

CHAIRMAN'S REPORT AGM 2016

Good afternoon ladies and gentlemen, I am pleased to welcome you here today and once again report on the Company's performance.

This year has been a difficult and challenging one for the Company.

Our results have been impacted by the continued severe downturn in the resource sector throughout Australia and a softening of related chemical demand.

We recorded a statutory after tax loss of \$104.2 million for the year ended 30 June 2016, this included pre tax asset impairments of \$115.3 million. The underlying profit before tax was \$5.4 million.

Operating revenue for the year was \$688.8 million, a decrease of 1.5% on the previous corresponding period.

We have written off intangible assets in the Australian Transport CGU of \$86.6 million. The non cash write off was made up of \$77.8 million of goodwill, \$6.2 million of brand names, \$1.8 million customer contracts and \$0.8 million of software.

The carrying value of land and buildings surplus to our requirements was also written down by \$8.2 million.

We have also written down the carrying value of some Western Australian based heavy haulage equipment that has been impacted by the downturn in the resource sector. In addition we have written down the value of some further surplus equipment. The total adjustment to the carrying value of equipment was \$8.7 million.

In March 2016, we completed an independent revaluation of freehold land and buildings that resulted in an increase to the asset revaluation reserve of \$8.9 million for core land and buildings.

Our underlying profit after tax was \$3.9 million, 70.0 % lower than the prior corresponding period.

Operating cashflow for the year was \$41.1 million.

As a result of our largest customer Arrium entering into Administration, we have written off the carrying value of our receivable of \$11.8 million. KordaMentha, the administrators of the Arrium Group, have commenced a process to sell the various divisions of Arrium. The timing and size of any recoveries out of the administration of Arrium is unknown.

On a positive note, our Comcare self insurance licence was extended by Comcare for a further eight years to June 2024.

The performance of our New Zealand business continues to improve, as have a number of our other business units.

The acquisition of Aero Refuellers has made a positive contribution to the Group and will provide growth opportunities.

Cost reduction strategies have continued to be implemented across the business. These include significant property lease cost reductions, the rationalisation and replacement of specified fleet, employee reductions and IT solutions introduced to support customer service, operational efficiencies and cost reduction initiatives.

Imports are still impacting the demand for locally manufactured goods, which in turn reduces demand for long haul transport services.

Our capital expenditure program has been targeted to support new business growth, improve productivity and reduce cost in our existing business.

Dividend

Given the challenging year and the uncertain near term outlook the Director's decided not to declare a final dividend (last year 3.5 cents per share). This follows the interim dividend of 1.5 cents per share paid in April 2016, making a total dividend of 1.5 cents per share for FY16.

Scott's Transport Industries

On 1 November 2016, we announced that K&S had received a non-binding indicative proposal from Scott's Transport Industries (STI) for the acquisition of certain assets of the business of STI.

We also advised that K&S was undertaking discussions with STI to explore whether a binding agreement could be reached.

A binding agreement has not been reached by the parties at this time. However, discussions between K&S and STI are continuing.

K&S will keep the market informed on this potential acquisition.

Trading Update

Providing earnings guidance for FY17 remains difficult given the seasonality of our business and the strong concentration of revenue and profits to the second quarter of the financial year.

Our trading year to date is slightly up on last year. We currently expect first half performance for FY17 to be in line with the corresponding period last year. Future dividends will be considered subject to business performance and cash flows.

K&S continues to review the industry segments in which it operates as well as the ways in which K&S presents its diverse service offerings to the market. K&S aims to position itself within market segments that offer growth, an ability to differentiate, acceptable risk profiles and sound returns on capital.

K&S has an excellent asset base, geographic footprint, systems and technology, and functional expertise. We aim to use those strengths to provide sustained organic growth.

Opportunities for potential acquisitions will also be closely evaluated within strategic guidelines.

On behalf of the Board, I thank our customers, suppliers and employees who have contributed to the business. In particular, I thank the senior management team, led by Paul Sarant, for their commitment and dedication under difficult and challenging conditions.

I will now hand over to Paul Sarant who will address the operational aspects of the business.

Tony Johnson
Chairman

22 November 2016

MANAGING DIRECTOR'S REPORT 2016

2015/16 has been an extremely challenging year.

