

The logo for K&S Corporation Limited is a red, stylized arrow pointing downwards, with the company name written in white, bold, uppercase letters across its center.

K&S CORPORATION LIMITED

Interim Financial Report

as at

31 December 2018

| | | |
|-------|-------|------------------------------------|
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K&S CORPORATION LIMITED

ABN 67 007 561 837

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2018.

DIRECTORS

The names of the Company's Directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Tony Johnson (Chairman – Non-executive Director)

Paul Sarant (Managing Director)

Ray Smith (Non-executive Director)

Lekh Winsor (Non-executive Director)

Graham Walters (Non-executive Director)

CONSOLIDATED RESULTS

| Financial overview | | 6 month period to Dec 2018 | 6 month period to Dec 2017 | % change |
|---|-------|---|----------------------------------|-----------------|
| Revenue | \$m | 471.5 | 417.6 | 12.9 |
| Statutory profit before tax | \$m | 13.8 | 6.7 | 105.8 |
| Statutory profit after tax | \$m | 9.6 | 4.6 | 108.4 |
| Significant items – Aurizon settlement ¹ | \$m | 9.5 | 1.4 | 566.6 |
| Operating profit before interest, tax and depreciation including significant items ¹ | \$m | 41.0 | 30.1 | 36.1 |
| Operating profit before interest and tax including significant items ¹ | \$m | 17.7 | 9.9 | 77.9 |
| Operating profit before interest, tax and depreciation excluding significant items ¹ | \$m | 31.5 | 28.7 | 9.7 |
| Operating profit before interest and tax excluding significant items ¹ | \$m | 8.2 | 8.6 | (3.9) |
| Underlying profit before tax ¹ | \$m | 4.3 | 5.3 | (19.2) |
| Underlying profit after tax ¹ | \$m | 3.0 | 3.7 | (17.9) |
| Total assets | \$m | 564.2 | 503.8 | 12.0 |
| Net borrowings | \$m | 143.1 | 128.3 | 11.5 |
| Shareholders' funds | \$m | 230.7 | 208.5 | 10.6 |
| Finance costs | \$m | 3.9 | 3.3 | 20.6 |
| Depreciation & amortisation | \$m | 23.3 | 20.2 | 15.4 |
| Earnings per share before significant items ¹ | cents | 2.4 | 3.0 | (20.0) |
| Earnings per share | cents | 7.7 | 3.8 | 102.6 |
| Dividends per share | \$ | 2.0 | 2.0 | - |
| Net tangible assets per share | \$m | 1.8 | 1.6 | 12.5 |
| Return on Shareholders funds | % | 4.2 | 2.2 | 90.9 |
| Operating cash flow | \$m | 26.9 | 13.6 | 97.7 |
| Gearing | % | 38.3 | 38.1 | 0.5 |

¹ Underlying profits and earnings per share based on underlying profits are categorised as non-IFRS Financial information and therefore have been presented in compliance with ASIC Regulatory Guide 230- Disclosing non-IFRS information issued in December 2011. Underlying adjustments have been considered in relation to their size and nature, and have been adjusted from the Statutory information for disclosure purposes to assist readers to better understand the financial performance of the underlying business in each reporting period. The adjustment in the current period relates to the settlement of a claim made by the Group against its former rail provider. The prior period adjustment relates to a dividend received from the Arrium administrator. The exclusion of these items provides a result which, in the Directors view, is more closely aligned with the ongoing operations of the Consolidated Group. The non-IFRS information has not been subject to review by the auditor.

K&S CORPORATION LIMITED

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Directors' Report continued

REVIEW AND RESULTS OF OPERATIONS

REVIEW AND RESULTS OF OPERATIONS

Results

The Company recorded a statutory profit before tax of \$13.8 million for the half year ended 31 December 2018. The result is 105.8% higher than the prior corresponding period.

Statutory profit after tax was \$9.6 million, up 108.4% on the previous year first half statutory profit after tax of \$4.6 million.

Operating revenue for the period was \$471.5 million, 12.9% higher than the prior corresponding period.

Included in the statutory profit before tax for the half year ended 31 December 2018 is a \$9.5 million (pre-tax) accounting gain relating to the settlement of claims arising out of the closure of Aurizon's intermodal business in December 2017.

The underlying profit before tax¹ of \$4.3 million was 19.2% lower than the prior corresponding period.

The underlying profit after tax¹ of \$3.0 million was 17.9% lower than the prior corresponding period.

Operating cash flow for the first half was \$26.9 million, up 97.7% on the prior corresponding period. The increase in first half operating cash flow was driven by the receipt of \$25 million in settlement proceeds from Aurizon.

Steel volumes from our major customers remain buoyant on the back of various infrastructure projects that have been announced by state governments. This has contributed positively to the performance of our K&S Freighters business on the eastern seaboard.

Both the DTM and New Zealand businesses, which are predominantly aligned to contract logistics, have continued to realise ongoing improvement with volumes and financial performance.

Our specialised aviation refuelling business, Aero Refuellers has performed solidly in the first half of FY19. Similarly, our fuel trading business, K&S Fuels, has continued to provide sound financial results.

Trading margins in Western Australia remain poor. K&S South West also down-sized its raw timber transport operations, exiting the cartage of several timber based customers.

