

# Appendix 4E (rule 4.3(a))

## Preliminary final report for the year ended 30 June 2016

Name of entity

<b>K&amp;S Corporation Limited</b> (ABN 67 007 561 837)
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### Results for announcement to the market

				\$A'000
Revenues from ordinary activities	Down	1.5%	To	688,763
Profit from ordinary activities after tax attributable to members	Down	883.5%	To	(104,175)
Basic earnings per share (cents)	Down	863.2%	To	-87.0 cents
Net tangible asset backing per ordinary share (\$)	Down	8.1%	To	1.59

Dividends	Amount per security	Franked amount per security
Final dividend declared on 23 August 2016	0.0¢	0.0¢ *
Interim dividend paid on 4 April 2016	1.50¢	1.50¢ *
Total amount per share relating to the year ended 30 June 2016	1.50¢	1.50¢ *
Previous corresponding period – final dividend paid on 2 November 2016	3.50¢	3.50¢ *
* At 30% tax rate		
Record date for determining entitlements to the dividend		
Date the final dividend is payable		
If final dividend has it been declared		

**Audit Information**

The financial statements have been audited and a copy of the audit report is attached to the financial statements

**Annual meeting**

Place	K&S Corporation Limited Head Office Cnr Boundary & Palmers Road Truganina VIC 3029
Date	22 November 2016
Time	2:00pm (AEDT)
Approximate date the annual report will be available	10 October 2016



Sign here: .....  
(Company Secretary)

Date: 23 August 2016

Print name: Christopher Bright

The logo for K&S Corporation Limited features the company name in white, bold, uppercase letters centered within a red, stylized arrow shape pointing downwards. The arrow has a four-pointed star-like center.

# K&S CORPORATION LIMITED

## **Financial Report**

as at

**30 June 2016**

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# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Report

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The Directors present their report, together with the consolidated financial report of K&S Corporation Limited (the "Company") and the consolidated entity, for the year ended 30 June 2016 and the Auditor's Report thereon.

### DIRECTORS

The Directors of the Company in office at the date of this report, together with particulars of their qualifications, experience and special responsibilities are set out below.

#### **Tony Johnson** Chairman

Age 69, Director since 1986

Tony Johnson BA, FAICD, LLB, LLM (Companies & Securities) is a lawyer and an accredited mediator. Mr Johnson is a founder and former Chairman of the national law firm Johnson Winter & Slattery. He has worked extensively in the corporate advisory and commercial disputes area.

Mr Johnson is also Chairman of AA Scott Pty Ltd, the largest Shareholder of K&S Corporation Limited, and a Director of Adelaide Community Healthcare Alliance.

Member of:

- Environmental Committee (Chairman)
- Nomination and Remuneration Committee
- Audit Committee

#### **Paul Sarant** Managing Director

Age 48, Director since 2014

Paul Sarant, Bachelor of Engineering (B.Eng.), has extensive experience in the transport and logistics sector. Mr Sarant held the position of Executive General Manager DTM for seven years at K&S Corporation prior to his appointment as Managing Director. Before that, Mr Sarant occupied a range of senior management roles, including general management and senior logistics roles, in the course of his fifteen years at Amcor Printing Paper Group/PaperlinX and was former General Manager at Spicer Stationery Group.

Member of:

- Environmental Committee

#### **Legh Winser**

Age 68, Director since 2013

Legh Winser is a former Managing Director of the Company, a position which he held for 14 years. He has extensive knowledge of the transport and logistics industry with more than 40 years experience. Mr Winser is also an alternate director of several companies with the Scott Group of Companies.

Member of:

- Environmental Committee
- Nomination and Remuneration Committee

#### **Ray Smith**

Age 69, Director since 2008

Ray Smith FCPA, FAICD, Dip Com is a Director of listed entity Cleanaway Waste Management Ltd. He is also a former Director of Warrnambool Cheese and Butter Factory Company Holdings Limited and Crowe Horwath Australasia Ltd. Mr Smith is a director of Hy-Line Australia Pty Ltd and Metro Quarry Group Pty Ltd and a trustee of the Melbourne and Olympic Parks Trust. Mr Smith brings a wealth of corporate and financial experience in the areas of strategy, acquisitions, treasury and capital raising.

Member of:

- Audit Committee (Chairman)
- Nomination & Remuneration Committee (Chairman)

# K&S CORPORATION LIMITED

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## Directors' Report continued

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### Secretary

**Chris Bright** BEc, LLB, Grad Dip CSPM, FCIS  
Age 45, Secretary since 2005

Chris Bright has held the position of General Counsel for 14 years. Mr Bright was admitted as a solicitor in South Australia in 1997. He also has experience working in private practice in Adelaide, principally in commercial dispute resolution.

### Retired Directors

**Greg Boulton** AM Deputy Chairman, Resigned 31 August 2015

Age 66, Director from 1996 to 2015

Greg Boulton BA (Accountancy), FCA, FCPA, FAICD is Chairman of private equity fund Paragon Equity Limited, Chairman of Southern Gold Limited, Director of Statewide Superannuation and holds board positions on a number of privately owned companies. He has over 35 years experience in the transport related industry.

Member of:

- Audit Committee
- Nomination and Remuneration Committee (Chairman)

# K&S CORPORATION LIMITED

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## Directors' Report continued

### DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

Director	Directors' Meetings	Audit Committee Meetings	Nomination & Remuneration Committee Meetings	Environmental Committee Meetings
<b>Number of meetings held:</b>	<b>11</b>	<b>4</b>	<b>1</b>	<b>4</b>
<b>Number of meetings attended:</b>				
Mr T Johnson +	11	3	1	4
Mr G Boulton *	2	1	-	-
Mr R Smith	11	4	1	-
Mr P Sarant	11	-	-	4
Mr L Winser	11	-	1	4

+ Appointed August 2015 – Audit Committee

\* Resigned 31 August 2015

In addition to the 11 regular meetings there were a further five directors meetings held outside the normal monthly board meeting cycle.

### PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial year were transport and logistics, contract management, warehousing and distribution and fuel distribution.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

### OPERATING AND FINANCIAL REVIEW

The Board presents the 2016 *Operating and Financial Review*, which has been designed to provide shareholders with a clear and concise overview of the Company's operations, financial position, business strategies and outlook. The review complements the financial report and has been prepared in accordance with the guidelines set out in ASIC RG247.

The consolidated profit for the year attributable to the members of K&S Corporation Limited ("K&S") is shown below, along with comparative results for 2015.

Financial overview		2016	2015	% Movement
Operating revenue	\$m	688.8	699.2	(1.5)
Operating (loss) / profit after tax	\$m	(104.2)	13.3	(883.5)
Underlying profit before tax and significant items <sup>1</sup>	\$m	5.4	18.4	(70.7)
Underlying profit after tax and significant items	\$m	3.9	13.0	(70.0)
Net borrowings	\$m	106.9	98.1	9.0
Shareholders' funds	\$m	199.4	294.5	(32.3)
Earnings per share (basic)	cents	(87.0)	11.4	(863.2)
Earnings per share based on underlying profit before tax	cents	4.5	15.7	(71.3)
Earnings per share based on underlying profit after tax	cents	3.2	11.1	(71.2)
Dividends per share	cents	1.5	7.0	(78.6)
Net tangible assets per share	\$	1.59	1.73	(8.1)
Cash flow per share	\$	0.34	0.41	(17.1)
Return on Shareholders' funds	%	(52.0)	4.5	(1255.6)
Gearing	%	34.9	25.0	39.6

<sup>1</sup> 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. These adjustments include the fair valuation adjustments to both intangibles and physical assets. 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

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K&S is a mid-sized logistics company, recognised as a leader in the development and provision of specialist logistics solutions for customers. The Group operates in the Australian and New Zealand markets. Its' success is underpinned by a strong focus on safety, service and continuous improvement.

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 in our Western Australia businesses, and a softening of mining related chemical demand. Our east coast operations were also impacted by the downturn in the resources sector.

We have 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.

Reconciliation of statutory loss before tax to underlying profit before tax:

	<b>\$m</b>
Statutory loss before tax	(109.9)
Impairment of intangibles	86.6
Impairment of physical assets	16.9
Impairment of receivables (Arrium)	<u>11.8</u>
Underlying profit before tax	<u>5.4</u>

We have written off intangibles 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 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 normalised profit after tax was \$3.9 million, 70.0 % lower than the corresponding period.

Operating cashflow for the year was \$41.1 million.

As a result of the Administration of our largest customer Arrium we have written off the carrying value of our receivable of \$11.8 million. Korda Mentha 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.

# K&S CORPORATION LIMITED

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## Directors' Report continued

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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.

During the course of the year, we acquired fleet totaling \$51.7 million. Funding of this equipment was \$36.4 million via hire purchase agreements and the balance of \$15.3 million was settled from our cash balance.

Our net asset position decreased by 32.3% to \$199.4 million, largely as a result of impairment charges. The Foreign Currency Reserve increased in value by \$1.15 million during the year. The loss after tax of \$104.2 million for FY16 was offset by dividends paid of \$5.9 million (Final FY15 and Interim FY16). Under the Employee Share Scheme and the Dividend Reinvestment Plan \$4.4 million of new shares were issued in FY16.

### **Dividend**

The directors have 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. This represents an annualised yield of 1.5%.

### **Outlook**

Providing earnings guidance going forward remains a difficult task.

We are well placed with a sound balance sheet, low gearing and secure customer contracts.

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

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

On 2 November 2015, K&S Corporation Limited acquired the business and assets of Aero Refuellers ("AR"). This has provided the opportunity to expand its current transport and fuel operations into the aviation sector, and is complementary to K&S' existing service offering and skill-sets. AR supplies, manages and/or operates a number of aviation refueling facilities, largely at airfields throughout regional New South Wales and Victoria. AR is expected to generate annual revenue in excess of \$20 million.

On 7 April 2016, our largest customer Arrium was placed in voluntary administration. Working with the administrators, KordaMentha we have continued to provide transport services to the Arrium Group. Director's have decided to write off the carrying value of our receivable of \$11.8 million excluding GST. The administrators of the Arrium Group have commenced a process to sell the various divisions of Arrium. The timing and size of any recovery is unknown.

### **ENVIRONMENTAL REGULATION AND PERFORMANCE**

The consolidated entity's operations are subject to environmental regulations under both Commonwealth and State legislation in relation to its transport and storage business and its fuel business.

The consolidated entity has a Board Committee which monitors compliance with environmental regulations.

#### ***Climate Change***

Reporting under the Energy Efficiency Opportunity Program (EEOP) was completed and submitted in December 2014. The Energy Efficiency Opportunity compliance report for June 2013 is available on the K&S website.

#### ***Transport and Warehousing***

The transport and warehousing business is subject to the Dangerous Goods Acts in Commonwealth and State Legislation. The consolidated entity monitors performance and recorded several incidents during the year, none of which has the potential to result in any material restrictions being placed upon the Company's ability to continue its operations in their current form.



# K&S CORPORATION LIMITED

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## Directors' Report continued

### Fuel

The fuel business is subject to the South Australian Environmental Protection Act 1993 and the South Australian Dangerous Substances Act 1979. The consolidated entity monitors performance and recorded a number of minor fuel related incidents during the year. In all cases, corrective actions have been taken.

### DIVIDENDS

Dividends paid or declared by the Company to members since the end of the previous financial year were:

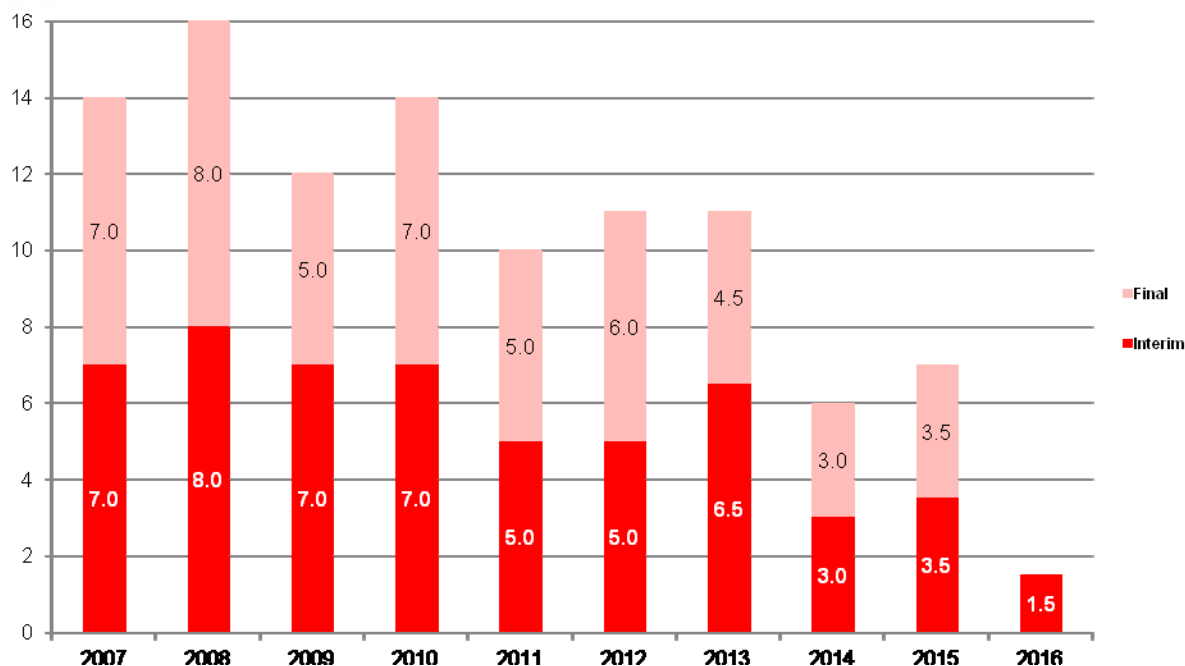
- 1 A final fully franked ordinary dividend (taxed to 30%) of 3.5 cents per share amounting to \$4,116,582 in respect of the year ended 30 June 2015 was declared on 21 August 2015 and paid on 2 November 2015;
- 2 A fully franked preference dividend (taxed to 30%) of 4.0 cents per share amounting to \$4,800 in respect of the year ended 30 June 2015 was declared on 21 August 2015 and paid on 2 November 2015;
- 3 An interim fully franked ordinary dividend (taxed to 30%) of 1.5 cents per share in respect of the year ended 30 June 2016 was declared on 24 February 2016 and paid on 4 April 2016 amounting to \$1,806,269.

The final dividend declared by the Directors of the Company on 24 August 2016 and payable on 2 November 2016 in respect of the year ended 30 June 2016 comprises:

- 1 A fully franked preference dividend (taxed to 30%) of 4.0 cents per share amounting to \$4,800.

The preference share dividends are included as interest expense in determining Net Profit.

### Dividends paid to Shareholders



### EVENTS SUBSEQUENT TO BALANCE DATE

In the interval between the end of the financial year and the date of this report no items, transactions or events of a material and unusual nature are 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.

# K&S CORPORATION LIMITED

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## Directors' Report continued

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It is anticipated that the consolidated entity will continue to expand transport and logistics operations during the next financial year by further extending its services throughout Australia and adopting the latest technology in the industry to contain costs and enhance the services offered to customers.

### GENERAL DISCLOSURES

K&S Corporation Limited is a company limited by shares that is incorporated and domiciled in Australia.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

#### *Indemnification*

The Company indemnifies current and former Directors, Executive Officers and the Secretaries of the Company and its controlled entities against all liabilities, costs and expenses to another person (other than the Company or a related body corporate) to the maximum extent permitted by law that may arise from their position as Directors, Executive Officers and Secretaries of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

#### *Insurance Premiums*

Since the end of the previous financial year, the Company has paid insurance premiums of \$55,503 in respect of Directors' and Officers' Liability insurance contracts for current and former officers, including Directors, Executive Officers and the Secretaries of the Company and its controlled entities. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in successfully defending proceedings, whether civil or criminal; and
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or position to gain a personal advantage.

