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Chairman's Report AGM 2019

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

Trading conditions in the transport and logistics segments and regions that the Company trades in remain challenging.

The Company reported a statutory profit after tax of $2.3 million for the year ended 30 June 2019.

Operating revenues for the period were $905.2 million, 7.2% higher than the prior corresponding period.

After adjusting for a number of significant items including the benefit from the finalisation of the Aurizon rail claim and costs associated with several restructuring activities, the current year underlying profit before tax was $3.2 million, a decrease of 70.5% on the prior corresponding period.

Included in the Company's statutory result for the year was a $9.5 million (before tax) accounting gain relating to the settlement of claims arising out of the closure of Aurizon's intermodal business in December 2017. The Company's statutory result also included $9.2 million of non-recurring accounting charges including impairment costs, which primarily relate to the Company's exit from its WA General Freight business.

Operating cashflow for the year was $61.8 million, 51.5% higher than for the previous year. Operating cashflow benefitted from the receipt of $25 million in settlement proceeds from Aurizon and a focus on working capital management.

The Australian Transport business has had a mixed year. Our contract logistics business grew revenues and profit contribution and steel volumes from our major customers also remained strong. However, the chemical transport division (Chemtrans), K&S Energy, the WA General Freight division and the South West WA division all experienced a disappointing year.

The New Zealand business delivered another sound result, with revenue and profits up on FY2018. Our strategy has been to provide integrated and value adding service offerings to our major customers. While our major customers are all contracted, we also continue to strive to further diversify our New Zealand business.

Our Fuel trading business, K&S Fuels, has again provided sound financial results, with revenue and profits also up on the prior year. However, the fuel retailing and wholesaling markets are dynamic and continue to exhibit a high level of competition.

Settlement of Rail Services Claim

In November 2018 the Company announced that it had settled its claim against its former rail services provider, Aurizon Limited, relating to compensation arising out of the closure of Aurizon's intermodal business in 2017. Under the terms of the settlement, Aurizon agreed to pay $25.0 million and transfer ownership of 65 rail containers to the Company without admission of liability.

Regal General Freight

On 28 August 2019, the Company entered into an unconditional agreement with Centurion Transport Co. Pty Ltd for the sale of the business and certain assets of our Western Australia based Regal General Freight business. The transaction was completed on 30 August 2019 and we have subsequently exited the network of Regal General Freight transport depots in north-west Western Australia.

After considering various options in relation to Regal General Freight, the Board elected to undertake this transaction to realise improved shareholder returns and provide ongoing certainty to the Regal General Freight employees and customers.

K&S will continue to operate and invest in its Western Australian based Heavy Haulage business.

Dividend

Given the magnitude of the recent changes in relation to the sale of the Regal General Freight business, the Directors elected not to declare a final dividend for the year ending 30 June 2019. An interim dividend of 2.0 cents per share was paid in April 2019.

Based on currently available information, Directors presently anticipate that the payment of dividends will resume in FY20.

Trading Update

Providing earnings guidance for FY20 remains difficult given the seasonality of our business and the strong concentration of revenues and profits to the second quarter of the financial year.

We currently expect underlying first half profit before tax for FY20 to be in line with the prior corresponding period.

While we are not in a position to provide any specific guidance for underlying full year earnings, our current expectation is that our second half underlying profit before tax for FY20 will be an improvement on the prior comparative period.

Pleasingly, through working capital improvements and reduced capital expenditure requirements following the sale of the Regal General Freight business, our bank debt levels have reduced since June and further improvements are expected over the course of this financial year pending finalisation of the disposal of excess equipment in Western Australia.

Board Composition

Sallie Emmett was appointed as a non-executive director with effect from 24 September 2019. Mrs Emmett is a lawyer with over 30 years' experience as a practising solicitor in both legal and management roles. She has a broad range of commercial exposure, including to the transport sector, and expertise in workplace relations.

After 11 years of valued service to the Company, Ray Smith has decided to not seek re-election at this year's annual general meeting.

In the next year or two we will continue a process of renewal and succession.

On behalf of my fellow board members I wish to thank Ray for his contribution over many years and welcome Sallie to the Company.

On behalf of the Board, I thank our customers, suppliers and employees, who have contributed to the continued success of the business.

In particular, I thank the senior management team, led by Paul Sarant, for their ongoing commitment and dedication in difficult times.

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

Tony Johnson
Chairman

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Managing Directors AGM Address - 2019

Year Overview

Our Company operates across numerous market segments.

Several of our operating divisions are continuing to grow year on year and improve their underlying performance.

The economic and competitive environment in which some of our other divisions operate remains challenging.

This has been clearly evident in the general freight segment, and several other geographical regions of the fuel and chemical transport sectors that we service.

Intermodal operations incurred significant year on year operational input cost increases that could not be mitigated, the largest being rail operating costs incurred consequent to Aurizon's intermodal exit.

Our lost time injury frequency rate (LTIFR) across the group increased marginally.

We realised a strengthening of steel volumes from our major customers servicing infrastructure and commercial construction projects predominantly on the eastern seaboard.

Port Kembla South32 coal volumes continued to be inconsistent, with the scaling down of our operations pursuant to the end of the contract also occurring.

New Zealand and our contract logistics division DTM performed strongly. Our K&S fuels agency business also performed well.