The chemical transport division, Chemtrans, continues to experience reduced market demand. Our fuel cartage division, K&S Energy, has also experienced reduced market demand and performance in the first half of FY19.

We continue to incur increased costs in our rail transport operations under new arrangements with Pacific National following the closure of Aurizon's intermodal business. The Adelaide – Darwin corridor has also experienced subdued market demand.

South32 coal volumes have strengthened in FY19, with improved financial results being realised from this operation. However, we will be exiting the South32 coal contract at the end of FY19.

In October 2018, we completed the redevelopment of our company owned property at Welshpool in Perth for a tenant who will occupy this property under a 15 year lease.

Cost reduction strategies have continued to be implemented across the business, in particular, operational efficiencies, supplier re-negotiations, and the rationalisation and replacement of specific fleet. Ongoing cost reduction initiatives have continued to have a positive impact on the result for the first half of FY19.

Safety

Safety remains a key priority for K&S. Our lost time injury frequency rate remained steady at nine.

Our lost time injury frequency rate in New Zealand also remained steady at nine.

The updated Heavy Vehicle National Law (HVNL) came into effect on 1 October 2018. The amendments to the HVNL see the imposition of general duties on all parties involved in the transport of goods and deal with mass/dimension/load restraint, fatigue, speed, and vehicle standards.

K&S CORPORATION LIMITED

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Directors' Report continued

K&S has developed a strong framework for compliance with chain of responsibility laws over many years. K&S' preparation for the introduction of the amended HVNL has built upon the strengths of its existing compliance and safety management systems.

Change of Chief Financial Officer

As previously reported to the market, Mr Wayne Johnston was appointed as CFO in October 2018. Mr Johnston has extensive commercial, ASX listed, capital and restructuring experience encompassing multiple international and domestic jurisdictions.

Mr Johnston's appointment followed the decision by our former CFO, Mr Bryan Walsh, to retire after more than sixteen years as CFO.

Interim Dividend

A fully franked Interim Dividend of 2.0 cents per share (2018: 2.0 cents per share) has been declared by the Directors. The Interim Dividend will be paid on 4 April 2019, with the date for determining entitlements being 21 March 2019.

The dividend reinvestment plan (DRP) will apply to the Interim Dividend. The issue price for shares under the DRP will be based on the volume weighted average price of the Company's shares in the 5 trading days ended 21st March 2019, with a discount of 2.5%.

The last election date for participation in the DRP is 22 March 2019. Shares issued under the DRP will rank equally with the Company's Ordinary Fully Paid Securities.

Outlook

Providing earnings guidance for the second half remains difficult.

We continue to review the industry segments in which we operate as well as the ways in which we offer our services to the market. Our current focus includes the general freight businesses in Western Australia, South Australia and the Northern Territory.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the economic entity during the half-year under review.

EVENTS SUBSEQUENT TO BALANCE DATE

On 26 February 2019, the Directors of K&S Corporation Limited declared an interim dividend on ordinary shares in respect of the 2019 financial year. The total amount of the dividend is \$2.518 million which represents a fully franked dividend of 2.0 cents per share. The dividend has not been provided for in the 31 December 2018 financial statements and is payable on 4 April 2019.

The Dividend Reinvestment Plan (DRP) will apply to the 4 April 2019 interim dividend. The issue price for shares under the DRP will be based on the volume weighted average trading price of K&S shares in the five business days ending on 21 March 2019 (the record date for the interim dividend), less a discount of 2.5%.

Other than the above matters, there has not arisen in the interval between the end of the financial period and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

K&S CORPORATION LIMITED

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Directors' Report continued

AUDITOR INDEPENDENCE

The entity's auditor, Ernst & Young has provided the economic entity with an Auditors' Independence Declaration which is on page 25 of this report.

Dated at Melbourne this 26th day of February 2019.

Signed in accordance with a resolution of the Directors.



Tony Johnson
Chairman



Paul Sarant
Managing Director

K&S CORPORATION LIMITED

ABN 67 007 561 837

Statement of Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

| | NOTE | CONSOLIDATED | |
|---|------|-------------------------------|-------------------------------|
| | | 31 December 2018 \$'000 | 31 December 2017 \$'000 |
| Operating revenue | 3 | 471,524 | 417,643 |
| <hr/> | | | |
| Other income | 5(a) | 13,575 | 3,791 |
| Cost of goods sold | | (66,424) | (47,635) |
| Contractor expenses | | (111,927) | (106,145) |
| Employee expenses | 5(b) | (152,381) | (137,300) |
| Fleet expenses | | (91,224) | (79,969) |
| Depreciation and amortisation expense | 5(c) | (23,265) | (20,156) |
| Finance costs | 5(d) | (3,948) | (3,273) |
| Other expenses | | (22,195) | (20,318) |
| Share of profits of associates | | 42 | 55 |
| <hr/> | | | |
| Profit before income tax | | 13,777 | 6,693 |
| Income tax expense | 6 | (4,129) | (2,063) |
| <hr/> | | | |
| Profit after income tax | | 9,648 | 4,630 |
| <hr/> | | | |
| Other comprehensive income | | | |
| <i>Item that may be reclassified subsequently to profit or loss</i> | | | |
| Foreign currency translation | | 735 | (792) |
| <hr/> | | | |
| Total comprehensive income for the period | | 10,383 | 3,838 |
| <hr/> | | | |
| Earnings per share (cents per share) | | | |
| ▪ basic for profit for the period attributable to ordinary equity holders of the parent | | 7.7 | 3.8 |
| ▪ diluted for profit for the period attributable to ordinary equity holders of the parent | | 7.7 | 3.8 |
| Dividends per share (cents per share) | 14 | 2.0 | 2.0 |