The Officers of the Company covered by the policy include the current Directors: T Johnson, L Winser, R Smith, and P Sarant. Other officers covered by the contract are Executive Officers and the Secretaries of the Company and Directors and the Secretaries of controlled entities (who are not also Directors of the Company), General Managers and other Executive Officers of controlled entities.

#### *Indemnification of auditors*

To the extent permitted by law and excluding in circumstances of negligence, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

### TAX CONSOLIDATION

Effective 1 July 2002, for the purposes of income taxation, K&S Corporation Limited and its domestic based 100% owned subsidiaries formed a tax consolidated group. Members of the Group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

### CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of K&S Corporation Limited support the principles of corporate governance. The Company's Corporate Governance Statement commences on page 21 of the Annual Report.

### ROUNDING OFF

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that legislative instrument, amounts in the Financial Report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The entity's Auditor, Ernst & Young have provided the economic entity with an Auditors' Independence Declaration which is on page 92 of this report.

# K&S CORPORATION LIMITED

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## Directors' Report continued

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### Non-Audit Services

The following non-audit services were provided by the entity's Auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Taxation Software implementation and Asset Valuation assistance     \$23,400

### DIRECTORS' INTERESTS

The beneficial interest of each Director in their own name in the share capital of the Company shown in the Register of Directors' Shareholdings as at the date of this report is:

	<b>Ordinary Shares</b>
Mr L Winser	40,637
Mr P Sarant	60,000

Directors of the Company have relevant interests in additional shares as follows:

	<b>Ordinary Shares</b>
Mr T Johnson	511,336
Mr L Winser	1,166,285
Mr R Smith	41,633
Mr P Sarant	126,603

### REMUNERATION REPORT (audited)

This remuneration report outlines the Director and Executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations.

For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the parent company.

# K&S CORPORATION LIMITED

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## Directors' Report continued

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For the purposes of this report, the term executive encompasses the Managing Director, Senior Executives, General Managers and Secretaries of the Parent and the Group. Details of the Key Management Personnel are:

- i) Directors
  - Mr T Johnson Non-Executive Chairman
  - Mr G Boulton Non-Executive Deputy Chairman (Resigned 31 August 2015)
  - Mr R Smith Non-Executive
  - Mr L Winser Non-Executive
  - Mr P Sarant Managing Director
  
- ii) Executives
  - Mr B Walsh Chief Financial Officer
  - Mr C Bright General Counsel & Company Secretary
  - Mr S Hine Executive General Manager Business Development
  - Mr S Skazlic General Manager HS&E / Compliance
  - Ms K Evans General Manager Human Resources
  - Mr P Dale General Manager K&S Energy (Appointed 19 November 2015)
  - Mr R King Executive General Manager Western Australia
  - Mr D Keane Executive General Manager Scott Corporation
  - Mr G Price Executive General Manager Commercial (Appointed 24 August 2015)
  - Mr M Kohne Executive General Manager DTM
  - Mr G Beurteaux Executive General Manager K&S Freighters (Resigned 22 February 2016)

### *Remuneration Philosophy*

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

To this end, the Company adopts the following key principles in its remuneration policy:

- Remuneration is set at levels that will attract and retain good performers and motivate and reward them to continually improve business performance.
- Remuneration is structured to reward employees for increasing Shareholder value.
- Rewards are linked to the achievement of business targets.

### *The Nomination and Remuneration Committee*

The Nomination and Remuneration Committee of the Board of Directors of the Company is responsible for reviewing compensation arrangements for the Directors, the Managing Director and the Senior Management team.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and Senior Managers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executives.

While the Nomination and Remuneration Committee reviews the remuneration paid to Non-Executive Directors and the Managing Director, and the aggregate remuneration paid to the Senior Management team, the Board of Directors has ultimate responsibility for determining these amounts.

### *Remuneration Structure*

In accordance with best practice corporate governance, the structure of Non-Executive Director, Executive Director and Senior Manager remuneration is separate and distinct.

# K&S CORPORATION LIMITED

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## Directors' Report continued

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### *Non-Executive Director Remuneration*

#### *Objective*

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain quality Directors, whilst incurring a cost which is acceptable to Shareholders.

#### *Structure*

The Constitution and the ASX Listing Rules specify that the maximum aggregate remuneration of Non-Executive Directors' shall be determined from time to time by a general meeting of Shareholders.

The latest determination was at the Annual General Meeting held on 20 November 2012 when Shareholders approved a maximum aggregate remuneration of \$600,000 per year, comprising an increase of \$100,000 to the cap on the maximum aggregate remuneration payable to non-Executive Directors.

The amount of aggregate remuneration sought to be approved by Shareholders and the amounts paid to Directors is reviewed annually. The Board considers the fees paid to Non-Executive Directors of comparable companies when undertaking the annual review, as well as periodically taking advice from external recruitment consultants. No advice was taken from external recruitment consultants in relation to the fees paid to Non-Executive Directors in 2015/16. Each Non-Executive Director receives a fee for being a Director of the Company.

The fees payable to Non-Executive Directors in the 2015/16 financial year were not increased and remained at the level paid in the second half of the 2014/15 financial year.

Non-Executive Directors have long been encouraged by the Board to hold shares in the Company (purchased by the Director on the market). It is considered good corporate governance for Directors to have a stake in the Company whose Board he or she sits on.

The remuneration of Non-Executive Directors for the period ended 30 June 2016 is detailed on pages 16 and 17 of this report.

### *Executive Director and Senior Manager Remuneration*

#### *Objective*

The Company aims to reward Executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company to:

- reward Executives for Company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of Shareholders;
- link reward with performance of the Company; and
- ensure total remuneration is competitive by market standards.

#### *Structure*

In determining the level and make up of Executive remuneration, the Nomination and Remuneration Committee seeks external information detailing market levels of comparable executive roles from which the Committee makes its recommendation to the Board.

For the Managing Director and the other Senior Executives, remuneration programs are balanced with a mix of fixed and variable rewards. The makeup and eligibility criteria for short term incentives are approved by the Board prior to the commencement of each financial year.

For the year ended 30 June 2016, the adoption of at risk short term incentives of up to 20% of the base emolument of the Managing Director and Executives was approved by the Board. The payment of such short term incentives was to be 50% in cash and 50% in shares in the Company. The share component of any short term incentives was to comprise new fully paid up ordinary shares issued by the Company.

Payment of the short term incentive in respect of the 2015/16 financial year was conditional upon outperformance by the Company of its budgeted profit after tax on a normalised basis and excluding any one-off or non-trading items (eg, profit on the sale of real estate) (but including any one-off or non-trading items that have been included in the budget). The short term incentive scheme is self funding (ie, amounts accrued to fund the payment of any short term incentives will be expensed in the Company's normalised net profit after tax) and no incentives were payable unless at least 100.5% of the Company's budgeted net profit after tax on a normalised basis for the 2015/16 financial year was achieved.

# K&S CORPORATION LIMITED

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## Directors' Report continued

The total short term incentives payable to the Managing Director and Executives for the year ended 30 June 2016 if eligibility criteria were met was \$67,522, up to a maximum of \$675,220 if all outperformance criteria were met.

The short term incentives available to the Managing Director and the Executives as a percentage of their base salary were based on the following scale of outperformance to budgeted profit after tax on a normalised basis:

PROFIT AFTER TAX	PERFORMANCE TARGET											
	<Budget	Budget	Budget + 0.5% to 1.99%	Budget + 2.0% to 3.99%	Budget + 4.0% to 5.99%	Budget + 6.0% to 7.99%	Budget + 8.0% to 9.99%	Budget + 10.0% to 11.99%	Budget + 12.0% to 13.99%	Budget + 14.0% to 15.99%	Budget + 16.0% to 17.99%	Budget + 18.0%
STI	0%	0%	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%

The Company's Managing Director, Mr Sarant, did not qualify for the payment of any short term incentive in respect of the 2015/16 financial year. If Mr Sarant had satisfied all of the outperformance criteria for his short term incentive, the maximum amount payable to him would have been \$120,000.

The Executive General Managers of the Company did not qualify for the payment of any short term incentive in respect of the 2015/16 financial year. If the Executive General Managers had satisfied all of the outperformance criteria for their short term incentive, the maximum aggregate amount payable to them would have been \$555,220.

As the Company's annual budget for operating profit after tax is set with a view to increasing the profit generated by the Company, growing earnings per share, and improving the Company's capacity to pay dividends, the Board believes that aligning the payment of short term incentives to the attainment by the Company of budgeted profit after tax on a normalised basis is appropriate and in the interests of Shareholders. The Board also believes that having all of the Company's Executive Team aligned to the common goal of achieving budgeted operating profit after tax drives positive behaviours amongst the Executive Team in maximizing group wide benefits from operating activities.

For the 2016/17 financial year, the short term incentive scheme will again be based upon outperformance by the Company of its budgeted profit after tax on a normalised basis and excluding any one-off or non-trading items (eg, profit on the sale of real estate) (but including any one-off or non-trading items that have been included in the budget). The short term incentive scheme remains self funding (ie, amounts accrued to fund the payment of any short term incentives will be expensed in the Company's normalised net profit after tax) and no incentives will be payable unless at least 100.5% of the Company's budgeted net profit after tax on a normalized basis for the 2016/17 financial year is achieved. The total short term incentives payable to the Managing Director and Executives for the year ended 30 June 2017 if eligibility criteria are met will be \$706,988, up to a maximum of \$706,988 if all outperformance criteria are met.

# K&S CORPORATION LIMITED

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## Directors' Report continued

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### *Employment Contracts*

It is the Nomination and Remuneration Committee's current policy that fixed term contracts are not entered into with members of the Executive Team.

The Managing Director, Mr Sarant, has a contract of employment, key terms of which for 2015/16 were:

- A total remuneration package of \$712,000 per annum (excluding short term incentive (STI) but including long service leave).
- Eligible for an STI of up to \$120,000 (20% of base salary) against annual performance criteria set by the Board. For the year ended 30 June 2016, payment of the STI was dependent upon the outperformance by the Company of its budgeted profit after tax on a normalised basis and excluding any one-off or non-trading items (eg, profit on the sale of real estate) (but including any one-off or non-trading items that were included in the budget), with the amount of the STI determined in accordance with the sliding scale set out in the table on page 12 of the remuneration report. For the year ended 30 June 2017, payment of an STI is again dependent upon outperformance by the Company of its budgeted profit after tax on a normalised basis and excluding any one-off or non-trading items (eg, profit on the sale of real estate) (but including any one-off or non-trading items that were included in the budget).
- If the Board introduces a long term incentive scheme (LTI), Mr Sarant will be eligible to participate in the scheme. However, there is not presently any LTI scheme in place.
- In accordance with best practice, the Board may require Mr Sarant to repay all or part of any bonus, STI or LTI paid in circumstances where there has been a material misstatement in relation to the financial statements of the Company in any qualifying period relevant to the payment of that bonus, STI or LTI.
- Either of Mr Sarant and the Company may terminate Mr Sarant's employment on the giving of three months notice or, in the case of the Company, payment in lieu of the three months notice.

### *Employee Share Plan*

At the Company's Annual General meeting on 21 November 2006, Shareholders approved the introduction of an Employee Share Plan ("the Plan"). Employees who have been with the Company for more than one year are entitled to participate in the plan and the purpose of the Plan is to attract, retain and motivate employees by giving them a stake in the future growth of the Company. Non-executive Directors of the Company are not eligible to participate in the plan.

Offers were made to eligible employees on 4 September 2015 under the Plan. Acceptances under the offer were 429,000 shares at \$1.25 per share.

The issue price of the shares offered under the Plan was the weighted average price of the Company's shares on the first 5 trading days immediately following the announcement of the Company's full year results for 2014/15 on 22 August 2015.

For the 2015/16 financial year, eligible employees' annual entitlements to participate in the Plan were set by the Company Directors as follow, in line with the entitlements notified to Shareholders at the Company's Annual General meeting on 21 November 2006.

Annual Salary	Number of Shares
Less than \$50,000	1,000
\$50,000 to \$100,000	2,000
\$100,001 to \$150,000	5,000
\$150,001 to \$200,000	7,000
Greater than \$200,000	10,000

Directors are considering the merits of making offers by the Company to eligible employees under the Plan in the year ended 30 June 2017.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Report continued

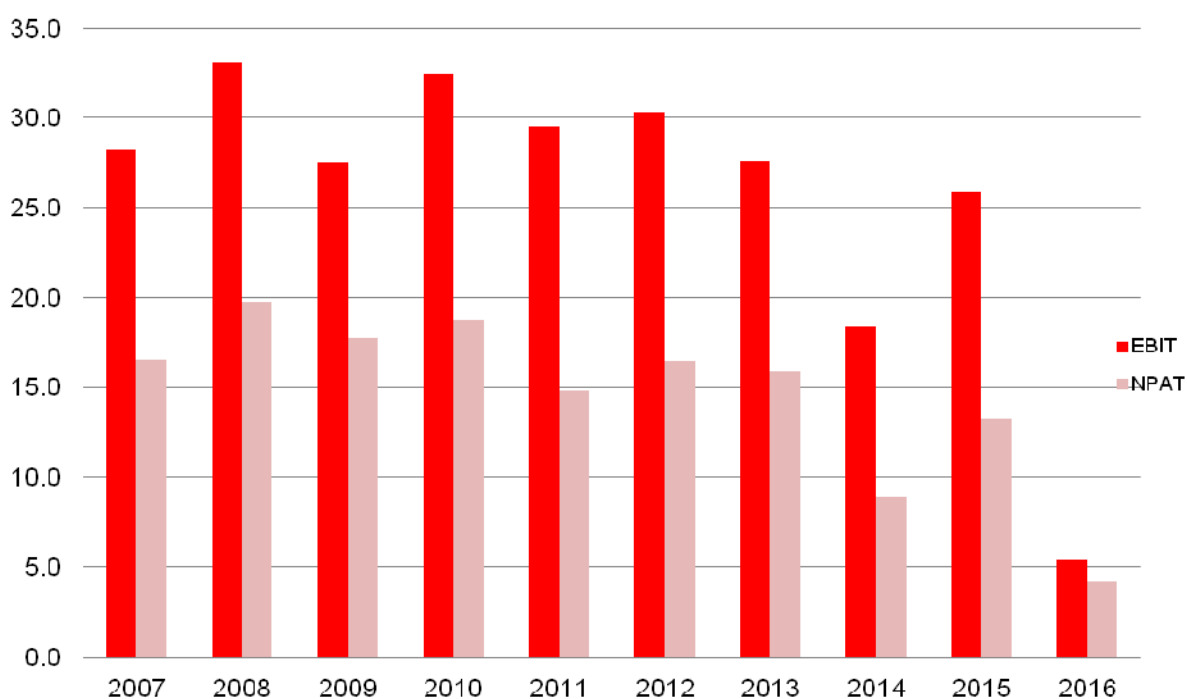
### *Directors' Retirement Benefits*

A change to the Non-Executive Directors' retirement benefits calculation was made in July 2004 to freeze accumulation of years of service of Directors as at 30 June 2004. No Non-Executive Director commencing after 1 July 2004 is eligible for any benefits under the retirement scheme. Mr Johnson is the only remaining Non-Executive Directors eligible to receive retirement benefits under the scheme.

The expenditure provided (not paid) during the year ended 30 June 2016 is attributable only to the method of calculation which involves the averaging of the fees paid to Directors, as per the benefits scheme in operation up to 30 June 2004.

### *Company Performance*

The graph below shows the performance of the Company, as measured by the Company's operating profit before individually significant items, interest and tax (EBIT), and net operating profit before individually significant items after tax (NPAT).



In addition, Dividends paid to Shareholders are disclosed on Page 7 of the Directors' report.