While general freight volumes continued to increase in Western Australia, this did not translate to an acceptable profitability. We decided to exit the northern general freight market serviced by Regal.

I will now provide more detail on several components of the Group.

Safety

The LTIFR across the K&S Group increased to ten from nine in the previous year.

We continue to focus on methods to sustainably improve our safety and employee engagement.

In the last financial year, approximately 3,000 units of training were delivered through our induction and refresher training program.

The Company continues to invest heavily in many key HS&E initiatives, including the handling of chemicals, load restraint training, and driver in-cab assessments.

Our fleet telemetric monitoring costs supporting our COR obligations now exceed $1m per annum.

We have taken steps to formulate and introduce a mental health program across the business.

During the year we continued to expand our drug and alcohol testing program. This testing is randomly applied to all categories of workers.

Environment

Ongoing fleet upgrades have enabled the Company to continue its emission improvements.

Cognisant that our current fleet is substantially larger than it was 16 years ago, our annual total vehicle NOx emissions were 69% of 2003 levels and 7% down on FY18.

Carbon dioxide generation for 2018-19 was 181,000 tonnes, down from 199,000 tonnes the previous year.

Compliance

K&S has maintained ISO 9001:2015 accreditation standards, including other relevant accreditations which comprise: WA Main Roads, NHVAS Mass, Maintenance and Basic Fatigue Management, accreditation for Food Safety/HACCP and TruckSafe.

Human Resources

Employee engagement and communications programs continue to be areas of key focus.

We continue to develop employee engagement programs that recognise and reward achievements consistent with the Company's core values of safety, customer service excellence, innovation that realises cost saving initiatives and community engagement.

We maintain our strong focus on the retention and development of skilled and qualified employees as K&S's most valuable asset.

Australian Transport

Intermodal including Import/Export:

Eastern seaboard road linehaul operations had a solid year.

The division continues to work very closely with its customer base to provide value added benefits that differentiate our brand.

Despite major network changes occurring consequent to Aurizon exiting the intermodal market, our rail transport operation has been able to consolidate and meet customer service expectations.

Our intermodal business has incurred ongoing annual increased pre-tax costs of approximately $6.4 million following the closure of Aurizon's intermodal business.

On the 30 June 2019 the contract with Port Kembla South32 ceased. The previous year's trading was challenging with fluctuating coal volume.

Import/export transport volume continued to increase for the Eastern seaboard business.

Our domestic steel business volume was solid. Infrastructure development projects in both Sydney and Melbourne remain buoyant.

Contract Logistics:

Our contract logistics business has experienced a solid year; both revenue and profit increased.

We continued to expand our portfolio into the agriculture sector, with new contracts awarded and commenced in the year in South East QLD, South Australia and the northern regions of Victoria.

Contract logistics continues to provide firm growth opportunities.

Chemical and Fuel Transport:

The Company's chemical transport division, Chemtrans, experienced a difficult year with reduced market demand.

K&S Energy also experienced a disappointing year in FY2019 with margins falling.

While we currently do not anticipate revenue growth in FY2020, both divisions are focussed strongly on realising operational efficiencies to ensure that improved returns on funds employed are realised.

Aviation Services:

Our specialised aviation refuelling business, Aero Refuellers, has provided another sound result.

The continuing harsh environmental conditions in NSW and parts of Victoria resulted in a notable reduction in mid-year aerial agriculture work.

To the contrary the fire season activity increased, particularly in Victoria.

Fuel Agency:

Our fuels agency division, largely based in south-east South Australia, experienced growth in both revenue and profit margins.

Volumes in the farming, logging and on road market segments continued to increase.

Regal:

Following the major mining slowdown in 2015, market activity and financial returns in the West Australian northern general freight market have been poor.

Consequently, this business has not been achieving an acceptable financial performance.

Despite the recent increase in mining investment, we do not believe that the general freight market will provide satisfactory financial returns in the short term.

Subsequently, in August 2019 we announced the sale of the business and certain assets of our Western Australian general freight business.

The sale was completed on 30 August 2019 to Centurion Transport.

We will redeploy and divest surplus equipment.

We will also release working capital of approximately $7 million.

The transaction will allow the Company to focus on its core competencies, including our heavy haulage business which will continue to be operated and invested in by the Company.

New Zealand:

Our New Zealand operations delivered a sound result in 2019.

Our strategy of providing integrated and value-added service offerings to our customers continues to realise benefits.

Industry segments such as dairy, steel and timber performed strongly this year.

Key customer contracts have been renewed and new customers also added.

Operating cashflow strengthened with improved working capital management.

Outlook

We have remained consistent with the strategies we put in place several years ago focusing on the creation of customer supply chain value, operational cost reductions, sales growth, market diversification and differentiation, and using IT support as a key enabler.

We continue to action objectives and strategies to grow our business and improve its financial performance, to ultimately provide our shareholders an improved return on their funds.

Cost reduction and working capital strategies have continued to be implemented across the business.

We also continue to review the business in detail to ensure that all activities generate an acceptable rate of return.

In closing I would like to take this opportunity to express my sincere thanks to all the employees, and supporters of K&S, who have worked exceptionally hard to continue the improvement of our Company.

At the completion of this AGM a site tour is available for anyone who has interest.

Thank you

Paul Sarant

Managing Director and CEO