K&S CORPORATION LIMITED

ABN 67 007 561 837

Statement of Financial Position

AS AT 31 DECEMBER 2018

| | | CONSOLIDATED | |
|--------------------------------|----|----------------|----------------|
| | | 31 December | 30 June |
| | | 2018 | 2018 |
| NOTE | | \$'000 | \$'000 |
| ASSETS | | | |
| Current assets | | | |
| | 7 | 14,101 | 15,946 |
| | 8 | 123,970 | 129,741 |
| | | 6,527 | 5,856 |
| | | 10,573 | 10,071 |
| | | 155,171 | 161,614 |
| Non-current assets | | | |
| | 8 | 949 | 1,035 |
| | 15 | 340 | 398 |
| | 9 | 392,248 | 373,552 |
| | | 6,289 | 6,070 |
| | | 9,179 | 10,700 |
| | | 409,005 | 391,755 |
| | | 564,176 | 553,369 |
| LIABILITIES | | | |
| Current liabilities | | | |
| | 10 | 88,188 | 101,859 |
| | 11 | 39,497 | 37,545 |
| | | 7,262 | 686 |
| | 12 | 30,461 | 29,539 |
| | | 165,408 | 169,629 |
| Non-current liabilities | | | |
| | 10 | 721 | 770 |
| | 11 | 117,684 | 108,365 |
| | | 32,271 | 37,118 |
| | 12 | 17,440 | 16,620 |
| | | 168,116 | 162,873 |
| | | 333,524 | 352,502 |
| | | 230,652 | 220,867 |
| EQUITY | | | |
| | 13 | 160,239 | 158,099 |
| | | 41,689 | 40,954 |
| | | 28,724 | 21,814 |
| | | 230,652 | 220,867 |

K&S CORPORATION LIMITED

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Statement of Changes in Equity FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

For the year ended 31 December 2018

| Attributable to the equity holders of the parent | | | | | | |
|--|-------------------|------------------------------|----------------------|---|---------------------------------|-----------------|
| | Issued Capital | Other capital reserves | Retained earnings | Foreign currency translation reserve | Asset revaluation surplus | Total equity |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| As at 1 July 2018 | 158,099 | (313) | 21,814 | 382 | 40,885 | 220,867 |
| Effect of adoption of new accounting standards | - | - | (247) | - | - | (247) |
| As at 1 July 2018 (restated) | 158,099 | (313) | 21,567 | 382 | 40,885 | 220,620 |
| Profit for the period | - | - | 9,648 | - | - | 9,648 |
| Other comprehensive income | - | - | - | 735 | - | 735 |
| Issue of share capital (Dividend Reinvestment Plan) | 13 2,140 | - | - | - | - | 2,140 |
| Dividend Paid | 14 - | - | (2,491) | - | - | (2,491) |
| Total comprehensive income | 160,239 | (313) | 28,724 | 1,117 | 40,885 | 230,652 |

For the year ended 31 December 2017

| Attributable to the equity holders of the parent | | | | | | |
|---|-------------------|---------------------------|----------------------|---|---------------------------------|-----------------|
| | Issued Capital | Other capital reserves | Retained earnings | Foreign currency translation reserve | Asset revaluation surplus | Total equity |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| As at 1 July 2017 | 153,951 | (132) | 9,597 | 1,055 | 40,885 | 205,356 |
| Effect of adoption of new accounting standards | - | - | - | - | - | - |
| As at 1 July 2017 (restated) | 153,951 | (132) | 9,597 | 1,055 | 40,885 | 205,356 |
| Profit for the period | - | - | 4,630 | - | - | 4,630 |
| Other comprehensive income | - | - | - | (792) | - | (792) |
| Issue of share capital (Dividend Reinvestment Plan) | 2,046 | - | - | - | - | 2,046 |
| Changes arising from acquisition of assets of Scott's Transport Industries | - | (314) | - | - | - | (314) |
| Dividend Paid | 14 - | - | (2,442) | - | - | (2,442) |
| Total comprehensive income | 155,997 | (446) | 11,785 | 263 | 40,885 | 208,484 |