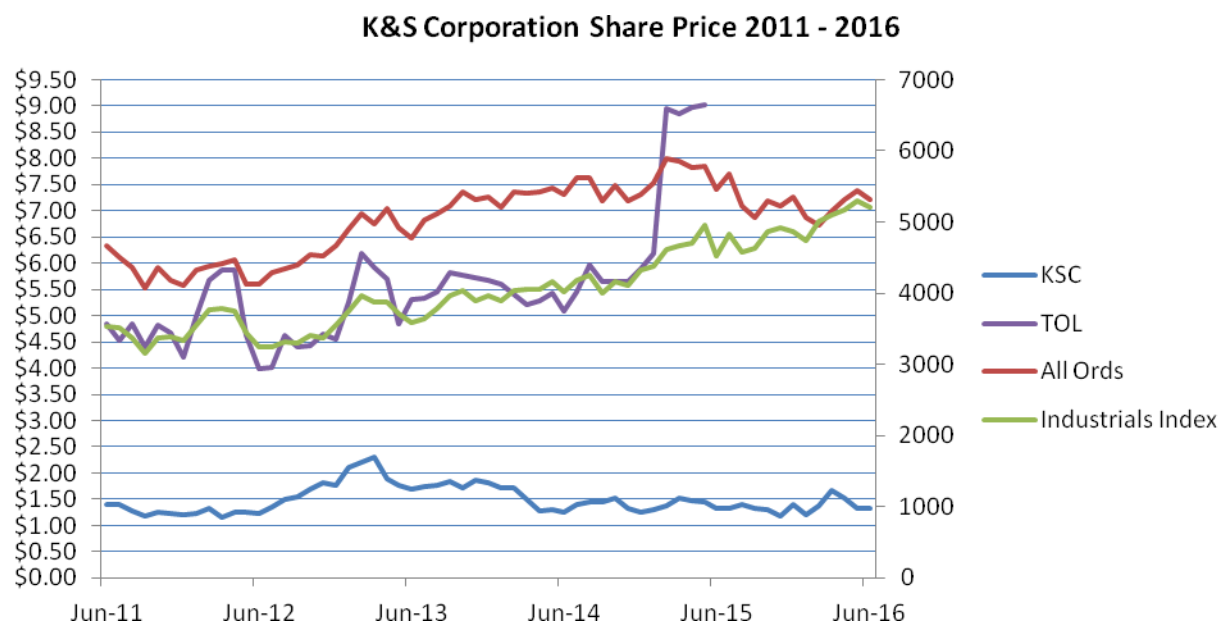
# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Report continued

The next graph highlights the performance of the share price of K&S Corporation Limited against the Australian Securities Exchange All Ordinaries Index, the Australian Securities Exchange Industrials Index and Toll Holdings Limited\* over the past 5 years.

\* Toll Holdings Limited securities ceased to be quoted on ASX on 29 May 2015.



Notwithstanding the difficult trading conditions that have persisted since the onset of the global financial crisis in 2008, the Company's financial results and share price performance has not achieved the set targets. In that context, the Board notes that short term incentives have been paid only once to the Executive Team (in respect of the 2009/10 financial year) since the advent of the global financial crisis. The Board believes that short term incentives should only be paid in circumstances of outperformance by the Executive Team.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Report continued

### Remuneration of key management personnel of the Company and the Group

**Table 1: Remuneration for the year ended 30 June 2016**

	Short-Term		Non-Cash Benefit	Termination	Other Long- Term	Post Employment		Total	Performance Related %
	Salary & Fees \$	Incentives \$				Retirement Benefit \$	Super Contribution \$		
<b>Non-executive directors</b>									
T Johnson	121,540	-	-	-	-	5,310	13,369	140,219	-
G Boulton +	12,017	-	-	-	-	-	1,322	13,339	-
R Smith	72,100	-	-	-	-	-	7,931	80,031	-
L Winsler	72,100	-	-	-	-	-	7,931	80,031	-
<b>Total Non-Executive Directors</b>	<b>277,757</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,310</b>	<b>30,553</b>	<b>313,620</b>	
<b>Executive director</b>									
P. Sarant	645,600	-	31,575	-	10,001	-	30,000	717,176	-
<b>Other key management personnel</b>									
B. Walsh	315,285	-	26,872	-	7,750	-	35,000	384,907	-
C. Bright	249,725	-	27,289	-	6,175	-	30,000	313,189	-
P. Dale >	245,671	-	18,333	-	4,094	-	28,905	297,003	-
R King	252,171	-	28,757	-	4,201	-	33,471	318,600	-
K. Evans	220,000	-	26,924	-	3,667	-	26,400	276,991	-
S. Hine	305,388	-	26,603	-	4,945	-	30,000	366,936	-
S. Skazlic	238,000	-	21,392	-	3,967	-	28,560	291,919	-
D. Keane	482,561	-	26,145	-	7,848	-	21,500	538,054	-
G. Price *	185,424	-	23,143	-	3,408	-	27,463	239,438	-
M. Kohne	203,100	-	27,537	-	3,385	-	27,457	261,479	-
G Beurteaux #	240,668	-	19,956	-	3,788	-	26,250	290,662	-
<b>Total Executive KMP Totals</b>	<b>3,583,593</b>	<b>-</b>	<b>304,526</b>	<b>-</b>	<b>63,229</b>	<b>-</b>	<b>345,006</b>	<b>4,296,354</b>	
<b>Totals</b>	<b>3,861,350</b>	<b>-</b>	<b>304,526</b>	<b>-</b>	<b>63,229</b>	<b>5,310</b>	<b>375,559</b>	<b>4,609,974</b>	

\* Mr Price was appointed on 24 August 2015.

>Mr Dale was appointed on 19 November 2015.

+Mr Boulton resigned on 31 August 2015.

#Mr Beurteaux resigned on 22 February 2016.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Report continued

### Remuneration of key management personnel of the Company and the Group

Table 2: Remuneration for the year ended 30 June 2015

	Short-Term		Non-Cash Benefit \$	Termination \$	Other Long- Term Benefit \$	Post Employment		Total \$	Performance Related %
	Salary & Fees \$	Incentives \$				Retirement Benefit \$	Super Contribution \$		
<b>Non-executive directors</b>									
T Johnson	119,770	-	-	-	-	8,000	13,176	140,946	-
G Boulton +	71,050	-	-	-	-	2,500	7,815	81,365	-
R Smith	71,050	-	-	-	-	-	7,815	78,865	-
L Winser	71,050	-	-	-	-	-	7,815	78,865	-
<b>Total Non-Executive Directors</b>	<b>332,920</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,500</b>	<b>36,621</b>	<b>380,041</b>	
<b>Executive director</b>									
P. Sarant	645,600	-	31,541	-	10,001	-	30,000	717,142	-
<b>Other key management personnel</b>									
B. Walsh	301,285	-	27,417	-	7,437	-	35,000	371,139	-
C. Bright	237,405	-	27,553	-	5,900	-	30,000	300,858	-
G. Everest <	131,585	-	9,320	-	1,781	-	12,609	155,295	-
R King ^	216,000	-	-	-	3,600	-	25,920	245,520	-
K. Evans	209,960	-	22,466	-	3,500	-	25,195	261,121	-
S. Hine	298,668	-	26,853	-	4,845	-	30,000	360,366	-
S. Skazlic	229,000	-	20,556	-	3,817	-	27,480	280,853	-
D. Keane	489,396	100,000	22,090	-	7,848	-	21,500	640,834	-
K. Cope *	353,709	56,000	9,060	167,500	3,639	-	14,862	604,770	-
M. Kohne	208,828	-	27,951	-	3,385	-	28,231	268,395	-
G Beurteaux #	349,764	-	27,071	-	5,627	-	34,511	416,973	-
<b>Total Executive KMP Totals</b>	<b>4,004,120</b>	<b>156,000</b>	<b>251,878</b>	<b>167,500</b>	<b>61,380</b>	<b>10,500</b>	<b>351,929</b>	<b>5,003,307</b>	

^ Mr King was appointed on 26 March 2015.

\* Mr Cope resigned on 6 February 2015.

# Mr Beurteaux was appointed on 14 July 2014.

<Mr Everest resigned on 14 November 2014.

+Mr Boulton resigned on 31 August 2015.

The retention payments made to both Mr Keane and Mr Cope were based on contractual agreements with Scott Corporation that were put in place prior to the merger on 24 February 2014 and ratified by K&S.

Termination benefits paid to Mr Cope were based on existing contractual agreements with Scott Corporation that were in place prior to the merger on 24 February 2014.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Report continued

### Remuneration of key management personnel of the Company and the Group

**Table 3: Loans to Key Management Personnel**

Details of aggregates of loans to Key Management Personnel are as follows:

Total	Balance at beginning of period \$'000	Write-off \$'000	Balance at end of period \$'000	Number in Group
<b>2016</b>	<b>326</b>	-	<b>295</b>	<b>7</b>
2015	290	-	326	7

There are no loans to any Key Management Personnel above \$100,000 in the reporting period.

Loans to Key Management Personnel are made pursuant to the K&S Corporation Limited Employee Share Plan ("Plan"). As part of the Plan, loans are interest free with K&S Corporation, to fund the purchase of shares in the Company. Loans to Key Management Personnel under the Plan are required to be repaid in full upon the cessation of the employment of the Key Management Personnel with the Company. Shares issued under the Plan are subject to a holding lock until the loan is repaid in full. Non-Executive Directors are not eligible to participate in the Plan. No other loans are made to any Key Management Personnel.

**Table 4: Shareholding of Key Management Personnel**

	Balance 1 July 2015	Net Change	Balance 30 June 2016
<b>Shares held in K&amp;S Corporation Limited: 30 June 2016</b>	Ordinary	Ordinary	Ordinary
<b>Non-Executive Directors</b>			
T Johnson	493,178	18,158	511,336
G Boulton +	277,983	(277,983)	-
R Smith	40,154	1,479	41,633
L Winsler	1,164,064	42,858	1,206,922
<b>Executive Director</b>			
P Sarant	141,603	45,000	186,603
<b>Other Key Management Personnel</b>			
B Walsh	147,416	13,029	160,445
C Bright	41,000	10,000	51,000
S Hine	40,000	10,000	50,000
K Evans	22,000	-	22,000
S Skazlic	3,205	-	3,205
D Keane	10,000	10,000	20,000
G Price *	-	-	-
P Dale >	-	10,000	10,000
M Kohne	-	10,000	10,000
G Beurteaux #	-	-	-
R King	7,000	10,000	17,000
<b>Total</b>	<b>2,387,603</b>	<b>(97,459)</b>	<b>2,290,144</b>

\* Mr Price was appointed on 24 August 2015.

+ Mr Boulton resigned on 31 August 2015.

> Mr Dale was appointed on 19 November 2015.

# Mr Beurteaux resigned 22 February 2016.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Report continued

**Table 4: Shareholding of Key Management Personnel**

	Balance 1 July 2014	Net Change	Balance 30 June 2015
<b>Shares held in K&amp;S Corporation Limited: 30 June 2015</b>	Ordinary	Ordinary	Ordinary
<b>Non-Executive Directors</b>			
T Johnson	472,358	20,820	493,178
G Boulton +	266,248	11,735	277,983
R Smith	38,459	1,695	40,154
L Winsler	1,164,064	-	1,164,064
<b>Executive Director</b>			
P Sarant	96,603	45,000	141,603
<b>Other Key Management Personnel</b>			
B Walsh	134,020	13,396	147,416
C Bright	41,000	-	41,000
G Everest ^	10,000	(10,000)	-
S Hine	30,000	10,000	40,000
K Evans	22,000	-	22,000
S Skazlic	3,205	-	3,205
D Keane	-	10,000	10,000
K Cope #	-	-	-
M Kohne	-	-	-
G Beurteaux *	-	-	-
R King >	-	7,000	7,000
<b>Total</b>	<b>2,277,957</b>	<b>109,646</b>	<b>2,387,603</b>

# Mr Cope resigned on 6 February 2015.

\*Mr Beurteaux was appointed on 14 July 2014.

^ Mr Everest resigned on 14 November 2014.

>Mr King was appointed on 26 March 2015.

+ Mr Boulton resigned on 31 August 2015.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Report continued

### Remuneration options: Granted and vested during the year

K&S Corporation Limited does not operate any option based schemes for its executives, employees or Directors.

Signed in accordance with a resolution of the Directors.



T Johnson

Chairman

23 August 2016



P Sarant

Managing Director

23 August 2016

# K&S CORPORATION LIMITED

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## Corporate Governance Statement

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The Board of Directors of K&S Corporation Limited is responsible for the governance of the consolidated entity. The Board guides and monitors the business and affairs of K&S Corporation Limited on behalf of the Shareholders by whom they are elected and to whom they are accountable.

In keeping with the Australian Securities Exchange Corporate Governance Council's updated Corporate Governance Principles and Recommendations, this statement outlines the Company's compliance with the ASX principles.

The K&S Corporation Limited Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

### **Principle 1**

Lay solid foundations for management oversight

### **Principle 2**

Structure the board to add value

### **Principle 3**

Act ethically and responsibly

### **Principle 4**

Safeguard integrity in corporate reporting

### **Principle 5**

Make timely and balanced disclosure

### **Principle 6**

Respect the rights of shareholders

### **Principle 7**

Recognise and manage risk

### **Principle 8**

Remunerate fairly and responsibly

### **The Roles of the Board and Management**

The Board has a Charter which establishes the relationship between the Board and Management and describes their functions and responsibilities in a manner which is consistent with ASX Principle 1.

The role of the Board is to oversee and guide the Management of K&S Corporation Limited and its businesses with the aim of protecting and enhancing the interests of Shareholders while taking into account the interests of employees, customers, suppliers and the community at large.

The Board is responsible for setting and approving the strategic direction of the Company, establishing goals for Management and monitoring the achievement of those goals. The Board is also responsible for appointing, overseeing and evaluating the performance of, and ultimately for the removal of, the Managing Director.

The Managing Director is responsible to the Board for the day to day management of the Company. Matters delegated to the Managing Director by the Board include:

- developing business plans, budgets and strategies for consideration by the Board and (where approved by the Board) the implementation of such business plans, budgets and strategies;
- identifying and managing operational risks that could have a material impact on the Company and its operations and implementing internal controls and procedures to ensure that the Company's business operates within legislative requirements and the risk parameters approved by the Board from time to time; and
- ensuring that transactions, commitments and arrangements that exceed thresholds set by the Board from time to time are approved by the Board.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Corporate Governance Continued

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The Company's Board Charter which sets out the full roles and responsibilities of the Board and Management respectively is available on the Company's website ([www.ksgroup.com.au](http://www.ksgroup.com.au)).

Non-Executive Directors have written agreements with the Company setting out the terms of their appointment.

The Company Secretary is accountable directly to the Board, through the Chairman, for the proper administration and functioning of the Board.

All Management, including the Managing Director, have clear statements of roles and responsibilities. The performance of Key Executives is reviewed not less than annually by the Managing Director.

The review involves an open exchange of ideas between the Managing Director and Key Executives. The performance of Key Executives is reviewed against matters including financial targets (eg. budget), HS&E management, and achievement of specific strategic and business objectives.

### Structure of the Board

The Board currently comprises of three Non-Executive Directors, including the Chairman, and one Executive Director, namely, the Managing Director.

The qualifications, experience and periods of service of each of the Directors is set out on pages 2 and 3 of the Annual Report.

Directors are expected to bring independent views and judgment to the Board's deliberations. Consistent with the ASX Principles, the Board Charter requires the Board to include a majority of Non-Executive Directors, a Non-Executive Chairman and to have a different person filling the roles of Chairman and Managing Director. The Chairman of the Audit Committee cannot be Chairman of the Board.

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered independent judgment. Materiality of business and other relationships held by a Director is considered from both the Company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements.

