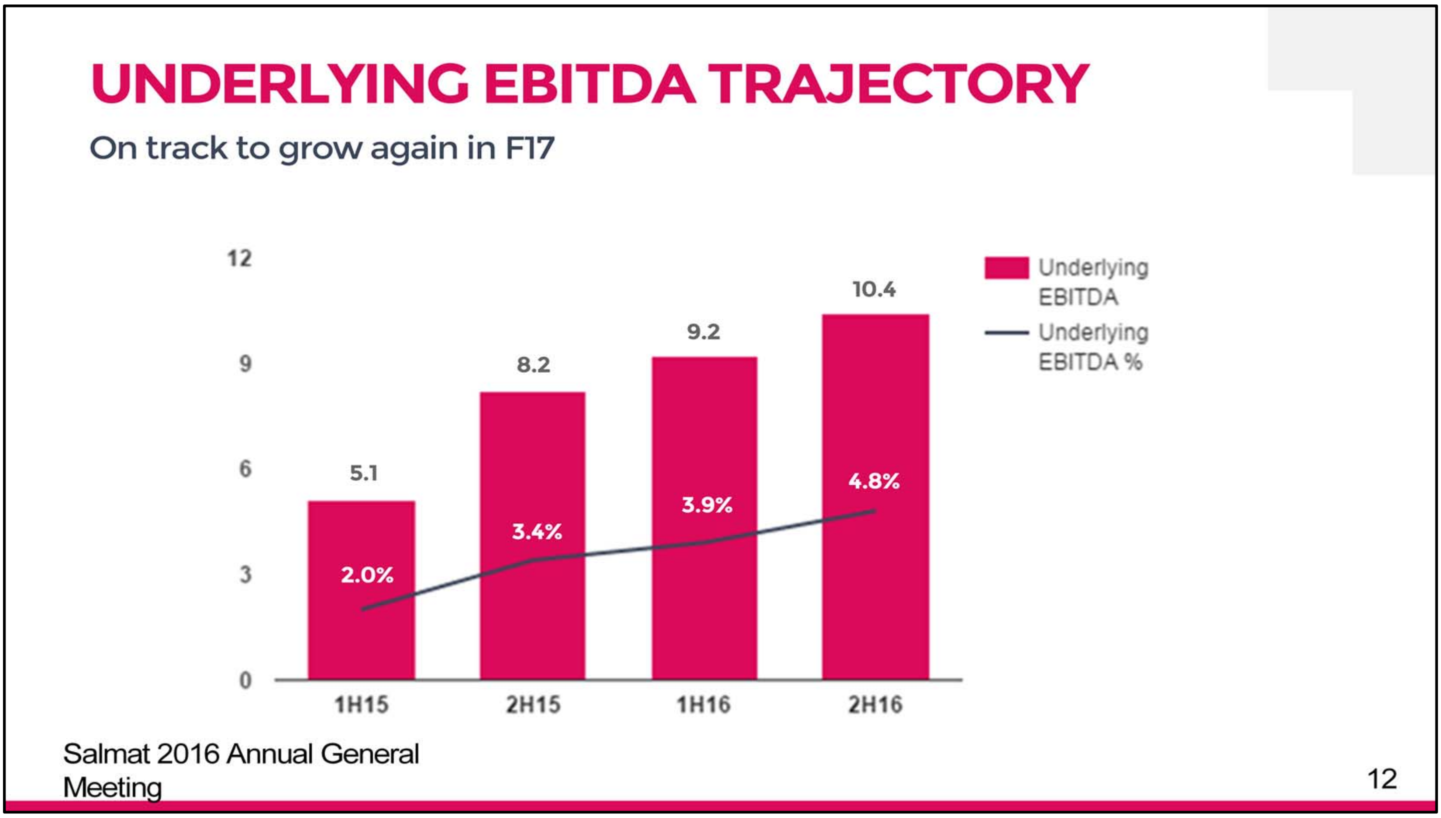


We said last year that we expected to see overall earnings improvement in FY16 and we delivered on this. The growth in EBITDA for FY16 was very pleasing. The largest single contribution came from focussed cost management and business process improvement, with an overall saving of $18.4 million. The focus of these savings has been on the recurring cost base to ensure that future growth is maintained at profitable levels.

New business was delivered across our service offering and it is worth noting that EBITDA from this new business is at more desirable margin levels which we will continue to target.

The impact from Media pricing relates to reduced margins on the large volume of major contracts we renewed throughout the year, as well as the relative mix of clients and volumes. The mix of top tier, mid tier and smaller customers will always have an impact on the average margins as well as the type and weights of what we deliver for those clients.

The transformation-related investment costs in FY16 are largely complete and will not form part of our ongoing expenses.



If we just take a moment to remind ourselves where we started at the beginning of the transformation process and where we are today, you can see how we have been progressively growing EBITDA and margins over this time.

Importantly, this has not been achieved merely through one-off cuts but strategic investment and enduring changes to the nature of our cost base and the ways in which we operate. The improvements and disciplines that have been introduced as part of this program of work are designed to maintain the growth path towards our goals in an efficient, effective and sustainable manner.

SEGMENT INFORMATION

Full year to 30 June 2016

$ million	2016	2015*	% change
Sales revenue:			
Media + Digital	254.9	293.3	-13.1%
Contact	194.9	202.9	-3.9%
Underlying EBITDA:			
Media + Digital	24.2	25.2	-4.0%
Contact	5.8	7.2	-19.4%

* Restated due to reclassification of revenue streams

Production volumes	2016	2015	% change
Catalogues	4.6bn	4.8bn	-4.5%
Contact centre seat utilisation (average)	68.9%	65.8%	+310bp
Email/SMS	336m	328m	+ 2.4%

Looking at Salmat's results by business segment, revenue and earnings were down in both major streams, while production statistics were mixed.