K&S CORPORATION LIMITED

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Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

| | CONSOLIDATED | |
|--|--|-------------------------------|
| NOTE | 31 December 2018 \$'000 | 31 December 2017 \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash receipts from customers | 515,159 | 454,557 |
| Cash payments to suppliers and employees | (492,913) | (421,502) |
| Interest received | 17 | 13 |
| Borrowing costs paid | (3,948) | (3,273) |
| Income taxes paid | (951) | (785) |
| Net goods and services tax paid | (15,434) | (15,406) |
| Aurizon settlement claim receipts (net of related costs) | 24,964 | - |
| Net cash provided by operating activities | 26,894 | 13,604 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of non-current assets | 3,513 | 1,849 |
| Dividends received from Associates | 100 | 100 |
| Payments for property plant & equipment | (11,707) | (11,035) |
| Net cash (used in) investing activities | (8,094) | (9,086) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from borrowings | 1,375 | 2,000 |
| Cash received on assuming employee benefit liabilities | - | 2,349 |
| Hire purchase liability repayments | (21,752) | (18,643) |
| Dividends paid | (351) | (394) |
| Net cash (used in) financing activities | (20,728) | (14,668) |
| Net (decrease) in cash and cash equivalents | (1,928) | (10,170) |
| Cash and cash equivalents at the beginning of the financial period | 15,946 | 13,985 |
| Effects of exchange rate variances on cash | 83 | (145) |
| Cash and cash equivalents at the end of the financial period | 14,101 | (3,670) |

K&S CORPORATION LIMITED

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

1 CORPORATE INFORMATION

The interim financial report of K&S Corporation Limited and its subsidiaries (collectively, the Group or the Consolidated Entity) for the half-year ended 31 December 2018 was authorised for issue in accordance with a resolution of Directors on 26 February 2019.

K&S Corporation Limited is a company limited by shares, incorporated in Australia, whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in Note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim financial report for the half-year ended 31 December 2018 has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The interim financial report does not include all the information and disclosures required in the annual financial report, and should be read in conjunction with the Annual Report of K&S Corporation Limited as at 30 June 2018. It is also recommended that the half-year financial report be considered together with any public announcements made by K&S Corporation Limited and its controlled entities during the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The consolidated financial statements have been prepared on a going concern basis.

As at 31 December 2018, the consolidated statement of financial position reflected an excess of current liabilities over current assets of \$10.2 million (June 2018: \$8.0 million). The deficit was primarily caused by the acquisition of \$11.7 million in property, plant and equipment in the current year funded through cash flow, resulting in a conversion of current assets to non-current assets.

Apart from the changes in accounting policies noted below, the accounting policies and methods of computation are the same as those adopted in the most recent financial report.

Changes in accounting policies

The following amending Standards have been adopted from 1 July 2018. Adoption of these Standards did not have any effect on the financial position or performance of the Group:

| Pronouncement | Title | Summary | Application date | Impact on Group Financial Report | Application date for Group |
|---|------------------------------|---|------------------|---|----------------------------|
| AASB 9, and relevant amending standards | <i>Financial Instruments</i> | <p>AASB 9 <i>Financial Instruments</i> replaces AASB 139 <i>Financial Instruments: Recognition and Measurement</i> for annual periods beginning on or after 1 January 2018. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied AASB 9 retrospectively, with the initial application date of 1 July 2018 and adjusting the comparative information for the period beginning 1 July 2017.</p> <p>Classification and measurement: The Group has calculated the impact on its balance sheet and equity upon applying the classification and measurement requirements of AASB 9. In line with AASB 9, the Group has adopted the expected credit loss ("ECL") approach to financial assets. The impact on the group as a result of this adoption was a decrease in Trade and other receivables, and retained earnings. ECL's are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For trade and other receivables, the Group has adopted a simplified approach by establishing a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. In addition to the adjustments described above, upon adoption of AASB 9, other items of the primary financial statements such as deferred taxes, income tax expense, retained earnings and exchange differences on translation of foreign operations were adjusted as necessary.</p> | 1 July 2018 | The adoption of the ECL method resulted in a decrease in Trade Receivables, and retained earnings amounting to \$0.248 million. | 1 July 2018 |

K&S CORPORATION LIMITED

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

| Pronouncement | Title | Summary | Application date | Impact on Group Financial Report | Application date for Group |
|--|--|---|------------------|---|----------------------------|
| AASB 15, and relevant amending standards | <i>Revenue from Contracts with Customers</i> | <p>AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i>, AASB Interpretation 13 <i>Customer Loyalty Programmes</i>, AASB Interpretation 15 <i>Agreements for the Construction of Real Estate</i>, AASB Interpretation 18 <i>Transfers of Assets from Customers</i> and AASB Interpretation 131 <i>Revenue – Barter Transactions Involving Advertising Services</i>) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 <i>Leases</i> (or AASB 16 <i>Leases</i>, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps:</p> <ul style="list-style-type: none"> ▶ Step 1: Identify the contract(s) with a customer ▶ Step 2: Identify the performance obligations in the contract ▶ Step 3: Determine the transaction price ▶ Step 4: Allocate the transaction price to the performance obligations in the contract ▶ Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. <p>The Group has adopted AASB 15 using the full retrospective method of application. The effect of adopting AASB 15 is, as follows:</p> <p>(a) Sale of goods – Fuel sales The Group's contracts with customers for the sale of fuel generally include one performance obligation. The Group has concluded that revenue from the sale of fuel should be recognised at the point in time when control of the fuel is transferred to the customer, generally on delivery of the fuel product. Therefore, the adoption of AASB 15 did not have an impact on the timing of revenue recognition.</p> <p>(b) Rendering of services – Transport services The Group's Australian Transport and New Zealand Transport segments provide transportation services. These services are provided individually on a per-run basis to customers. Prior to the adoption of AASB 15, the Group accounted for transport service at the point goods are delivered and control of the product is transferred to the customer, with revenue recognised based on the invoiced amounts. The performance obligations related to transport revenue, and how revenue is recognised based on this. Therefore, no adjustment to retained earnings and profit & loss is required. The adoption of AASB 15 did not have an impact on the timing of revenue recognition.</p> <p>(c) Presentation and disclosure requirements As required for the condensed interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to Note 3 for the disclosure on disaggregated revenue.</p> | 1 July 2018 | At this point, the Group has assessed individual contracts, which has indicated the adoption of the standard does not have a material impact. The Group has applied the full retrospective approach on transition and there will be no adjustment to opening retained earnings on transition. Additional disclosures on contracts details and performance obligations will be required and minor presentation changes of amounts in the Statement of Comprehensive Income will arise. | 1 July 2018 |