Quantitative factors relate to the financial value of the business or other relationship. Qualitative factors considered include whether a relationship is strategically important, the competitive context of the relationship, the nature of the relationship and the contractual or other arrangements governing it or other factors which point to the actual ability of the Director in question to influence the direction of the Company other than in the best interests of the Company as a whole.

The Board has reviewed the position of each of the Directors in office at the date of this report and considers the following Directors of the Company to be independent:

Name	Position
-	
R Smith	Non-Executive Director

The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

The Board considers the following Directors as not independent:

P Sarant Managing Director

T Johnson Non-Executive Director (Chairman)

Mr Johnson is a Director of AA Scott Pty Ltd, the largest Shareholder of K&S Corporation Limited.

L Winsler Non-Executive Director

Mr Winsler was appointed as a Director of the Company on 23 August 2013. Mr Winsler formerly occupied the position of Managing Director of the Company until his retirement on 25 May 2012. Mr Winsler is also an alternate director of several companies with the Scott Group of Companies.

The date of appointment of each Director of the Company is set out on pages 2 and 3 of the Company's 2016 annual report.



# K&S CORPORATION LIMITED

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## Corporate Governance Continued

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The Board structure is consistent with ASX Principle 2, with the exception of:

- Recommendation 2.4 which requires that the majority of the Board be independent Directors. The Board considers that the mix of skills and experience of and the contributions by the non-independent Non-Executive Director offsets the benefits to the Company of having a majority of independent Non-Executive Directors. However, as part of the review of Board Performance, Directors have regard to the balance of independent and non-independent Non-Executive Directors.
- Recommendation 2.5 which requires that the Chairman of the Board be an independent Director. Mr Johnson is Chairman of the Board and is not considered by Directors to be independent. Mr Johnson however is a non-executive Chairman and does not also share the role of CEO. The Board considers that the skills and experience that Mr Johnson brings as Chairman add value to the deliberations and functioning of the Board.

The Company has a Diversity Policy which is consistent with ASX Principle 1. The objective of the Diversity Policy is to promote a corporate culture within the Company where the diverse experiences, perspectives and backgrounds of people are valued and embraced and which is conducive to the recruitment of well qualified and diverse employees, senior management and Board members.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The Board meets formally eleven times a year and on other occasions as required. During the course of the year, the Board's sub-committees meet on a number of occasions to deal with their specific responsibilities in relation to the Company's business. Senior Management attend and are a vital ingredient to the sub-committees, making presentations, providing information and responding to questions of the Directors. All Directors have unrestricted access to all employees of the Group and, subject to the law, access to all Company records and information held by employees and external advisers. The Board receives regular financial and operational reports from Senior Management to enable it to carry out its duties and responsibilities.

### **Retirement and Re-election of Directors**

The Company's Constitution requires one third of the Directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been newly appointed by the Board during the year are also required to stand for re-election at the next Annual General Meeting, but are not taken into account in determining the number of Directors retiring at that Annual General Meeting. Retiring Directors are eligible for re-election by Shareholders.

The Company will disclose all material information in its possession relevant to the decision of Shareholders whether to re-elect Directors in the explanatory notes to the Company's notice of annual general meeting. In particular, the Company will provide details of Directors' relevant experience and qualifications, tenure, other material directorships, independence, shareholding, and any associations with and/or interests in the Company. The Company will also include a recommendation to Shareholders from the Board (excluding always the relevant Director standing for re-election) on whether to vote in favour of the re-election of Directors.

### **Review of Board Performance**

The Board has implemented a process for the regular review of its overall performance, consistent with ASX Recommendation 1.6. Regular review involves both analysis by the Board of the results of a questionnaire completed by all Directors and discussion between the Chairman and each of the Directors.

The Board's performance review departs from Recommendation 1.6 as the review is conducted by the full Board, and not the Nomination and Remuneration Committee. As the Board is comprised of only four Directors, the Board considers this the most effective way to address its own performance.

### **Committees of the Board**

Three standing Board Committees assist the Board in the discharge of its responsibilities.

These committees are:

- The Audit Committee
- The Nomination and Remuneration Committee
- The Environmental Committee

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Corporate Governance Continued

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### Audit Committee

The Board has an established Audit Committee, which operates under a Charter approved by the Board.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguard of assets, the maintenance of proper accounting records, and the reliability of financial information.

The Board has delegated to the Audit Committee the responsibility overseeing the financial reporting process of the consolidated entity and ensuring the competency and independence of the Company's external auditors, consistent with ASX Principle 4.

The Audit Committee provides the Board with additional assurance regarding the reliability of the financial information for inclusion in the financial reports. All members of the Audit Committee are Non-Executive Directors.

Among the specific responsibilities set out in the Audit Committee Charter, the Audit Committee reviews all published accounts of the Group, reviews the scope and independence of external audits, reviews any comments and recommendations by the external auditors in relation to the company's systems for internal compliance and control, and risk management, advises on the appointment, performance and remuneration of the external auditors, and reviews the work program for and reports and recommendations of the internal audit function.

The members of the Audit Committee during the year were:

Mr Smith (Chairman)  
Mr Boulton \*  
Mr Johnson \*

\* Mr Boulton ceased to be a Director on 31 August 2015 and was replaced on the Audit Committee by Mr Johnson.

Mr Smith is Chairman of the Audit Committee. The Board considers Mr Smith to be independent using the ASX Council's definition of independence.

The Board also considered Mr Boulton to be independent using the ASX Council's definition of independence.

The Board does not consider Mr Johnson to be independent.

The ASX Council Recommendation 4.1 recommends that the Audit Committee consist of at least three members who are all Non-Executive and the majority independent. The Board is of the view that the current composition of the Audit Committee is appropriate given the size of the business, the extensive financial skills, and industry knowledge of the current members of the Audit Committee.

The Managing Director, the Chief Financial Officer, the Company Secretary, the Group Accountant, the Internal Audit Manager, the external Auditors and any other persons considered appropriate attend meetings of the Audit Committee by invitation. The Committee also meets from time to time with the external Auditors independent of management.

The Audit Committee met on four occasions during the course of the year. Mr Smith attended all four meetings. Mr Johnson attended three meetings. Mr Boulton attended one meeting.

### Nomination and Remuneration Committee

Consistent with ASX Principles 2 and 8, the Board has a Nomination and Remuneration Committee with a formal Charter. The role of the Committee is to review and make recommendations to the Board on remuneration packages and policies applicable to the Managing Director, Senior Executives, Salaried Staff and Directors themselves.

The Nomination & Remuneration Committee does not comply with Recommendations 2.1 and 8.1 as only Mr Smith was considered by Directors to be independent. However, as the only Director on the Nomination & Remuneration Committee considered to be independent, Mr Smith was Chairman of that committee.

The Nomination and Remuneration Committee does not make recommendations to the Board as to the nomination and appointment of new Directors. As the Board of K&S Corporation Limited is comprised of only four Directors, Directors are of the view that the nomination and appointment of new Directors is most efficiently discharged by the Board. For this reason, Directors are of the view that the presence of a majority of Directors considered not to be independent did not

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Corporate Governance Continued

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compromise the effectiveness of the Nomination & Remuneration Committee or the integrity of the decision making process by the Board as a whole on matters relating to nomination and remuneration.

When appointing new Directors, the Board has regard to the spread of skills and qualifications, experience, and independence of both the potential appointee and the existing members of the Board. The Board does not have a formalised skills matrix that it uses when considering Board composition and the appointment of new Directors. However, the Board is of the view that a good depth of transport industry exposure and expertise is an integral element of the skills to be represented on the Board. The Board also views accounting and legal expertise as important elements to allow it to effectively discharge its duties and responsibilities. The Board also has regard to whether a potential director has contacts or networks that may enable the Company to access new markets or industry sectors and/or to generate new business opportunities. The Board recognises that a diversity of backgrounds and experience in its members will contribute to the Board functioning at its optimum.

Where considered appropriate, prior to appointing new Directors, the Board will arrange for appropriate background and reference checks to be undertaken. These checks may include the proposed Director's character (via reference checks), education and qualifications, and any criminal convictions, bankruptcy or insolvency that may preclude the proposed Director from appointment.

The Company currently does not have a formal induction program for new Directors. The most recently appointed Non-Executive Director, Mr Winser, already had a wealth of knowledge about the business and operations of the Company by virtue of his previous role as Managing Director. The Company does however make available to new Directors past board papers and board minutes as well as the Company's constitution and key policies and codes of practice. When new appointments of Non-Executive Directors are contemplated, the Company will review the desirability of a more structured induction program.

In the case of ongoing development, the Company schedules some monthly board meetings at different operational sites to enable Non-Executive Directors to familiarise themselves with the Company's business and activities. The Board also receives regular presentations from members of the Executive Team on the Company's various business units.

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and Senior Executives.

The Nomination and Remuneration Committee periodically obtains independent advice on the appropriateness of remuneration packages, as well as benchmarking comparable company remuneration data. No external advice was sought in relation to remuneration in the course of the 2015/16 financial year.

The Nomination & Remuneration Committee also plays a role in evaluation of the performance of the Managing Director and management succession planning. This role includes the responsibility for incentive performance packages, superannuation entitlements, and retirement and termination entitlements.

The members of the Nomination and Remuneration Committee during the year were:

Mr Smith (Chairman)  
Mr Johnson  
Mr Winser

The Nomination and Remuneration Committee meets as required. The Committee met formally once in 2015/16, but also informally on several other occasions during the year. Messrs Winser, Smith and Johnson all attended the formal meeting of the Committee.

The Company's Non-Executive Directors receive only fees and superannuation for their services and the reimbursement of reasonable expenses. The fees paid to the Company's Non-Executive Directors reflect the demands on, and responsibilities of, those Directors.

The advice of independent remuneration consultants is taken periodically, as well as benchmarking against external remuneration data for comparable companies to establish that the Directors' fees are in line with market standards. Non-Executive Directors do not receive any shares, options or other securities in addition to their remuneration.

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## Corporate Governance Continued

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An increase in the Directors' fee pool limit of \$100,000 to a total of \$600,000 for Non-Executive Directors was approved by Shareholders at the Annual General Meeting on 20 November 2012. This fee pool is only available to Non-Executive Directors. The Non-Executive Directors received \$72,100 each and the Chairman was paid \$121,540 in 2015/16. There was no increase in fees payable to Non-Executive Directors in 2015/16. Committee membership does not entitle a Director to additional fees.

The Board has again decided not to increase the fees payable to Non-Executive Directors from 1 July 2016.

Details of the employment contract of Mr Sarant can be found on page 13 of the Remuneration Report.

The Non-Executive Directors' retirement benefits scheme entitlements were frozen in years of service as at 30 June 2004 and will be paid on retirement. Under the terms of the Non-Executive Directors' retirement benefit scheme, participating Directors are entitled to receive up to the total remuneration paid to them in the last three years upon their retirement in accordance with the following formula:

$$RB = TR \times (Y \div 15)$$

where

RB	=	retirement benefit payable to the Director on retirement
TR	=	the total remuneration paid to the Director in the last three years
Y	=	the years of service of the Director prior to 30 June 2004, provided that Y shall not exceed 15

Non-Executive Directors appointed after 30 June 2004 are not eligible to participate in the retirement benefits scheme. Mr Johnson is the only remaining Director eligible to participate in the retirement benefit scheme.

The structure and disclosure of the Company's remuneration of Non-Executive Directors is consistent with ASX Principle 8.

Further details of Directors' remuneration, superannuation and retirement payments are set out in the Directors' Report on pages 9 to 20.

### Diversity

The measurable objectives for achieving gender diversity set by the Board and progress towards achieving those objectives are:

- The Nomination and Remuneration Committee must review participation rates for women across all levels of the workforce not less than annually. That review was undertaken by the Committee in 2015/16. The Company saw participation rates for women remain static at all levels of the organisation.
- The Nomination and Remuneration Committee is to review pay parity data for women and men across all levels of the workforce not less than annually to determine whether there is any unconscious bias. To the extent that the review suggests that unconscious bias may exist, Management is to investigate and report to the Committee the causes of that bias, as well as to develop recommendations to address any bias.
- The Committee reviewed pay parity data in 2015/16 and Management has investigated whether unconscious bias exists. As women are over-represented in some areas of the Company's workforce (eg, administration) and under-represented in other areas of the work-force (eg, operational), the data requires careful analysis.
- Management is required to report to the Nomination and Remuneration Committee not less than annually participation rates for women compared to men in externally provided training programs. A particular area of focus is management training programs (eg, Australian Institute of Management and equivalent) as it is through these training programs that the pool of future senior managers will be developed. Management has reported to the Committee on training participation rates in 2015/16. Participation rates in management training do not reveal any bias.
- The Nomination and Remuneration Committee is to review data re tenure and turnover levels for women compared to men across all levels of the Company's workforce not less than annually as part of seeking to understand the reasons for differing participation rates for women and men. Tenure and turnover data was reviewed by the Committee in 2015/16. Turnover rates for men and women were equivalent across different levels of the organisation.

The Company's Workplace Gender Equality Act "Gender Equality Indicators" report can be accessed via the website of the Workplace Gender Equality Agency ([www.wgea.gov.au/public-reports](http://www.wgea.gov.au/public-reports)). A summary of the Company's "Gender Equality Indicators" report is also available on the Company's website ([www.ksgroup.com.au](http://www.ksgroup.com.au)).

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## Corporate Governance Continued

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The Company notes that the transport and logistics industry continues to have a stereotyped male dominated environment, with a substantial proportion of the Company's workforce required to perform labour intensive / manual handling tasks as well as significant overtime and remote work in the course of their employment duties. While the Company is committed to diversity, the nature of the work undertaken by many employees has made it challenging to attract women to these roles. The Company will review on an ongoing basis the opportunities to overcome these impediments to higher participation rates by women.

Other diversity initiatives pursued by the Company include:

- The Company is a participant in the indigenous employment program overseen by the Commonwealth Department of Education, Employment and Workplace Relations, as well as a participant in the Australian Employment Covenant which is also designed to secure indigenous employment opportunities. In support of these programs, the Company has an Indigenous Recognition Policy which outlines the Company's commitment to build relationships with local and land-connected indigenous persons to achieve mutually beneficial outcomes.
- A number of strategic and tactical initiatives aimed at attracting, developing and retaining female employees. As part of that strategy, the Company is reviewing a range of more flexible employment practices.

### Environmental Committee

The Board has an Environmental Committee, which operates under a Charter approved by the Board. The role of the Committee is to monitor environmental incidents, exposures and compliance with environmental regulations.

The members of the Environmental Committee during the year were:

Mr Johnson (Chairman)  
Mr Winser  
Mr Sarant \*

\* The Board considers it appropriate that the Managing Director be a member of the Environmental Committee.

The Company Secretary acts as Secretary to the Environmental Committee.

The Environmental Committee is responsible for:

- reviewing and recommending, as appropriate, changes to the Company's environmental policies;
- ensuring the adequacy of environmental procedures and controls implemented by Management;
- reporting to the Board on Company compliance with environmental procedures and controls;
- reviewing the adequacy and effectiveness of resources devoted to informing employees of their environmental obligations and to training employees to operate within Company guidelines and legal requirements;
- monitoring conformance by the Company with mandatory environmental reporting and improvement regimes;
- regular monitoring of licence requirements, with performance against licence conditions reported to the various State regulators on a regular basis; and
- reviewing any environmental incidents that have occurred and monitoring actions taken or to be taken.

To enable it to meet its responsibilities, the Committee has established a regular internal reporting process.

The Environmental Committee met four times during the year. Messrs Johnson, Winser and Sarant attended all four meetings of the Committee.

# K&S CORPORATION LIMITED

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## Corporate Governance Continued

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### Financial Reporting

Consistent with the ASX Recommendation 4.2, the Company's financial report preparation and approval process for the financial year ended 30 June 2016, involved both the Managing Director and Chief Financial Officer certifying that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

In accordance with Recommendation 4.2, this sign off also includes assurances as to the Company's risk management processes and internal compliance and control procedures.