We have experienced a number of one off abnormal events, a continued decline in resource based activity, a softening of eastern seaboard demand, and the placement of a major customer into administration.

These items have adversely impacted several Australian business units.

New Zealand has been buoyant.

Our recent acquisition of Aero Refuellers in November 2015 has exceeded our due diligence expectations, and the growth of our recently launched K&S Energy brand in the fuel segment has been strong.

Safety performance has continued to improve, albeit at slower rates than we desire.

I will now provide an overview of the major areas of our business.

Safety, Environment and Compliance

Our commitment to workplace health and safety was recognised with our self-insurance licence under the Comcare system being extended for a further eight years.

The Lost Time Injury Frequency Rate (LTIFR) reduced from the previous years 8 to 7.

We completed the integration of Scott Corporation and Aero Refuellers into our Comcare licence.

During the year a total of \$51.7 million was spent on the upgrading and modernisation of motorised fleet.

Each of our new linehaul prime movers is fitted as standard with advanced fatigue and on board safety management technology.

We generated a total of approximately 162,000 tonnes of carbon dioxide equivalent compared with 165,000 tonnes the previous year.

All relevant business accreditations were maintained.

Western Australia

Our Western Australian resource based operation has experienced annualised revenue decline of approximately 36%. This was consequent to reduced mining activity predominantly driven by lower iron ore prices.

As a result of this revenue decline our Western Australian resource based operation realised a trading loss for the year.

We have continued to proactively reduce the cost base of this business, and will continue to do so, with the down scaling of input costs associated with employees, fleet, and property leases. Revenue growth is also a strong focus.

The market has continued to rationalise over the past year with reduced transport providers. We expect that this trend will persist.

Activity of our Bunbury timber business softened as a result of reduced export demand.

K&S Freighters

Softer national economic conditions also impacted the intermodal K&S Freighters business.

The previous year's strong business development growth was only partially able to shield the business from tough market conditions.

Our traditional industrial customer base continues to compete with increased imported products and broadly, manufacturing continues to decline.

We are experiencing a change in many of our traditional customers' supply chains with interstate linehaul (being road, rail and sea modes) now being substituted in many instances by increased imports and local distribution modes.

The infrastructure of K&S Freighters allows the business to offer customers all facets of the current and emerging supply chains. During the year we heavily focussed on K&S Freighters' core capability with a specific target to increase import and export activity nationally. This focus will continue.

NTFS and K&S Freighters operations were consolidated into one Adelaide site, allowing the exiting of one externally rented facility.

We indicated last year our intention to leverage our K&S Freighters and Regal networks. In this regard we have recently commenced operating services from Perth to Darwin via Kununurra, as well as from the East Coast to Darwin. We expect more opportunities will be forthcoming.

A major contract win with a large fuel distribution company ex Darwin was secured.

Chemtrans and Bulktrans

Following a strong first quarter, this division was adversely impacted by several mine closures and ongoing interruptions to coal production in the Southern Bulktrans operation.

Coal volumes increased in the last quarter of the financial year, but were soft in early periods.

Chemtrans volumes also declined as two North Queensland mines were placed into care and maintenance, reducing our chemical transport services.

A new contract to deliver chemicals and fuel to Olympic Dam commenced during the year.

New Zealand

Strong activity levels across core markets resulted in our best year on record.

Steel volumes remain firm. Higher commercial and residential construction activity in Auckland provided increased steel transport demand. We expect continued strong demand in the medium term as the Christchurch redevelopment progresses.

Work in the timber sector increased as a result of strong demand, particularly from the domestic construction market.

Kiwifruit volumes increased approximately 20%. We also retained our market share in the competitive dairy sector.

We continued to expand our New Zealand fleet. The vehicle replacement program is also facilitating our upgrade to the new higher load limits as more routes become available.

A new information technology platform was rolled out. It provides enhanced customer capabilities and will also deliver increased back office efficiencies.

DTM

Strong second half transport volumes and warehousing activity underpinned a solid year's performance.

Oil and lubricant volumes remained steady during the year.