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

| Pronouncement | Title | Summary | Application date | Impact on Group Financial Report | Application date for Group |
|---------------|---|---|------------------|--|----------------------------|
| | | <p>d) Other adjustments</p> <p>In addition to the adjustments described above, upon adoption of AASB 15, other items of the primary financial statements such as deferred taxes, investments in associate, share of profit of an associate, income tax expense, and retained earnings, were adjusted as necessary. Furthermore, exchange differences on translation of foreign operations were also adjusted.</p> | | | |
| AASB 2016-5 | <i>Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions</i> | <p>This Standard amends AASB 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> ▶ The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments ▶ Share-based payment transactions with a net settlement feature for withholding tax obligations ▶ A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. | 1 July 2018 | The Group does not expect a significant impact on its balance sheet or equity on applying the recognition and measurement requirements of share-based payment transactions under AASB 2. | 1 July 2018 |

K&S CORPORATION LIMITED

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

3 REVENUE FROM CONTRACTS WITH CUSTOMERS

For the six months ended 31 December 2018

| | Australian Transport | New Zealand Transport | Fuels | Total |
|--|-------------------------|--------------------------|---------------|----------------|
| Segments | | | | |
| Type of service | <i>\$'000</i> | <i>\$'000</i> | <i>\$'000</i> | <i>\$'000</i> |
| Transport Services | 378,854 | 26,410 | - | 405,264 |
| Sale of Fuel | - | - | 66,243 | 66,243 |
| Total revenue from contracts with customers | 378,854 | 26,410 | 66,243 | 471,507 |
| Geographical markets | | | | |
| Australia | 378,854 | - | 66,243 | 445,097 |
| New Zealand | - | 26,410 | - | 26,410 |
| Total revenue from contracts with customers | 378,854 | 26,410 | 66,243 | 471,507 |
| Timing of revenue recognition | | | | |
| Services transferred over time | 378,854 | 26,410 | - | 405,264 |
| Goods transferred at a point in time | - | - | 66,243 | 66,243 |
| Total revenue from contracts with customers | 378,854 | 26,410 | 66,243 | 471,507 |

For the six months ended 31 December 2017

| | Australian Transport | New Zealand Transport | Fuels | Total |
|--|-------------------------|--------------------------|---------------|----------------|
| Segments | | | | |
| Type of service | <i>\$'000</i> | <i>\$'000</i> | <i>\$'000</i> | <i>\$'000</i> |
| Transport Services | 349,562 | 21,992 | - | 371,554 |
| Sale of Fuel | - | - | 46,076 | 46,076 |
| Total revenue from contracts with customers | 349,562 | 21,992 | 46,076 | 417,630 |
| Geographical markets | | | | |
| Australia | 349,562 | - | 46,076 | 395,638 |
| New Zealand | - | 21,992 | - | 21,992 |
| Total revenue from contracts with customers | 349,562 | 21,992 | 46,076 | 417,630 |
| Timing of revenue recognition | | | | |
| Services transferred over time | 349,562 | 21,992 | - | 371,554 |
| Goods transferred at a point in time | - | - | 46,076 | 46,076 |
| Total revenue from contracts with customers | 349,562 | 21,992 | 46,076 | 417,630 |

K&S CORPORATION LIMITED

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

4 OPERATING SEGMENTS

| | Australian Transport | Fuel | New Zealand Transport | Total |
|---|-------------------------|----------------|--------------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Half-year ended 31 December 2018 | | | | |
| Revenue | | | | |
| Sales to external customers | 378,854 | 66,243 | 26,410 | 471,507 |
| Finance revenue | 13 | - | 4 | 17 |
| Inter-segment sales | 749 | 48,432 | - | 49,181 |
| Total segment revenue | 379,616 | 114,675 | 26,414 | 520,705 |
| Segment Profit after Tax | 6,512 | 1,491 | 1,645 | 9,648 |

Inter-segment revenues of \$49.2 million are eliminated on consolidation.

| | Australian Transport | Fuel | New Zealand Transport | Total |
|---|-------------------------|---------------|--------------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Half-year ended 31 December 2017 | | | | |
| Revenue | | | | |
| Sales to external customers | 349,562 | 46,076 | 21,992 | 417,630 |
| Finance revenue | 8 | - | 5 | 13 |
| Inter-segment sales | 230 | 38,131 | - | 38,361 |
| Total segment revenue | 349,800 | 84,207 | 21,997 | 456,004 |
| Segment Profit after Tax | 2,184 | 1,330 | 1,116 | 4,630 |

Inter-segment revenues of \$38.4 million are eliminated on consolidation.