### Audit Governance and Independence

As part of the Company's commitment to safeguarding integrity in financial reporting, the Company has implemented a review process to monitor the independence and competence of the Company's external Auditor.

The Company's current external Auditors are Ernst & Young. The effectiveness, performance and independence of the external Auditor is reviewed by the Audit Committee at least annually. The format of that review includes discussing the performance of the External Auditors with Management while the Auditors are not present. The Audit Committee also met with senior members of Ernst & Young to review the performance of the lead audit partner.

Ernst & Young has a policy for the rotation of the lead audit partner for their clients. Under that policy, the lead audit partner and the audit review partner for the Company were most recently rotated following completion of the audit for the year ended 30 June 2012.

The Audit Committee's Charter requires the provision of non-audit services to the Company or its business units by the external audit firm to be approved by the Audit Committee.

In accordance with sections 249V and 250T of the Corporations Act 2001 (Cth), the Company's current auditor, Ernst & Young, attends and is available to answer questions at the Company's Annual General Meeting.

### Risk Management

Consistent with ASX Principle 7, the Company is committed to the identification, monitoring and management of material risks in the business. Those material risks include a full spectrum of financial, strategic, compliance, and operational risks.

While not wishing to stifle the entrepreneurial endeavours of Senior Executives, the Board takes a relatively conservative approach to risk.

The Board requires that Management have in place a system to identify, monitor, and manage the material business risks faced by the Company. The management systems in place as part of the risk management controls include:

- Capital expenditure commitments above set limits obtain prior Board approval.
- Financial exposures are controlled and the use of derivatives is limited to interest rate swaps.
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations.
- Business transactions are properly authorised and executed.

# K&S CORPORATION LIMITED

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## Corporate Governance Continued

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- A comprehensive annual insurance programme, including external risk management survey and action plans.
- Annual budgeting and monthly reporting systems for all business units, which enable the monitoring of progress against performance targets and the evaluation of trends.
- Appropriate due diligence procedures for acquisitions and divestments, with post-acquisition reviews also provided to the Board.
- Disaster management systems for key IT systems and recovery plans.
- Documentation and regular review of business wide risk identification and mitigation strategies.
- The completion by executive managers and divisional managers of ‘representation letters’ in connection with the certification by the Managing Director and Chief Financial Officer that the Company’s financial reports present a true and fair view, in all material respects, of the Company’s financial condition and operational results.
- Review by the Audit Committee in conjunction with Management of all findings and recommendations in the Closing Report provided by the Company’s external auditors, Ernst & Young, as part of the full year audit and also half year review of the Company’s accounts.

The Company has a risk management policy consistent with ASX Principle 7. The Company also has a number of policies and internal documents that are central to the management of risk. Those documents include:

- The Risk Review Statement that is designed to comprehensively document and rate all material business risks to which the Company is exposed, as well as setting out the actions being undertaken by Management to mitigate those risks.
- The Company’s Levels of Authority Statement which sets out the different levels of authority delegated to the Managing Director, General Managers, and Branch Managers in relation to financial and business matters such as capital expenditure, acquisitions, entering into contracts, treasury issues, and employment related issues.
- The Company’s Administration Manual which sets out the financial and administrative protocols for all staff.
- The Company’s HS&E Manual and supporting documented policies and procedures which are designed to minimise the risk of harm to employees engaged in operational tasks.
- The Company’s Quality Management System coupled with its extensive documented operating and compliance focused policies and procedures which are designed to ensure that the Company’s operations are conducted using industry best practice and in accordance with the numerous legislative regimes that apply.
- The Company’s Disaster Recovery Manual which sets out all of the protocols associated with the Company’s externally hosted disaster recovery plan (DRP).

Management is responsible to the Board for the Group’s system of internal control and risk management. The Audit Committee through its Charter assists the Board in monitoring this role.

The Risk Review Statement is designed to be a ‘living’ document and is regularly updated to address the emergence of new risks and changes to the priority of existing material business risks. The Risk Review Statement is provided to both the Audit Committee and the Board on a quarterly basis. In addition, a summary of the status of key risk items identified in the Risk Review Statement is provided to the Board at its monthly meetings.

The Managing Director and the Chief Financial Officer also certify on an annual basis that the Company has a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.

The Company is of the view that risk management is a key governance function. As the Board is comprised of only four Directors (including the Managing Director), the Board is of the view that the setting of risk parameters and the oversight of risk management is best discharged by the Board as a whole. Consequently, the Company does not have a stand alone risk committee.

The Company has an internal audit function. The Internal Audit Manager is independent of Management of the Company and reports to both the Managing Director and also the Chairman of the Audit Committee. A copy of the Internal Audit Charter is available on the Company’s external website ([www.ksgroup.com.au](http://www.ksgroup.com.au)).

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## Corporate Governance Continued

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A detailed draft internal audit work program was developed by the Internal Audit Manager in conjunction with the Managing Director, Company Secretary, and Chief Financial Officer. That detailed internal audit work program was then submitted to the Audit Committee for review and approval. The Company has adopted a risk based approach in identifying and prioritising internal audit activities.

In light of the fraud detected in 2014/15, an immediate priority for the internal audit function was to review any potential internal control weaknesses that may have been exploited in that fraud to minimise the possibility of the Company being the victim of another fraud. An external review of potential internal control weaknesses exploited in that fraud was also conducted by McGrathNicol in 2015/16.

The Company operates in a highly competitive industry and has a material exposure to a range of economic factors including competitive forces, the decline of the domestic manufacturing sector, falling commodity prices, and key customer contract exposure. The Company seeks to mitigate these risks by differentiating itself from its competitors, diversifying the nature and scope of its activities across a number of sectors, geographic regions, and customer groups, as well as staggering the expiry dates of key customer contracts.

The Company also faces material exposures around compliance with legislative obligations (including transport laws) and the potential that a serious incident or accident could result in death, serious injury and/or environmental harm, as well as major reputational damage and the loss of key customer contracts. The Company seeks to mitigate this exposure via policies, procedures and training, as well as a crisis response plan.

The Company's comprehensive internal Risk Review Statement catalogues key economic, environmental and social sustainability risks in respect of which the Company has identified a material exposure. The internal Risk Review Statement documents risk mitigation strategies employed by the Company.

### Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange securities market and has adopted a comprehensive policy covering announcements to the Australian Securities Exchange.

The Company Secretary has the responsibility for overseeing and co-ordinating disclosure of information to the Australian Securities Exchange. The Company Secretary also liaises with the Managing Director, Chairman and Chief Financial Officer in relation to continuous disclosure matters.

The Board approves all price sensitive releases to the Australian Securities Exchange prior to release.

The Company posts all price sensitive releases to the Australian Securities Exchange and media on the Company's website.

The Company's Continuous Disclosure Policy is consistent with ASX Principle 5.

### Conflict of Interest

In accordance with the Corporations Act 2001 (Cth) and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of Director related entity transactions with the Company and consolidated entity are set out in Note 26.

### Director Dealing in Company Shares

The Constitution permits Directors and Officers to acquire shares in the Company, subject to very limited exceptions contemplated in the Listing Rules. Company policy prohibits Directors, Associates and Officers from dealing in Company shares or Executive options:

- In the period of 60 days prior to the release of the Company's half year and annual results to the Australian Securities Exchange.
- Whilst in possession of price sensitive information.

In accordance with the provisions of the Corporations Act 2001 and the Listing Rules of the Australian Securities Exchange, the Company advises the Exchange of any transactions conducted by Directors in shares in the Company.



# K&S CORPORATION LIMITED

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## Corporate Governance Continued

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### International Quality Standard ISO 9001

The consolidated entity strives to ensure that its services are of the highest standard. Towards this aim, it has achieved ISO 9001 accreditation for its core business segment and is well advanced in the implementation of Occupational Health & Safety systems to meet the AS4801 Standard.

### Ethical Standards

In accordance with Principle 3, the Board has adopted the Code of Conduct produced by the Australian Institute of Company Directors to guide the Directors and promote high ethical and professional standards.

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance practice and the ethical conduct by all Directors and employees of the Company and has approved the following policies:

### Code of Conduct

The Company has a Code of Conduct for its employees to act within the law, avoid conflicts of interest, protect Company property, keep information confidential and act honestly and ethically in all business activities. The Code of Conduct is complemented by a Whistle Blower Policy which provides protection to employees who report instances of malpractice, impropriety, misconduct, or other unethical or illegal conduct involving the Company or its employees.

### Trade Practices

The Company has a Trade Practices Policy advising employees on the legislative prohibitions on price fixing and anti-competitive arrangements, as well as other prohibited conduct.

### Other Policies

Amongst other policies endorsed by the Board in previous years are the Occupational Health and Safety, Environment Protection, Electronic Communications policies and the Transport Law Compliance Policy.

The Group's ethical standards are consistent with the requirements of ASX Principle 3.

### Communication with Shareholders

The Company places considerable importance on communication with Shareholders.

The Company's communication strategy promotes the communication of information to Shareholders through the distribution of the Annual Report, announcements through the Australian Securities Exchange and subsequently the media regarding changes to the business, the Chairman's and Managing Director's addresses at the Annual General Meeting, and actively engaging the investment community.

The Company actively invites, and responds to, questions from Shareholders at the Annual General Meeting. As the Company's Annual General Meetings have a comparatively small number of attendees, Shareholders have a good opportunity to put any questions to Directors. Shareholders also have good access to Directors and the Executive Team following the formal business of the meeting.

Shareholders have the ability to receive communications from the Company (eg, annual reports) and the Company's Share Registry, Computershare, (eg, dividend statements) electronically.

K&S Corporation Limited posts all price sensitive reports, Australian Securities Exchange releases and media releases on the Company's website.

The communication strategy is consistent with ASX Principle 6. The Company's Communication Policy is available on the Company's website: [www.ksgroup.com.au](http://www.ksgroup.com.au).

# K&S CORPORATION LIMITED

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## Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
<b>Operating Revenue</b>	5(a)	<b>688,763</b>	699,213
Cost of goods sold		<u>(67,184)</u>	(56,936)
<b>Gross profit</b>		<b>621,579</b>	642,277
Other income	5(b)	<b>5,149</b>	5,785
Contractor expenses		<b>(183,103)</b>	(187,654)
Employee expenses	5(e)	<b>(225,679)</b>	(219,172)
Fleet expenses		<b>(129,697)</b>	(145,085)
Depreciation and amortisation expense	5(d)	<b>(38,862)</b>	(36,601)
Finance costs	5(c)	<b>(7,094)</b>	(7,261)
Other expenses		<b>(37,046)</b>	(33,601)
Share of profits of associates	13	<b>132</b>	110
Impairment of intangibles, land and buildings, plant and equipment, trade debtors		<b>(115,284)</b>	-
<b>Profit/(loss) before income tax</b>		<u><b>(109,905)</b></u>	18,798
Income tax (expense) / benefit	6	<b>5,730</b>	(5,490)
<b>Profit/(loss) after income tax</b>		<b>(104,175)</b>	13,308
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<b>1,151</b>	(681)
Income tax effect		-	-
		<u><b>1,151</b></u>	(681)
Revaluation of land and buildings		<b>12,767</b>	-
Income tax effect		<b>(3,830)</b>	-
<b>Other comprehensive income (loss) for the period, net of tax</b>		<u><b>8,937</b></u>	-
<b>Total comprehensive income (loss) for the period</b>		<u><b>(94,087)</b></u>	12,627
<b>Earnings per share (cents per share)</b>	7		
▪ Basic, profit for the year attributable to ordinary equity holders of the parent		<b>(87.0)</b>	11.4
▪ Diluted, profit for the year attributable to ordinary equity holders of the parent		<b>(87.0)</b>	11.4
Dividends per share (cents per share)	8	<b>1.5</b>	7.0

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# K&S CORPORATION LIMITED

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## Statement of Financial Position

AS AT 30 JUNE 2016

	NOTE	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	7,392	7,326
Trade and other receivables	10	66,632	86,909
Inventories	11	4,229	3,963
Income tax receivable	6	897	-
Prepayments		9,171	8,117
<b>Total current assets</b>		<b>88,321</b>	<b>106,315</b>
<b>Non-current assets</b>			
Other receivables	10	1,509	1,422
Investments in associate	13	395	413
Property, plant & equipment	14	334,365	326,842
Intangibles	15	6,307	91,088
Deferred tax assets	6	14,107	10,179
<b>Total non-current assets</b>		<b>356,683</b>	<b>429,944</b>
<b>TOTAL ASSETS</b>		<b>445,004</b>	<b>536,259</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	62,274	70,365
Interest bearing loans and borrowings	18	32,238	30,345
Income tax payable	6	-	1,302
Provisions	19	24,179	22,965
<b>Total current liabilities</b>		<b>118,691</b>	<b>124,977</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	18	82,069	75,043
Deferred tax liabilities	6	32,061	28,716
Provisions	19	12,795	12,954
<b>Total non-current liabilities</b>		<b>126,925</b>	<b>116,713</b>
<b>TOTAL LIABILITIES</b>		<b>245,616</b>	<b>241,690</b>
<b>NET ASSETS</b>		<b>199,388</b>	<b>294,569</b>
<b>EQUITY</b>			
Contributed equity	20	152,518	147,674
Reserves		41,965	31,877
Retained earnings		4,905	115,018
<b>TOTAL EQUITY</b>		<b>199,388</b>	<b>294,569</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

	Issued Capital \$'000	Retained Earnings \$'000	Asset Revaluation Reserves \$'000	Forex Translation Reserves \$'000	Total Equity \$'000
<b>CONSOLIDATED</b>					
<b>At 1 July 2015</b>	<b>147,674</b>	<b>115,018</b>	<b>31,948</b>	<b>(71)</b>	<b>294,569</b>
Loss for the year	-	(104,175)	-	-	(104,175)
Other comprehensive income	-	-	8,937	1,151	10,088
<b>Total comprehensive income / (loss) for the year</b>	<b>-</b>	<b>(104,175)</b>	<b>8,937</b>	<b>1,151</b>	<b>(94,087)</b>
<b>Transactions with owners in their capacity as owners:</b>					
Issue of share capital	4,844	-	-	-	4,844
Dividends paid	-	(5,938)	-	-	(5,938)
<b>At 30 June 2016</b>	<b>152,518</b>	<b>4,905</b>	<b>40,885</b>	<b>1,080</b>	<b>199,388</b>
<b>At 1 July 2014</b>	<b>145,415</b>	<b>109,305</b>	<b>31,948</b>	<b>610</b>	<b>287,278</b>
Profit for the year	-	13,308	-	-	13,308
Other comprehensive income	-	-	-	(681)	(681)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>13,308</b>	<b>-</b>	<b>(681)</b>	<b>12,627</b>
<b>Transactions with owners in their capacity as owners:</b>					
Issue of share capital	2,259	-	-	-	2,259
Dividends paid	-	(7,595)	-	-	(7,595)
<b>At 30 June 2015</b>	<b>147,674</b>	<b>115,018</b>	<b>31,948</b>	<b>(71)</b>	<b>294,569</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers		777,135	755,691
Cash payments to suppliers and employees		(704,529)	(674,245)
Interest received		36	122
Borrowing costs paid		(7,094)	(7,261)
Income taxes paid		(951)	(2,490)
Net goods and services tax paid		(23,475)	(23,661)
<b>Net cash provided by operating activities</b>	<b>9</b>	<b>41,122</b>	48,156
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of non-current assets		6,744	11,052
Payments for property plant & equipment		(10,994)	(11,329)
Acquisition of business		(6,724)	(2,688)
<b>Net cash used in investing activities</b>		<b>(10,974)</b>	(2,965)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from share issue		537	586
Proceeds from borrowings		18,000	13,417
Repayments of borrowings		(11,000)	(24,417)
Repayment of lease and hire purchase liabilities		(35,826)	(45,009)
Dividends paid, net of dividend reinvestment plan		(2,031)	(5,918)
<b>Net cash used in financing activities</b>		<b>(30,320)</b>	(61,341)
Net increase/(decrease) in cash held		(172)	(16,151)
Cash at the beginning of the financial year		7,326	23,532
Effects of exchange rate variances on cash		238	(55)
<b>Cash at the end of the financial year</b>	<b>9</b>	<b>7,392</b>	7,326

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 1. CORPORATE INFORMATION

The financial report of K&S Corporation Limited for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of Directors on 23 August 2016.