CHEP transport volumes were similar to the previous year. DTM has increased pallet storage and handling activity in Western Australia, Queensland, New South Wales and Victoria.

Air Liquide ran a competitive tender for its transport services and pleasingly we were re-awarded all major previous components.

K&S Energy

The K&S Energy division was established in September 2015. Two additional major contracts were secured in quick succession. We now service several other major customers.

Our aim is to become the leading energy transport provider based on our strong commitment to safety, technology and the innovation we bring to the market.

We expect to realise continued growth in fuel transport, with an expansion into the LPG and LNG markets in 2017 through recent contract successes.

K&S Fuels

Fuel sales across the K&S Fuels distribution business remained strong during the financial year.

We expanded our retail operation with an additional three sites being added during the year.

Aero Refuellers

We acquired the business of Aero Refuellers in November 2015.

The business was formed fifteen years ago and supplies, manages and operates aviation refuelling facilities, predominantly at airfields in regional New South Wales and Victoria.

It also services regional providers Rex and Qantas Link at several locations, and provides direct support to aerial firefighting activities in several states including New South Wales, Victoria, South Australia and Tasmania.

Aero Refuellers has exceeded our pre acquisition expectations and we anticipate that it will realise continued growth leveraging off the broader Group network.

Human Resources

Facilitating labour integration and building workforce flexibility within the various business units was a key focus of the previous year.

This approach, which is allowing K&S to best utilise its resources, is generating benefits across the Group and has supported West Australian and South Australian business amalgamations.

We continue to pursue greater workforce efficiencies.

Through targeted workforce consolidation, labour costs have been reduced nationally to continue to best align operations with the prevailing economic conditions, particularly in Western Australia. We continue to manage employee wage expectations in a depressed labour market.

Cost Reduction and Revenue Growth Program

During the year we have continued to progress our cost reduction and revenue growth programs. This is a continuation of our previous years' strategic initiatives.

At the same time as achieving substantial cost reductions across the workforce, fleet, property and operations, we have also successfully implemented organic and non-organic growth initiatives which resulted in new contracts being won and existing contracts extended.

Approximately \$25 million of new contracts was won during the financial year.

Outlook

I will now provide an update on some current operational items.

Late last year our long term rail haulage agreement with Pacific National expired. Following a detailed review we decided to transition our rail services to Aurizon, with effect from the beginning of September 2016.

We are a foundation customer of the Aurizon Port Botany IMEX rail shuttle service. The shuttle service allows us to move containers daily to and from Port Sydney supporting our Enfield operation via rail through Aurizon's new intermodal terminal, which is directly adjacent to our own intermodal terminal.

Approximately \$35 million of new contracts has been won year to date, in the current financial year.

Brand consolidation will be undertaken as we realign operating divisions to simplify the company structure, provide consistent customer focus and further reduce costs.

We will continue to rationalise operating properties and reduce costs. We plan to terminate leases on two externally rented sites within the next 18 months. We also have listed the undeveloped Western Australian Bullsbrook property, which is surplus to our current requirement, for sale.

IT consolidations onto common platforms are being progressed to provide enhanced customer solutions and deliver increased back office efficiencies. This will also support planned brand changes.

Summary

Whilst the Group's financial result was disappointing, a number of key business units have improved their performance significantly and are well placed to realise continued improvement in F2017.

Specific cost reduction and business improvement strategies, some of which we highlighted last year, have continued to be progressed.

We will continue to seek both organic and acquisition growth opportunities in market sectors that generate acceptable returns. Potential acquisition opportunities will be pursued within our strategic guidelines.

Our strong focus on cash flow will be maintained.

Our capital expenditure program has been targeted to support new business growth, improve productivity and reduce operating costs.

We have maintained a sound balance sheet.

We will continue to focus on the improvement of our safety performance. Ultimately we aim for a lost time injury frequency rate of zero. We recognise the enormous commitment required to achieve this goal, and proactively embrace the challenge.

I would like to take this opportunity to express my sincere thanks to our customers. I would also like to express my sincere thanks to all the employees and supporters of K&S, including our strategic supplier partners, who set against tough market conditions, have worked exceptionally hard to continue the improvement of our Company.

Paul Sarant
Managing Director and CEO

22 November 2016