The following tables presents segment assets of the Group's operating segments as at 31 December 2018 and 30 June 2018:

| | Australian Transport | Fuel | New Zealand Transport | Total |
|---|-------------------------|---------------|--------------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Segment assets at 31 December 2018 | 497,633 | 36,199 | 44,920 | 578,752 |
| Segment liabilities at 31 December 2018 | 292,670 | 13,413 | 11,664 | 317,747 |
| Net Assets | 204,963 | 22,786 | 33,256 | 261,005 |
| Segment assets at 30 June 2018 | 491,334 | 36,182 | 42,028 | 569,544 |
| Segment liabilities at 30 June 2018 | 294,307 | 14,887 | 12,379 | 321,573 |
| Net Assets | 197,027 | 21,295 | 29,649 | 247,971 |

| | | |
|--|-----------------------------|---------------------|
| Reconciliation of profit | 31 December 2018 | 31 December 2017 |
| | \$'000 | \$'000 |
| Segment profit | 13,777 | 6,693 |
| Income tax expense | (4,129) | (2,063) |
| Total net profit before tax per Statement of Comprehensive Income | 9,648 | 4,630 |
| Reconciliation of assets | 31 December 2018 | 31 December 2017 |
| | \$'000 | \$'000 |
| Segment operating assets | 578,752 | 513,247 |
| Deferred tax asset | 9,179 | 12,879 |
| Inter-segment eliminations | (23,755) | (22,291) |
| Total assets per Statement of Financial Position | 564,176 | 503,835 |

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

| | 31 December 2018 \$'000 | 31 December 2017 \$'000 |
|--|--|--|
| 4 OPERATING SEGMENTS (continued) | | |
| Reconciliation of liabilities | | |
| Segment operating liabilities | 317,747 | 282,812 |
| Deferred tax liabilities | 32,271 | 34,019 |
| Income Tax Payable | 7,262 | 389 |
| Inter-segment eliminations | (23,756) | (22,291) |
| Total liabilities per Statement of Financial Position | 333,524 | 294,929 |
| | | |
| 5 REVENUE AND EXPENSES | | |
| | CONSOLIDATED | |
| | 31 December 2018 \$'000 | 31 December 2017 \$'000 |
| (a) Other income | | |
| - Net gains on disposal of property, plant and equipment | 1,791 | 470 |
| - Other | 11,784 ² | 3,321 |
| Total other income | 13,575 | 3,791 |
| | | |
| (b) Employee expenses | | |
| - Wages and salaries | (121,912) | (110,170) |
| - Workers' compensation costs | (6,644) | (4,498) |
| - Long service leave expense | (1,031) | (1,177) |
| - Annual leave expense | (7,343) | (7,266) |
| - Payroll tax | (6,856) | (6,259) |
| - Superannuation expense | (8,593) | (7,928) |
| - Directors retirement scheme expense | (2) | (2) |
| Total employee expenses | (152,381) | (137,300) |
| | | |
| (c) Depreciation and amortisation expense | | |
| Depreciation | | |
| - Buildings | (1,241) | (1,108) |
| - Motor vehicles | (19,689) | (16,961) |
| - Plant and equipment | (2,335) | (2,087) |
| Total depreciation and amortisation expense | (23,265) | (20,156) |
| | | |
| (d) Finance costs | | |
| - Bank loans and overdrafts | (1,351) | (837) |
| - Finance charges on hire purchase contracts | (2,597) | (2,436) |
| Total finance costs | (3,948) | (3,273) |

²Included within other income is \$9.5m from our former rail provider, Aurizon, for the resolution of claims against it by the Group arising out of the closure of Aurizon's intermodal business in December 2017. This claim was settled in the period and no further monies are owed to the Group relating to this matter.

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6 INCOME TAX

The major components of income tax expense are:

Statement of Comprehensive Income

Current income tax

| | | |
|--|---------|---------|
| - Current income tax charge | (7,585) | (1,258) |
| - Adjustments in respect of current income tax on previous years | (31) | (45) |

Deferred income tax

| | | |
|--|-------|-------|
| - Relating to origination and reversal of income tax expense reported in the Statement of Comprehensive Income temporary differences | 3,487 | (760) |
|--|-------|-------|

Income tax expense reported in the Statement of Comprehensive Income

CONSOLIDATED

| | |
|--------------------|---------------|
| 31 December | 31 December |
| 2018 | 2017 |
| \$'000 | \$'000 |

7 CASH AND CASH EQUIVALENTS

For the purpose of the half-year statement of cash flows, cash and cash equivalents are comprised of the following:

| | | |
|--------------------------|---------------|---------------|
| Cash | 56 | 57 |
| Cash deposits with banks | 14,045 | 15,889 |
| | 14,101 | 15,946 |

CONSOLIDATED

| | |
|--------------------|---------------|
| 31 December | 30 June |
| 2018 | 2018 |
| \$'000 | \$'000 |