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 4.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of preparation

The financial report is a general purpose financial report for a for-profit entity, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for land and buildings which have been measured at fair value. The carrying values of cash flow hedges are also stated at fair value with the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge recognised directly in equity and the ineffective portion recognised in profit or loss.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated, under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/91 dated 24 March 2016. The Company is an entity to which the legislative instrument applies.

#### b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### c) New Accounting Standards and Interpretations

##### (i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2016.

Reference	Title	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.	1 January 2015	Application of the amendments has not had any impact on the Group's financial report.	1 July 2015
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.	1 July 2015	Application of the amendments has not had any impact on the Group's financial report.	1 July 2015

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

(ii) *Accounting Standards and interpretations issued but not yet effective*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2016, outlined in the table below:

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.</p> <p>Classification and measurement</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.</p> <p>The main changes are described below.</p> <p><b>Financial assets</b></p> <p>a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p><b>Financial liabilities</b></p> <p>Changes introduced by AASB 9 in respect of financial liabilities are limited to the measurement of liabilities designated at fair value through profit or loss (FVPL) using the fair value option. Where the fair value option is used for financial liabilities, the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> <li>▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>▶ The remaining change is presented in profit or loss</li> </ul> <p>AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains or losses attributable to changes in the entity's own credit risk would be recognised in OCI. These amounts recognised in OCI are not recycled to profit or loss if the liability is ever repurchased at a discount.</p>	1 January 2018	The amendments are not expected to have any impact on the Group's financial report.	1 July 2018

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FOR THE YEAR ENDED 30 JUNE 2016

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
		<p><b>Impairment</b></p> <p>The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.</p> <p>Hedge accounting</p> <p>Amendments to AASB 9 (December 2009 &amp; 2010 editions and AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.</p> <p>AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in Dec 2014.</p> <p>AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on after 1 January 2015.</p>			
AASB 2014-3	<i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 &amp; AASB 11]</i>	<p>AASB 2014-3 amends AASB 11 Joint Arrangements to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:</p> <p>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 Business Combinations, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11</p> <p>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations</p> <p>This Standard also makes an editorial correction to AASB 11.</p>	1 January 2016	The amendments are not expected to have any impact on the Group's financial report.	1 July 2016
AASB 2014-4	<i>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)</i>	<p>AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>	1 January 2016	The amendments are not expected to have any impact on the Group's financial report.	1 July 2016



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FOR THE YEAR ENDED 30 JUNE 2016

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 15	<i>Revenue from Contracts with Customers</i>	<p>AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). 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 the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ul style="list-style-type: none"> <li>(a) Step 1: Identify the contract(s) with a customer</li> <li>(b) Step 2: Identify the performance obligations in the contract</li> <li>(c) Step 3: Determine the transaction price</li> <li>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ul> <p>AASB 2015-8 amended the AASB 15 effective date so it is now effective for annual reporting periods commencing on or after 1 January 2018. Early application is permitted.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p> <p>AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence and provides further practical expedients on transition to AASB 15.</p>	1 January 2018	The Group is reviewing the new standard and has not yet determined the extent of the impact of the amendments, if any.	1 July 2018
AASB 1057	<i>Application of Australian Accounting Standards</i>	<p>This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible. The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities.</p>	1 January 2016	The amendments are not expected to have any impact on the Group's financial report.	1 July 2016
AASB 2014-9	<i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i>	<p>AASB 2014-9 amends AASB 127 <i>Separate Financial Statements</i>, and consequentially amends AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i>, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.</p> <p>AASB 2014-9 also makes editorial corrections to AASB 127.</p> <p>AASB 2014-9 applies to annual reporting periods beginning on or after 1 January 2016. Early adoption permitted.</p>	1 January 2016	The amendments are not expected to have any impact on the Group's financial report.	1 July 2016

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FOR THE YEAR ENDED 30 JUNE 2016

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 2014-10	<i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	<p>AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require:</p> <p>(a) A full gain or loss to be recognised when a transaction involves a business (whether it is housed in a subsidiary or not)</p> <p>(b) A partial gain or loss to be recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.</p> <p>AASB 2014-10 also makes an editorial correction to AASB 10.</p> <p>AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018 instead of 1 January 2016.</p>	1 January 2018	The amendments are not expected to have any impact on the Group's financial report.	1 July 2018
AASB 2015-1	<i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle</i>	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</p> <ul style="list-style-type: none"> <li>• Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</li> </ul> <p>AASB 7 Financial Instruments: Disclosures:</p> <ul style="list-style-type: none"> <li>• Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E–42H of AASB 7.</li> <li>• Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 Disclosure–Offsetting Financial Assets and Financial Liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 Interim Financial Reporting when its inclusion would be required by the requirements of AASB 134.</li> </ul> <p>AASB 119 Employee Benefits:</p> <ul style="list-style-type: none"> <li>• Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</li> </ul> <p>AASB 134 Interim Financial Reporting:</p> <ul style="list-style-type: none"> <li>• Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</li> </ul>	1 January 2016	The amendments are not expected to have any impact on the Group's financial report.	1 July 2016

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Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 2015-2	<i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i>	The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB’s Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.	1 January 2016	The amendments are not expected to have any impact on the Group’s financial report.	1 July 2016
AASB 2015-9	<i>Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 &amp; AASB 1057]</i>	This Standard inserts scope paragraphs into AASB 8 and AASB 133 in place of application paragraph text in AASB 1057. This is to correct inadvertent removal of these paragraphs during editorial changes made in August 2015. There is no change to the requirements or the applicability of AASB 8 and AASB 133.	1 January 2016	The amendments are not expected to have any impact on the Group’s financial report.	1 July 2016
AASB 16	<i>Leases</i>	<p>The key features of AASB 16 are as follows:</p> <p>Lessee accounting</p> <ul style="list-style-type: none"> <li>• Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>• A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.</li> <li>• Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</li> <li>• AASB 16 contains disclosure requirements for lessees.</li> </ul> <p>Lessor accounting</p> <ul style="list-style-type: none"> <li>• AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> <li>• AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor’s risk exposure, particularly to residual value risk.</li> </ul> <p>AASB 16 supersedes:</p> <p>(a) AASB 117 Leases                      (b) Interpretation 4 Determining whether an Arrangement contains a Lease                      (c) SIC-15 Operating Leases—Incentives                      (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease</p> <p>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>	1 January 2019	The Group is reviewing the new standard and has not yet determined the extent of the impact of the amendments, if any.	1 July 2019

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FOR THE YEAR ENDED 30 JUNE 2016

Reference	Title	Summary	Application date of standard	Impact on Group Financial Report	Application date for Group
AASB 2016-1	<i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses[AASB 112]</i>	This Standard amends AASB 112 Income Taxes (July 2004) and AASB 112 Income Taxes (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.	1 January 2017	The amendments are not expected to have any impact on the Group's financial report.	1 July 2017
AASB 2016-2	<i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107</i>	This Standard amends AASB 107 <i>Statement of Cash Flows</i> (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	The Group is reviewing the new standard and has not yet determined the extent of the impact of the amendments, if any.	1 July 2017
AASB 2016-5	<i>Amendments to Australian Accounting Standards - Classification and Measurement of Share-based Payment Transactions.</i>	This standard amends to AASB 2016-5 <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: <ul style="list-style-type: none"> <li>▶ The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments</li> <li>▶ Share-based payment transactions with a net settlement feature for withholding tax obligations</li> <li>▶ 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</li> </ul>	1 January 2018	The amendments are not expected to have any impact on the Group's financial report.	1 July 2018

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Basis of consolidation

The consolidated financial statements comprise the financial statements of K&S Corporation Limited and its subsidiaries ("the Group") as at 30 June each year.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from inter-group transactions, have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries by K&S Corporation Limited are accounted for at cost in the separate financial statements of the parent less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of the dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exists. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration, (including the fair value of any pre-existing investment in the acquiree), is goodwill or a discount on acquisition. A change in the ownership interest of a subsidiary, that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the Statement of Comprehensive Income and are presented within equity in the Statement of Financial Position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

#### e) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred to the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

#### f) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following aspects:

- Nature of the product or services;
- Type or class of customer for the product or services; and
- Methods used to distribute the products or provide services.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

#### g) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *i) Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of fuel products to entities outside the consolidated entity. Sales revenue is recognised when fuel is provided.

##### *ii) Rendering of services*

Service revenue from the distribution of customer goods is recognised when goods are dispatched.

##### *iii) Interest*

Revenue is recognised as the interest accrues using the effective interest method. This method calculates the amortised cost of a financial asset and allocates the interest over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

##### *iv) Dividends*

Revenue is recognised when the Group's right to receive the payment is established.

#### h) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**i) Leases**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

**j) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

**k) Inventories**

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

**Consumables** – purchase cost on a first-in, first-out basis;

**Finished goods** – weighted average cost.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

**l) Derivative financial instruments**

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate contracts is determined by reference to market value for similar instruments.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (interest rate swaps) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in profit or loss.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to profit or loss in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit or loss.

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss.

#### m) Derecognition of financial assets and liabilities

##### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### n) Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

##### *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.



# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Financial assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

#### **o) Foreign currency translation**

Both the functional and presentation currency of K&S Corporation Ltd and its Australian subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiaries (K&S Freighters Limited and Cochrane's Transport Limited) is New Zealand dollars (NZ\$).

As at the reporting date, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of K&S Corporation Limited at the rate of exchange ruling at the reporting date and the revenue and expenses are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating of that particular foreign operation is recognised in profit or loss.

#### **p) Investment in associates**

The Group's investment in its associates is accounted for under the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities in which the Group has significant influence and that are neither a subsidiary nor a joint venture.

Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment loss is recognised, the amount is not allocated to the goodwill of the associate.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group's share of associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from the associates are recognised in the parent entity's statement of comprehensive income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### q) **Income tax and other taxes**

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences is associated with investments in subsidiaries and associates and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the profit or loss.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxable authority.

#### *Other taxes*

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### **r) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis using the following rates:

Land	Not depreciated
Buildings	2.5% p.a.
Motor vehicles	5% - 40% p.a.
Plant and equipment	5% - 27% p.a.

#### *i) Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment exists when the carrying values of an asset or cash-generating unit exceeds its estimated recoverable amount. The assets or cash-generating units are written down to their recoverable amount. For plant and equipment, impairment losses are recognised in profit or loss. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

#### *ii) Revaluations*

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is determined by reference to market-based evidence, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Any revaluation increment is credited to the asset revaluation reserve included in the equity section of the Statement of Financial Position unless it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any revaluation decrease is recognised in profit or loss unless it directly offsets a previous revaluation increase for the same asset debited directly to the asset revaluation reserve.

In addition, any accumulated depreciation as at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the reporting date.

#### *iii) Derecognition and disposal*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognised.

#### s) **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

#### t) **Investments and other financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation and convention in the marketplace.

#### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

#### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing methods.

#### **u) Goodwill and intangibles**

##### *Goodwill*

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which goodwill is allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes, and is not larger than an operating segment determined in accordance with AASB 8.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Intangibles*

Intangible assets are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

#### *Development costs*

An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during the development.

Following initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefits from the related project.

The estimated useful life for the current and comparative periods is as follows:

Software and technology	7 years
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#### v) **Impairment of assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amounts (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the impairment loss was recognised.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If that is the case, the carrying amount of the asset is increased to the recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the assets in prior years. Such reversal is recognised in the profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**w) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in profit or loss when the liabilities are derecognised, as well as through the amortisation process.

**x) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

**y) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**z) Employee leave benefits**

*i) Wages, salaries and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave are all measured at nominal values in respect of employees' service up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*ii) Long service and Annual leave*

The liability for long service leave and non current annual leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using yields in high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

*iii) Defined contribution superannuation funds*

The commitment to defined contribution plans is limited to making contributions in accordance with the minimum statutory requirements. The Group does not have any legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in profit or loss as incurred.

#### *iv) Directors retirement benefits*

Directors commencing after 30 June 2004 are not eligible for any benefit under the Directors Retirement Scheme. However, Non-Executive Directors appointed before that date are eligible to receive retirement benefits on retiring as a Director. In July 2004, the Directors Retirement benefit calculation changed, to freeze the accumulation of years of service for each Director.

#### **aa) Contributed Equity**

Ordinary shares are classified as equity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

#### **bb) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

#### **cc) Significant accounting judgments, estimates and assumptions**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

#### *(i) Significant accounting judgments*

##### *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgment is required to determine the amount of deferred taxes that can be recognised, based upon the likely timing and the level of future taxable profits.

##### *Taxation*

The Group's accounting policy for taxation requires management judgment as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgment is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets are recognised only where it is considered more likely than not that they will be recovered, which is dependant on sufficient future profits.



# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(ii) Significant accounting estimates and assumptions*

##### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in Note 16.

##### *Make good provisions*

Provision is made for anticipated costs of future restoration of leased storage premises. The future cost estimates are discounted to their present value. The related carrying amounts are disclosed in Note 19.

##### *Allowance for impairment loss on trade receivables*

Where receivables are outstanding beyond normal trading terms, the likelihood of recovery of these receivables is assessed by management. This assessment is based on supportable past collection history and historical write-offs of bad debts. The allowance for impairment loss is outlined in Note 10.

##### *Long service leave provision*

As discussed in Note 2 (z), the liability for long service is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

##### *Impairment of non-financial assets other than goodwill*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, finance leases and hire purchase contracts and cash deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also entered into derivative transactions, principally interest rate swap contracts. The purpose was to manage the interest rate risk arising from the Group's operations and its sources of finance. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 2 to the financial statements.

#### *Risk exposures and responses*

##### *Fair Value*

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Lease assets and liabilities are categorised as Level 2, the valuation contains observable Level 2 price inputs. The fair values of the Group's interest-bearing borrowings and loans are determined by using the DCF method using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 June 2016 was assessed to be insignificant.

For other assets and liabilities the net fair value approximates their book value

No financial assets and liabilities are readily traded on organised markets in standardised form.

##### *Credit risk*

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. It is the Group's policy that customers who wish to trade on credit more than \$1,000 per week are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

While the consolidated entity also minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties in various states, the Group is materially exposed to counterparty risk with several of its major customers. Concentration of credit risk on trade debtors due from customers are: Transport 94% (2015: 94%) and Fuel 6% (2015: 6%).

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### *Risk exposures and responses (continued)*

##### *Foreign currency risk*

The Group's exposure to currency risk is minimal.

##### *Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The level of debt is disclosed in Note 18.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges:

	<b>CONSOLIDATED</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Financial Assets		
- Cash and cash equivalents	<b>7,392</b>	7,326
Financial Liabilities		
- Bank loans	<b>(20,625)</b>	(13,625)
Net exposure	<b>(13,233)</b>	(6,299)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the Balance Sheet date:

#### **Judgements of reasonably possible movements:**

	<b>Post Tax Profit</b>		<b>Equity</b>	
	<b>Higher / (Lower)</b>		<b>Higher / (Lower)</b>	
	<b>2016</b>	2015	<b>2016</b>	2015
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>Consolidated</b>				
+ 1% (100 basis points)	<b>(93)</b>	(44)	<b>(93)</b>	(44)
- 0.5% (50 basis points)	<b>46</b>	22	<b>46</b>	22

The movements in profit are due to higher/lower interest costs from variable debt and cash balances.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based upon the Group's current credit rating and debt mix in Australia and New Zealand.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months.