Media and Digital revenue was down $38.4 million on the prior year, due to both discontinued services in this segment and reduced discretionary spend by our clients.

Pleasingly, underlying EBITDA was not reduced at the same rate, down $1 million on FY15. Transformation program initiatives as well as a concentrated effort to streamline costs and improve efficiency across the division helped to mitigate the impact of the reduced revenue.

Despite retaining all the major letterbox contract renewals in FY16, Salmat's total catalogue volumes were down 4.5% on the prior year, slightly ahead of the overall market downward trend. This was largely due to strong competition in the mid-tier.

We continue to drive innovation in our catalogue offering to maintain our industry-leading service levels in this market, as well as targeting non-traditional clients and delivering other letterbox material such as product samples and flyers to diversify our revenue.

Tightening our portfolio of Digital services and improving work processes in this area assisted an improved contribution from Digital. Notably, the recently-acquired Netstarter ecommerce business was fully integrated into the Digital operations during FY16, which has led to an increase in cross-pollination of ideas and effort. We saw some good examples of cross-selling and bundled sales start to emerge from this integration. We also launched a new competitions platform during the year, complementing our existing Digital capabilities.

Contact revenue was down $8 million on the prior year as new wins were mitigated by discontinued contracts as work completed, moved in-house or shifted to global shared services providers. Several news wins expected earlier in the year were also delayed to the very end of FY16, meaning that revenue from these will not be realised until the second half of FY17.

The MicroSourcing business continued to make a good contribution at the top and bottom line and the final 50% of this business was acquired in early August. MicroSourcing has a market leading position in offshore managed services and we are supporting further growth with additional sales resources this year.

Underlying EBITDA in Contact was mainly impacted by the reduced revenue and also IT costs associated with investment in our contact centre solution.

As we have seen in our wider business, moving to cloud-based operations drives numerous cost and efficiency benefits, and I am pleased that we are now able to make this shift for our Contact business. This change - commencing in in FY17 - will enable faster job implementation, reduce fixed costs, decrease the incidence and impact of platform maintenance and better enable us to quickly scale up or down in line with project demand. It also positions us within a highly innovative ecosystem of cloud-based solution providers, who are global leaders in this space. The technology is available and working today, for tens of thousands of users world-wide. Salmat will be the market leader in this region.

We are also preparing to relocate our Australian-based Contact operations to new premises in Melbourne. This new customised facility offers increased flexibility and better value for money, driving baseline improvement.

The Contact business is a 'lumpy' one that tends to expand and contract in large chunks. Having seen this business contract in recent years, we are excited about the recent wins that should see it re-enter a growth phase during FY17. We plan to continue to drive new sales growth as well as retain our major existing customers.

We have had several recent wins including Leidos Australia (formerly Lockheed Martin) and Kmart Tyre and Auto. We have also been appointed to the ATO whole of government panel, which opens the door to a large pool of potential new work.

FY17 GROWTH PRIORITIES

Sales focus geared to growing profitable revenue

- Major letterbox clients retained for next two-three years.
- Significant recent wins secured in Contact.
- Growth continuing in Agency, Local Area Marketing, eCommerce, MicroSourcing.
- New sales leadership, revitalised sales capability, additional marketing sales support.
- Aiming to continue cash generation and grow revenue and EBITDA margin.

Salmat 2016 Annual General Meeting 14

Salmat is well-positioned now that our business transformation is substantially complete. It's been an intense and challenging process at times, but the benefits are already evident and we now intend to build on this and accelerate our progress.

Our focus now is on sales. We have brought in new sales leadership during the year and filled a number of capability gaps. Our marketing team is focussed on sales support and our production teams are ready to implement new work as efficiently and effectively as possible.

With increased sales, we are looking to drive profitable revenue, continuing our EBITDA margin growth, and continue generating cash, enabling Salmat to deliver improved results for you, our shareholders.

Thank you for your attendance and interest today and I look forward to updating the market on our current year progress at the half year results in February.

I will now hand back to the Chairman to take us through the ordinary business of today's meeting.

ORDINARY BUSINESS OF MEETING

PETER MATTICK, CHAIRMAN

ITEM ONE

FINANCIAL STATEMENTS

To consider and receive the Financial Report, the Directors' Report and the Auditor's Report of Salmat Limited for the year ended 30 June 2016.

ITEM TWO

RE-ELECTION OF DIRECTOR

ORDINARY RESOLUTION:

That **Fiona Balfour**, who retires by rotation in accordance with the Constitution of the Company, be re-elected as a Director of the Company.

Following any questions or discussion, at the end of the meeting a poll will be held to ensure that the voting cast on this resolution is clear to all shareholders.

ITEM THREE

REMUNERATION REPORT

NON-BINDING ADVISORY RESOLUTION:

That the Remuneration Report of the Company for the year ended 30 June 2016 be adopted.

Following any questions or discussion, at the end of the meeting a poll will be held to ensure that the voting cast on this resolution is clear to all shareholders.

PROXIES RECEIVED ON RESOLUTIONS

RESOLUTION	IN FAVOUR	AGAINST	OPEN	ABSTAINING
2. Re-election of Director, Fiona Balfour	167,861,192	230,204	233,513	116,520
3. Remuneration Report	77,989,305	3,220,412	249,672	14,725

POLL FOR RESOLUTIONS TWO AND THREE

Please indicate your vote on your yellow voting card.

Link Market Services representatives will collect your completed cards.

THANK YOU