8 TRADE AND OTHER RECEIVABLES

Current

| | | |
|-------------------------------|----------------|----------------|
| Trade debtors | 112,261 | 101,096 |
| Allowance for impairment loss | (484) | (235) |
| | 111,777 | 100,861 |

Sundry debtors

| | |
|--------|---------------------|
| 12,193 | 28,880 ³ |
|--------|---------------------|

| | |
|----------------|----------------|
| 123,970 | 129,741 |
|----------------|----------------|

Non-current

| | | |
|-----------------------------|------------|--------------|
| Related party receivables | | |
| - Employee share plan loans | 949 | 1,035 |
| | 949 | 1,035 |

³ The comparative period includes \$16.1 million relating to an offer from the Group's former rail provider, Aurizon, for the resolution of claims against it arising out of the closure of their intermodal business in December 2017. This claim was settled in the period and no further monies are owed to the Group relating to this matter.

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

9 PROPERTY, PLANT AND EQUIPMENT

Acquisition and disposal

During the half-year ended 31 December 2018, the Group acquired assets with a cost of \$43.402 million (2017: \$37.275 million) and incurred total depreciation expense of \$23.265 million (2017 \$20.156 million). Assets with a net book value of \$2.360 million were disposed of by the Group during the half-year ended 31 December 2018 (2017: \$1.614 million), resulting in a gain on disposal of \$1.791million (2017: \$0.470 million). The net carrying amount was \$392.248 million (2017: \$365.411 million).

10 PAYABLES

| | CONSOLIDATED | |
|------------------------------|--|---------------------------|
| | 31 December 2018 \$'000 | 30 June 2018 \$'000 |
| Current | | |
| Trade creditors and payables | 88,188 | 101,859 |
| | 88,188 | 101,859 |
| Non-Current | | |
| Trade creditors and payables | 721 | 770 |
| | 721 | 770 |

i) Trade payables are non-interest bearing and are normally settled on 30 day terms

11 INTEREST-BEARING LOANS AND BORROWINGS

| | CONSOLIDATED | |
|-------------------------------------|--|---------------------------|
| | 31 December 2018 \$'000 | 30 June 2018 \$'000 |
| Current | | |
| Hire purchase liabilities – secured | 39,497 | 37,545 |
| | 39,497 | 37,545 |
| Non-current | | |
| Non redeemable preference shares | 60 | 60 |
| Hire purchase liabilities – secured | 80,624 | 72,680 |
| Bank loans – secured | 37,000 | 35,625 |
| | 117,684 | 108,365 |

Commitments in respect of hire purchase agreements are payable as follows:

| | | |
|---|-----------------|---------|
| Not later than one year | 44,342 | 41,819 |
| Later than one year but not later than five years | 86,373 | 77,398 |
| | 130,715 | 119,217 |
| Deduct: future finance charges | (10,594) | (8,992) |
| Total hire purchase liability | 120,121 | 110,225 |
| Current | 39,497 | 37,545 |
| Non-current | 80,624 | 72,680 |
| | 120,121 | 110,225 |

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

b) Nature and timing of provisions

i) Make good provision

In accordance with various lease agreements, the Group must restore leased premises to their original condition at the end of the leases.

ii) Long service leave

Refer to Note 2(z) and Note 2(cc) of the 30 June 2018 Financial Statements for the relevant accounting policy and a discussion of the significant estimates and assumptions applied in the measurement of this provision.

iii) Directors retirement allowance

Refer to Note 2(z) of the 30 June 2018 Financial Statements for the relevant accounting policy and a discussion of the significant estimates and assumptions applied in the measurement of this provision.

iv) Self Insured Workers Compensation

Workers compensation self insurance liability is based on actuarial reports prepared in accordance with the Group's Comcare self insurance licence.

13 CONTRIBUTED EQUITY

| | CONSOLIDATED | |
|----------------------------------|--------------------------|---------------------------|
| | 31 Dec 2018 \$'000 | 30 June 2018 \$'000 |
| Issued and paid-up share capital | <u>160,239</u> | <u>158,099</u> |

(i) Ordinary shares

Fully paid ordinary shares carry one vote per share, either in person or by proxy, at a meeting of the Company and carry the right to receive dividends as declared.

| | Thousands | \$'000 |
|---|----------------|----------------|
| Movements in ordinary shares on issue | | |
| At 1 July 2018 | 124,529 | 158,099 |
| Issued through Dividend Re-investment Plan – 1,354,321 ordinary shares at \$1.5806 | 1,354 | 2,140 |
| At 31 December 2018 | <u>125,883</u> | <u>160,239</u> |

14 DIVIDENDS PAID AND PROPOSED

| | CONSOLIDATED | |
|--|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| <i>Declared and paid during the period:</i> | | |
| Dividends on ordinary shares | | |
| Final franked dividend for the financial year ended 30 June 2018: 2.0 cents (2017: 2.0 cents) | 2,491 | 2,442 |
| <i>Proposed (not recognised as a liability as at 31 December):</i> | | |
| Dividends on ordinary shares | | |
| Interim franked dividend for the half year ending 31 December 2018: 2.0 cents (2017: 2.0 cents) | 2,518 | 2,465 |
| | <u>5,009</u> | <u>4,907</u> |

Dividend reinvestment plan

The consolidated entity has a Dividend Reinvestment Plan under which holders of ordinary shares may elect to acquire additional shares in lieu of cash dividends. Shares are issued at a discount of 2.5% (or as otherwise determined by the Board of Directors from time to time) of their market value which is determined by referenced to the weighted average market price of the Company's shares during the five trading days up to and including the relevant dividend record date.