##### *Liquidity risk*

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and committed lines of credit. The Group's policy in managing liquidity risk is to ensure the Group always has sufficient liquidity to meet its financial obligations when due, as well as to accommodate unforeseen cash requirements over both the short and long term.

##### *i) Non-derivative financial liabilities*

The following liquidity risk disclosure reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities and financial guarantees as of 30 June 2016. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract.

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

#### *Risk exposures and responses (continued)*

However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. When the Group is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the Group is required to pay. For financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The following table reflects a balanced view of cash inflows and outflows of non-derivative financial instruments:

	Less than 1 year \$'000	1 to 2 years \$'000	2 to 5 years \$'000	Greater than 5 years \$'000	Total \$'000
<b>Year ended 30 June 2016</b>					
<b>Liquid financial assets</b>					
Cash and cash equivalents	7,392	-	-	-	7,392
Trade and other receivables	67,006	374	748	135	68,263
	74,398	374	748	135	75,655
<b>Financial liabilities</b>					
Interest bearing loans and borrowings	(36,976)	(43,000)	(42,794)	-	(122,770)
Trade and other payables	(62,274)	-	-	-	(62,274)
Financial guarantees	(14,988)	-	-	-	(14,988)
	(114,238)	(43,000)	(42,794)	-	(200,032)
<b>Net inflow/(outflow)</b>	<b>(39,840)</b>	<b>(42,626)</b>	<b>(42,046)</b>	<b>135</b>	<b>(124,377)</b>
<b>Year ended 30 June 2015</b>					
<b>Liquid financial assets</b>					
Cash and cash equivalents	7,326	-	-	-	7,326
Trade and other receivables	87,300	391	681	83	88,455
	94,626	391	681	83	95,781
<b>Financial liabilities</b>					
Interest bearing loans and borrowings	(35,171)	(36,356)	(43,361)	-	(114,888)
Trade and other payables	(73,476)	(6,586)	-	-	(80,062)
Financial guarantees	(19,488)	-	-	-	(19,488)
	(128,135)	(42,942)	(43,361)	-	(214,438)
<b>Net inflow/(outflow)</b>	<b>(33,509)</b>	<b>(42,551)</b>	<b>(42,680)</b>	<b>83</b>	<b>(118,657)</b>

The Group's available credit facilities are outlined in Note 18.

#### *ii) Derivative financial liabilities*

Due to the unique characteristics and risks inherent to derivative instruments, the Group separately monitors the liquidity risk arising from transacting in derivative instruments.

The Group holds no derivative liabilities at balance date.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 4. OPERATING SEGMENTS

#### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Executive Management Team in assessing performance and in determining the allocation of resources.

The Executive Management determined that the Group has three operating segments.

The Group's internal management reporting systems and business model, which monitors resource allocation and working capital fall under the following three segments:

- **Australian Transport** – The provision of logistical services to customers within Australia.
- **Fuels** - The distribution of fuel to fishing, farming and retail customers within the South East of South Australia.
- **New Zealand Transport** – The provision of logistical services to customers within New Zealand.

#### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in Note 2 to the accounts and in the prior period except as detailed below:

##### *Inter-entity sales*

Inter-entity sales are recognised based on an internally set transfer price. The price is set periodically and aims to reflect what the business operations could achieve if they sold their output and services to external parties at arm's length.

##### *Corporate charges*

Corporate charges are allocated to each operating segment on a proportionate basis linked to segment revenue so as to determine a segmental result.

##### *Segment loans payable and loans receivable*

Segment loans are initially recognised at the consideration received excluding transaction costs. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

The entity has one customer which contributes greater than 10% of total revenue (\$76.7m) and falls within the Australian Transport Segment.

The following table presents revenue and profit information for reportable segments for the years ended 30 June 2016 and 30 June 2015.

	Australian Transport \$'000	Fuel \$'000	New Zealand Transport \$'000	Total \$'000
<b>Year ended 30 June 2016</b>				
<b>Revenue</b>				
External customers	589,109	63,688	35,930	688,727
Finance revenue	17	-	19	36
Inter-segment sales	430	60,101	-	60,531
<b>Total segment revenue</b>	<b>589,556</b>	<b>123,789</b>	<b>35,949</b>	<b>749,294</b>
<b>Results</b>				
Depreciation and amortisation expense	(35,192)	-	(3,670)	(38,862)
Finance costs	(5,853)	-	(1,241)	(7,094)
Share of profits of associates	132	-	-	132
Impairment charges	(115,119)	(165)	-	(115,284)
<b>Segment net operating (loss) / profit after tax</b>	<b>(108,199)</b>	<b>2,161</b>	<b>1,863</b>	<b>(104,175)</b>
<b>Operating assets</b>	<b>381,519</b>	<b>24,320</b>	<b>42,530</b>	<b>448,369</b>
<b>Operating liabilities</b>	<b>212,261</b>	<b>7,973</b>	<b>11,690</b>	<b>231,924</b>
<b>Other disclosures</b>				
Investments in associate	395	-	-	395
Capital expenditure	(44,188)	-	(7,493)	(51,681)

Inter-segment revenues of \$60,531,000 are eliminated on consolidation.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 4 OPERATING SEGMENTS (continued)

	Australian Transport \$'000	Fuel \$'000	New Zealand Transport \$'000	Total \$'000
<b>Year ended 30 June 2015</b>				
<b>Revenue</b>				
External customers	604,485	61,596	33,010	699,091
Finance revenue	96	-	26	122
Inter-segment sales	411	44,403	-	44,814
<b>Total segment revenue</b>	<b>604,992</b>	<b>105,999</b>	<b>33,036</b>	<b>744,027</b>
<b>Results</b>				
Depreciation and amortisation expense	(33,242)	-	(3,359)	(36,601)
Finance costs	(6,266)	-	(995)	(7,261)
Share of profits of associates	110	-	-	110
<b>Segment net operating profit after tax</b>	<b>10,387</b>	<b>1,441</b>	<b>1,480</b>	<b>13,308</b>
<b>Operating assets</b>	<b>483,522</b>	<b>23,352</b>	<b>36,030</b>	<b>542,904</b>
<b>Operating liabilities</b>	<b>205,029</b>	<b>9,177</b>	<b>13,210</b>	<b>227,416</b>
<b>Other disclosures</b>				
Investments in associate	413	-	-	413
Capital expenditure	(42,516)	-	(13,459)	(55,975)

Inter-segment revenues of \$44,814,000 are eliminated on consolidation.

### CONSOLIDATED

2016      2015  
\$'000      \$'000

#### i) Segment revenue reconciliation to the Statement of Comprehensive Income

Total segment revenue	<b>749,294</b>	744,027
Inter-segment sales elimination	<b>(60,531)</b>	(44,814)
Total revenue	<b>688,763</b>	699,213

Revenue from external customers by geographical location is detailed below. Revenue is attributed to geographic location based on the location of the customers. The Company does not have external revenues from external customers that are attributable to any foreign country other than as shown.

Australia	<b>652,814</b>	666,177
New Zealand	<b>35,949</b>	33,036
Total revenue	<b>688,763</b>	699,213

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 4 OPERATING SEGMENTS (continued)

#### ii) Segment assets reconciliation to the Statement of Financial Position

Segment assets are those operating assets of the entity that the executive management committee views as directly attributing to the performance of the segment. These assets include plant and equipment, receivables, inventory, intangibles and exclude deferred tax assets.

Reconciliation of segment operating assets to total assets:

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
Segment operating assets	448,369	542,904
Inter-segment eliminations	(18,369)	(16,824)
Deferred tax assets	14,107	10,179
Income tax receivable	897	-
Total assets per the Statement of Financial Position	445,004	536,259

The analysis of location of non-current assets other than financial instruments and deferred tax assets is as follows:

Australia	307,148	389,976
New Zealand	35,429	29,788
Total assets per the Statement of Financial Position	342,577	419,764

#### iii) Segment liabilities reconciliation to the Statement of Financial Position

Segment liabilities include trade and other payables and debt. The Group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations. The Managing Director, Chief Financial Officer and Directors review the level of debts for each segment in the monthly board meetings.

Reconciliation of segment operating liabilities to total liabilities.

Segment operating liabilities	231,924	227,416
Inter-segment eliminations	(18,369)	(16,824)
Deferred tax liabilities	32,061	28,716
Income tax payable	-	1,302
Total liabilities per the Statement of Financial Position	245,616	240,610

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>5 REVENUE AND EXPENSES</b>		
<b>a) Revenue</b>		
Rendering of services	611,197	637,495
Sale of goods	77,530	61,596
Finance revenue	36	122
<b>Total revenue</b>	<b>688,763</b>	<b>699,213</b>
<b>b) Other income</b>		
- Net gains on disposal of property, plant and equipment	2,842	1,961
- Other	2,307	3,824
<b>Total other income</b>	<b>5,149</b>	<b>5,785</b>
<b>c) Finance costs</b>		
- Related parties – other	-	-
- Other parties	1,863	1,753
- Finance charges on hire purchase contracts	5,231	5,508
<b>Total finance costs</b>	<b>7,094</b>	<b>7,261</b>
<b>d) Depreciation and amortisation expense</b>		
Depreciation		
- Buildings	1,901	2,317
- Motor vehicles	31,220	29,491
- Plant and equipment	4,881	3,934
Amortisation		
- Customer contracts	257	257
- IT development costs	603	602
<b>Total depreciation and amortisation expense</b>	<b>38,862</b>	<b>36,601</b>



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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 5 REVENUE AND EXPENSES (continued)

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>e) Employee expenses</b>		
- Wages and salaries	180,535	177,374
- Workers' compensation costs	7,971	5,792
- Long service leave provision	1,832	1,675
- Annual leave provision	12,010	11,414
- Payroll tax	10,264	10,098
- Defined contribution plan expense	13,047	12,808
- Directors retirement scheme expense	20	11
<b>Total employee expenses</b>	<b>225,679</b>	<b>219,172</b>
<b>f) Operating lease rental expense</b>		
- Property	14,326	14,236
- Plant & equipment	3,815	3,428
	<b>18,141</b>	<b>17,664</b>

### 6 INCOME TAX

The major components of income tax expense are:

#### Statement of Comprehensive Income

##### Current income tax

- Current income tax charge	252	4,416
- Adjustments in respect of current income tax of previous years	(74)	(146)

##### Deferred income tax

- Relating to origination and reversal of Income tax expense reported in the Statement of Comprehensive Income temporary differences	(5,908)	1,220
Income tax expense / (benefit) reported in the Statement of Comprehensive Income	<b>(5,730)</b>	<b>5,490</b>

#### Statement of Changes in Equity

##### Deferred income tax related to items charged or credited directly to equity

- Net gain on revaluation of land and buildings	3,830	-
Income tax expense reported in equity	<b>3,830</b>	<b>-</b>

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit / (loss) before income tax	(109,905)	18,798
At the Group's statutory income tax rate of 30% (2015: 30%)	(32,971)	5,639
- Expenditure not allowable for income tax purposes	27,315	(3)
- Adjustments in respect of current income tax of previous years	(74)	(146)
Income tax expense reported in the Statement of Comprehensive Income	<b>(5,730)</b>	<b>5,490</b>

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 6 INCOME TAX (continued)

#### Recognised deferred tax assets and liabilities

	CONSOLIDATED			
	2016	2016	2015	2015
	\$'000	\$'000	\$'000	\$'000
	Current income tax	Deferred income tax	Current income tax	Deferred income tax
Opening balance	(1,302)	(18,537)	(1,677)	(16,470)
Charged to income	4,970	760	(4,270)	(1,220)
Eliminations	-	-	-	-
DTA Recognised on Losses	(3,747)	3,747	-	-
Charged to equity	-	(3,830)	2,145	(880)
Other payments	976	-	2,496	-
Exchange rate	-	(94)	4	33
Closing balance	<u>897</u>	<u>(17,954)</u>	(1,302)	(18,537)
Tax (benefit)/ expense in Statement of Comprehensive Income		(5,730)		5,490
Amounts recognised in the Statement of Financial Position:				
Deferred tax asset		14,107		10,179
Deferred tax liability		(32,061)		(28,716)
		<u>(17,954)</u>		<u>(18,537)</u>

#### Statement of Financial Position

2016                      2015  
\$'000                      \$'000

#### Deferred income tax

Deferred income tax at 30 June relates to the following:

#### CONSOLIDATED

##### *Deferred tax liabilities*

- Accelerated depreciation for tax purposes	(10,563)	(10,818)
- Revaluation of land & buildings to fair value	(18,023)	(14,193)
- Trade and other receivables not derived for tax purposes	(3,475)	(2,771)
- Intangibles (brands and customer contracts)	-	(934)
	<u>(32,061)</u>	<u>(28,716)</u>

##### *Deferred tax assets*

- DTA Recognised on Losses	3,747	-
- Accelerated depreciation for accounting purposes	744	637
- Trade and other payables not currently deductible	1,680	1,602
- Trade and other receivables not derived for tax purposes	136	177
- Employee entitlements not currently deductible	7,800	7,763
	<u>14,107</u>	<u>10,179</u>

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 6 INCOME TAX (continued)

#### Tax consolidation

##### (i) Members of the tax consolidated group and the tax sharing arrangement

Effective 1 July 2002, for the purposes of income taxation, K&S Corporation Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group. K&S Corporation Limited is the head entity of the tax consolidated group. Members of the group entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote.

K&S Corporation Limited formally notified the Australian Tax Office of its adoption of the tax consolidation regime when lodging its 30 June 2003 consolidated tax return.

##### (ii) Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires members of the tax consolidated group to make contributions to the head company for tax liabilities and deferred tax balances arising from transactions occurring after the implementation of tax consolidation. Contributions are payable following the payment of the liabilities by K&S Corporation Limited. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense or benefit. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidation group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. In addition to its own current and deferred tax amounts, the head entity also recognises current and deferred tax assets and liabilities arising from unused tax losses and unused tax credits assumed from controlled entities within the tax consolidated group.

In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or upon leaving the Group.

A Deferred tax Asset / Liability is recognised when there is a deductible / taxable temporary difference between the tax base of an asset or liability and its carrying amount in the statement of financial position.

In preparing the accounts for K&S Corporation Limited for the current year, the following amounts have been recognised as tax consolidation adjustments:

	PARENT	
	2016	2015
	\$'000	\$'000
Total increase/(reduction) to tax expense of K&S Corporation Ltd	5,205	(2,867)
Total increase/(reduction) to inter-company assets of K&S Corporation Ltd	(5,205)	2,867

### 7 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit after tax for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
Net (loss)/ profit attributable to ordinary equity holders of the parent from continuing operations	(104,175)	13,308
<b>Net (loss)/ profit attributable to ordinary equity holders of the parent</b>	<b>(104,175)</b>	<b>13,308</b>
	<b>2016</b>	<b>2015</b>
	<i>Thousands</i>	<i>Thousands</i>
Weighted average number of ordinary shares used in the calculation of the basic earnings per share	<b>119,681</b>	116,842
Effect of dilution		
- Ordinary shares	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>119,681</b>	116,842

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 8 DIVIDENDS PAID AND PROPOSED

	<b>CONSOLIDATED</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	<b>\$'000</b>
<i>Declared and paid during the year:</i>		
Dividends on ordinary shares		
Final franked dividend for 2015: 3.5 cents (2014: 3.0 cents)	<b>4,132</b>	3,499
Interim franked dividend for 2016: 1.5 cents (2015: 3.5 cents)	<b>1,806</b>	4,096
	<b>5,938</b>	7,595
 <i>Proposed (not recognised as a liability as at 30 June):</i>		
Dividends on ordinary shares		
Final franked dividend for 2016: \$Nil (2015: 3.5 cents)	-	4,117
 <b>Franking credit balance</b>		
The amount of franking credits available for the subsequent year are:		
▪ franking account balance as at the end of the financial year at 30% (2015: 30%)	<b>46,612</b>	48,368
▪ franking credits that will arise from the payment of income tax payable as at the end of the financial year.	-	544
	-	544
 The amount of franking credits available for future reporting periods:		
▪ impact on franking account of dividends proposed but not recognised as a distribution to equity holders during the period.	-	(1,764)
	-	(1,764)

#### **Tax rates**

The tax rate at which dividends have been franked is 30% (2015: 30%).  
Dividends proposed will be franked at the rate of 30% (2015: 30%).