The last date for receipt of election notices for the Dividend reinvestment plan is 22 March 2019.

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

15 INVESTMENT IN ASSOCIATE

a) Investment details

| | Interest owned | | Investment carrying amount consolidated | |
|-------------------------|------------------|--------------|---|--------------|
| | 31 December 2018 | 30 June 2018 | 31 December 2018 | 30 June 2018 |
| | % | % | % | % |
| Smart Logistics Pty Ltd | 50 | 50 | 340 | 398 |
| | | | 340 | 398 |

b) Movements in the carrying amount of the Group's investment in associates

| | CONSOLIDATED | |
|--------------------------------|------------------|--------------|
| | 31 December 2018 | 30 June 2018 |
| | \$'000 | \$'000 |
| Smart Logistics Pty Ltd | | |
| At 1 July | 398 | 368 |
| Dividend paid | (100) | (100) |
| Share of profit after tax | 42 | 130 |
| At 31 December | 340 | 398 |

16 IMPAIRMENT TESTING OF NON-CURRENT ASSETS

The Group is comprised of three cash generating units ('CGU's) – Australian Transport, Fuels and New Zealand Transport. As required under AASB 136 *Impairment of Assets*, the Group performs an impairment assessment when there is an indication or 'trigger' of a possible impairment of its non-current assets and, in addition, at least annually performs an impairment review of goodwill and indefinite life intangible assets, regardless of whether an impairment trigger has been identified. The annual review of goodwill (the Group has no indefinite life intangible assets) was performed at 30 June 2018. A review for impairment triggers was undertaken as at 31 December 2018.

17 COMMITMENTS AND CONTINGENCIES

The only changes to the commitments and contingencies disclosed in the most recent annual financial report are specified below:

Capital expenditure commitments

As at 31 December 2018, the Group has capital commitments of \$14.905 million (2017: \$6.969 million) relating to property, plant and equipment.

Legal claims

There are a number of minor legal actions pending against companies within the consolidated entity. Liability has not been admitted and the claims will be defended. The Directors do not believe these actions will result in any significant cost to the consolidated entity.

18 EVENTS SUBSEQUENT TO BALANCE DATE

On 26 February 2019, the Directors of K&S Corporation Limited declared an interim dividend on ordinary shares in respect of the 2019 financial year. The total amount of the dividend is \$2.518 million which represents a fully franked of 2.0 cents per share. The dividend has not been provided for in the 31 December 2018 financial statements and is payable on 4 April 2019.

The Dividend Reinvestment Plan (DRP) will apply to the 4 April 2019 interim dividend and the issue price for shares under the DRP will be based on the weighted average trading price of the Company's shares in the five business days ending on 21 March 2019 (the record date for the interim dividend), less a discount of 2.5%.

Other than the above matters, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

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Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

19 RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions entered into with related parties during the six months ended as well as balances as at 31 December 2018.

| | Purchases <i>\$'000</i> | Sales <i>\$'000</i> |
|-----------------------------------|-----------------------------------|-------------------------------|
| The Border Watch Pty Ltd | 9 | 32 |
| Smart Logistics Australia Pty Ltd | - | 23 |
| Cleanaway Waste Management Ltd. | 115 | 541 |
| AA Scott Pty Ltd | 1,675 | 3 |
| Scott's Fleet Rentals | 5,002 | 87 |
| | Receivables | Payables |
| The Border Watch Pty Ltd | 4 | 1 |
| Smart Logistics Australia Pty Ltd | 1,228 | - |
| Cleanaway Waste Management Ltd. | 102 | 29 |
| AA Scott Pty Ltd | - | 100 |
| Scott's Fleet Rentals | 19 | 716 |

K&S CORPORATION LIMITED

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Directors' Declaration

In accordance with a resolution of the Directors of K&S Corporation Limited, I state that:

In the opinion of the Directors:

- (a) The financial statements and notes of K&S Corporation Limited for the half year ended 31 December 2018 are in accordance with the Corporations Act 2001, including;
 - (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
 - (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

- (b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Tony Johnson
Chairman

Melbourne, 26 February 2019

Independent Auditor's Review Report to the Members of K&S Corporation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of K&S Corporation Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



Independence

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

Ernst + Young

Ernst & Young

A handwritten signature in black ink, appearing to be 'David Sanders', written over a faint horizontal line.

David Sanders
Partner
Adelaide
26 February 2019

Auditor's Independence Declaration to the Directors of K&S Corporation Limited

As lead auditor for the review of the half-year financial report of K&S Corporation Limited for the half-year ended 31 December 2018, I declare 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of K&S Corporation Limited and the entities it controlled during the financial period.

Ernst + Young

Ernst & Young



David Sanders
Partner
Adelaide
26 February 2019