### 9 CASH AND CASH EQUIVALENTS

Cash	<b>56</b>	52
Cash deposits with banks	<b>7,336</b>	7,274
	<b>7,392</b>	7,326

Cash at bank earns interest at floating rates based on daily bank deposit rates.

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 9 CASH AND CASH EQUIVALENTS (continued)

#### Reconciliation of net profit / (loss) after income tax to net cash flows from operations

Net profit / (loss) after income tax	(104,175)	13,308
Add/(less) items classified as investing/financing activities:		
- (Profit)/loss on sale of non current assets	(2,842)	(934)
Add/(less) non cash items:		
- Impairment of intangibles /non-current assets	115,284	-
- Amortisation	860	252
- Amounts set aside to provisions	(134)	(3,890)
- Depreciation	38,002	36,601
- Share of associates' net profit	(132)	(110)
- Dividends received from associates	150	-
<b>Net cash provided by operating activities before changes in assets and liabilities</b>	<b>47,013</b>	<b>45,227</b>
<b>CHANGE IN ASSETS AND LIABILITIES</b>		
(Increase)/decrease in inventories	357	(233)
(Increase)/decrease in income tax benefit	(3,895)	494
(Increase)/decrease in prepayments	(982)	414
(Increase)/decrease in receivables	8,830	(4,830)
(Decrease)/increase in trade creditors	(7,414)	4,627
(Decrease)/increase in income taxes payable	(2,204)	(394)
(Decrease)/increase in deferred taxes payable	(562)	2,879
Exchange rate changes on opening cash balances	(21)	(28)
Net cash provided by/(used in) operating activities	<b>41,122</b>	<b>48,156</b>

#### Disclosure of financing facilities

Refer to Note 18.

#### Disclosure of non-cash financing and investing activities

Refer to Note 18.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### CONSOLIDATED

2016                      2015  
\$'000                      \$'000

#### 10 TRADE AND OTHER RECEIVABLES

##### Current

Trade debtors	59,884	78,232
Allowance for impairment loss (a)	(437)	(588)
	59,447	77,644
 Sundry debtors	 7,185	 9,265
	66,632	86,909

##### Non-current

Related party receivables		
- Employee share plan loans	1,509	1,422
	1,509	1,422

##### a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received for the relevant debtors.

##### b) Arrium

On 7 April 2016, our largest customer Arrium was placed in voluntary administration. Working with the administrators KordaMentha we have continued to provide transport services to the Arrium Group. Director's have decided to write off the carrying value of our receivable of \$11.8 million excluding GST. The administrators of the Arrium Group have started a sale process with Morgan Stanley. The timing and size of any recovery is unknown.

Movements in the provision for impairment loss were as follows:

At 1 July	588	660
Charge for the year	13,284	319
Amounts written off (b)	(13,435)	(391)
At 30 June	437	588

##### At 30 June, the aging analysis of trade receivables is as follows

Consolidated	Total	0-30 Days	31-60 Days	61-90 Days	61-90 Days	+91 Days	+91 Days
				PDNI*	CI**	PDNI*	CI**
2016	59,884	42,722	12,409	2,562	-	1,754	437
2015	78,232	56,599	16,538	2,922	-	1,585	588

\* Past due not impaired ('PDNI')

\*\*Considered impaired ('CI')

Receivables past due but not impaired payment terms have not been re-negotiated. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

##### c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

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	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>11 INVENTORIES</b>		
Consumable stores - at cost	2,146	1,314
Finished goods - fuel at cost	2,083	2,649
Total inventories at the lower of cost and net realisable value	4,229	3,963

**a) Inventory expense**

Inventories recognised as an expense for the year ended 30 June 2016 totalled \$67,184,000 (2015: \$56,936,000) for the Group. This expense relates to fuel sold and has been included in the cost of goods sold line item.

	PARENT	
	2016	2015
	\$'000	\$'000
<b>12 OTHER FINANCIAL ASSETS</b>		
Investments controlled entities		
- Shares – unlisted at cost	78,552	78,552
	78,552	78,552

**13 INVESTMENT IN ASSOCIATE**

**a) Investment details**

	Interest Owned		Investment Carrying Amount Consolidated	
	2016	2015	2016	2015
	%	%	\$'000	\$'000
Smart Logistics Pty Ltd	50	50	395	413
Investment in associate			395	413

Smart Logistics Pty Ltd is a provider of distribution services and consultant in transport and distribution. Smart Logistics Pty Ltd was incorporated in Australia.

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FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>13 INVESTMENT IN ASSOCIATE (continued)</b>		
<b>b) Movements in the carrying amount of the Group's investment in associate</b>		
Smart Logistics Pty Ltd		
At 1 July	413	303
Share of profit/(loss) after income tax	132	110
Dividend payment	(150)	-
At 30 June	395	413
<b>c) Summarised financial information</b>		
The following table illustrates summarised financial information relating to the Group's associates:		
<i>Extract from the associates' Statement of Financial Position:</i>		
Current assets	5,526	5,931
Non-current assets	46	44
	5,572	5,975
Current liabilities	(4,764)	(5,150)
Non-current liabilities	(17)	-
	(4,781)	(5,150)
Net assets/(liabilities)	791	825
<i>Proportion of Group's ownership</i>	50.0%	50.0%
Share of associates net assets / (liabilities)	395	413
<i>Carry amount of the Investment</i>	395	413
<i>Extract from the associates' Statement of Comprehensive Income:</i>		
Revenue	61,878	69,563
Net profit	264	232



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FOR THE YEAR ENDED 30 JUNE 2016

	<b>CONSOLIDATED</b>			
	<i>Freehold Land and Buildings</i>	<i>Motor Vehicles</i>	<i>Plant &amp; Equipment</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000
<b>14 PROPERTY, PLANT and EQUIPMENT</b>				
<b>a) Reconciliation of carrying amounts at the beginning and end of the period:</b>				
<b>Year ended 30 June 2016</b>				
As at 1 July 2015, net of accumulated depreciation and impairment	116,150	195,201	15,491	326,842
Additions	51	44,056	7,574	51,681
Disposals	-	(3,701)	(20)	(3,721)
Revaluation	12,767	-	-	12,767
Impairment	(8,212)	(8,688)	-	(16,900)
Depreciation charge for the year	(1,901)	(31,220)	(4,881)	(38,002)
Exchange adjustment	-	2,475	(778)	1,697
At 30 June 2016, net of accumulated depreciation and impairment	<u>118,856</u>	<u>198,123</u>	<u>17,386</u>	<u>334,365</u>
<b>At 30 June 2016</b>				
Cost or fair value	124,941	430,049	64,438	619,428
Accumulated depreciation and impairment	(6,085)	(231,926)	(47,052)	(285,063)
Net carrying amount	<u>118,856</u>	<u>198,123</u>	<u>17,386</u>	<u>334,365</u>
<b>Year ended 30 June 2015</b>				
As at 1 July 2014, net of accumulated depreciation and impairment	118,039	185,837	12,864	316,740
Additions	428	48,886	6,661	55,975
Disposals	-	(9,316)	(90)	(9,406)
Depreciation charge for the year	(2,317)	(29,491)	(3,934)	(35,742)
Exchange adjustment	-	(715)	(10)	(725)
At 30 June 2015, net of accumulated depreciation and impairment	<u>116,150</u>	<u>195,201</u>	<u>15,491</u>	<u>326,842</u>
<b>At 30 June 2015</b>				
Cost or fair value	125,209	403,624	59,516	588,349
Accumulated depreciation and impairment	(9,059)	(208,423)	(44,025)	(261,507)
Net carrying amount	<u>116,150</u>	<u>195,201</u>	<u>15,491</u>	<u>326,842</u>

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 14 PROPERTY, PLANT & EQUIPMENT (continued)

#### b) Revaluation of freehold land and buildings

The freehold land and buildings are included in the financial statements at fair value, except for capital expenditure subsequent to the valuation which is recorded at cost. The fair value of land and buildings in 2016 was determined based on an independent valuation undertaken in March 2016 by Jones Lang LaSalle on the basis of open market values of properties for the highest and best use. Directors have adopted this independent valuation as fair value. This resulted in an increase to the Asset Revaluation Reserve of \$8.9 million, the revaluation uses a 'fair value hierarchy' of measurement.

Fair value of the properties was determined using the market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for differences in the nature, location or condition of the specific property. As at the date of revaluation, the properties fair values are based on valuations performed by Jones Lang LaSalle, an accredited independent valuer.

As the freehold land and buildings measured at fair value above are categorised as level 3, the valuation contains unobservable level 3 price inputs. The most significant unobservable input is dollar per square metre. The quantitative range, subject to location for the calculation is based on a dollar per metre between \$90 and \$350.

#### c) Carrying amounts if land and buildings were measured at cost less accumulated depreciation and impairment

If land and buildings were measured using the cost model the carrying amounts would be as follows:

	CONSOLIDATED	
	2016	2015
	Freehold land and buildings	Freehold land and buildings
	\$'000	\$'000
Cost	87,449	87,397
Accumulated depreciation and impairment	(14,349)	(13,007)
Net carrying amount	73,100	74,390

#### e) Property, plant and equipment pledged as security for liabilities

The carrying value of motor vehicles held under hire purchase contracts at 30 June 2016 is \$144,469,694 (2015: \$124,207,076).

Hire purchase liabilities are secured by the relevant asset.

Included in the balances of freehold land and buildings are assets on which mortgages have been granted as security over bank loans. The terms of the mortgages preclude the assets being sold or used as security for further mortgages without the permission of the mortgage holder. The mortgage also requires buildings that form part of the security to be fully insured at all times.

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### CONSOLIDATED

	<i>IT Development Costs</i>	<i>Goodwill</i>	<i>Brands</i>	<i>Customer Contracts</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>15 INTANGIBLE ASSETS AND GOODWILL</b>					
<b>Year ended 30 June 2016</b>					
At 1 July 2015	1,372	81,435	6,209	2,072	91,088
net of accumulated amortisation and impairment					
Acquisition	-	2,211	-	-	2,211
Impairment	(769)	(77,790)	(6,209)	(1,815)	(86,583)
Amortisation	(603)	-	-	(257)	(860)
Exchange adjustment	-	451	-	-	451
At 30 June 2016,					
net of accumulated amortisation and impairment	-	6,307	-	-	6,307
<b>At 30 June 2016</b>					
Cost (gross carrying amount)	4,190	81,435	6,209	2,418	94,252
Accumulated amortisation and impairment	(4,190)	(75,128)	(6,209)	(2,418)	(87,945)
Net carrying amount	-	6,307	-	-	6,307

	<i>IT Development Costs</i>	<i>Goodwill</i>	<i>Brands</i>	<i>Customer Contracts</i>	<i>Total</i>
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2015</b>					
At 1 July 2014	1,974	82,990	6,209	2,329	93,502
net of accumulated amortisation and impairment					
Adjustments	-	(1,265)	-	-	(1,265)
Amortisation	(602)	-	-	(257)	(859)
Exchange adjustment	-	(290)	-	-	(290)
At 30 June 2015,					
net of accumulated amortisation and impairment	1,372	81,435	6,209	2,072	91,088
<b>At 30 June 2015</b>					
Cost (gross carrying amount)	4,190	81,435	6,209	2,418	94,252
Accumulated amortisation and impairment	(2,818)	-	-	(346)	(3,164)
Net carrying amount	1,372	81,435	6,209	2,072	91,088

IT development costs have been capitalised at cost and relate to the development of the Group's core freight system (Panorama).

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 16 IMPAIRMENT TESTING OF GOODWILL

#### *Cash generating units*

The Group performs an impairment assessment when there is an indication of a possible impairment of its non-current assets and, in addition, performs an impairment review of goodwill and indefinite life intangibles assets at least annually. An impairment review was undertaken as at 31 December 2015 and 30 June 2016.

For the purpose of impairment testing, goodwill is allocated to cash-generating units ('CGUs') which equate to the Group's reportable segments. CGUs are the smallest group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. Impairment testing has been undertaken on a value-in-use basis whereby the net present value of the future cash flows are compared against the carrying amount of net operating assets. Cash flow projections are based on five year financial forecasts.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

	Goodwill	
	2016 \$'000	2015 \$'000
Australian Transport	-	75,413
Fuel	-	165
New Zealand Transport	6,307	5,857
	<b>6,307</b>	<b>81,435</b>

#### *Impairment testing*

The Group's impairment testing compares the carrying value of each CGU with its recoverable amount as determined using a value in use calculation.

The assumptions for determining the recoverable amount of each CGU are based on past experience and senior management's expectations for the future. The cash flow projections are based on financial budgets approved by senior management covering a five-year period.

The Group has used the following key assumptions in determining the recoverable amount of each CGU to which goodwill has been allocated:

	Discount rate		Terminal value growth rate	
	2016 %	2015 %	2016 %	2015 %
Australian Transport	13.93	14.14	3.0	3.0
Fuel	13.71	13.71	3.0	3.0
New Zealand Transport	13.38	13.38	2.5	2.5

#### **Discount rate**

The discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

#### **Terminal growth rate**

The terminal growth rate represents the growth rate applied to the extrapolated cash flows beyond the five year forecast period. This is based on senior management expectations of the cash generating units' long term performance in their respective markets.

#### **Sensitivity analysis**

##### *i) Sensitivity to changes in assumptions*

Whilst there are a range of possible outcomes, the modelling shows the recoverable amount of the Australian Transport CGU exceeds its carrying value by \$10.2m. This excess in recoverable amount could be reduced should changes in the following key assumptions occur:

- Discount rate - an increase in the discount rate of over 0.39% would result in a reduction of the recoverable amount to below the carrying value.
- Terminal growth rate - a decrease in the growth rate of over 0.34% would result in a reduction of the recoverable amount to below the carrying value.
- Terminal cash flow - a decrease in terminal cash flow of over 0.05% would result in a reduction of the recoverable amount to below the carrying value.
- Budget Revenue - a decrease in budget revenue of over 0.16% would result in a reduction of the recoverable amount to below the carrying value.

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Whilst there are a range of possible outcomes, the modelling shows the recoverable amount of the New Zealand Transport CGU exceeds its carrying value by \$5.5m. This excess in recoverable amount could be reduced should changes in the following key assumptions occur:

- Discount rate - an increase in the discount rate of over 1.67% would result in a reduction of the recoverable amount to below the carrying value.
- Terminal growth rate - a decrease in the growth rate of over 1.63% would result in a reduction of the recoverable amount to below the carrying value.
- Terminal cash flow - a decrease in terminal cash flow of over 19.90% would result in a reduction of the recoverable amount to below the carrying value.
- Budget Revenue – a decrease in budget revenue of over 1.33% would result in a reduction of the recoverable amount to below the carrying value.

	<b>CONSOLIDATED</b>	
	<b>2016</b>	2015
	<i>\$'000</i>	<i>\$'000</i>
<b>17 PAYABLES</b>		
<b>Current</b>		
Trade creditors and payables	<b>62,274</b>	70,365
	<b>62,274</b>	70,365
i) Trade payables are non-interest bearing and are normally settled on 30 day terms		
<b>18 INTEREST BEARING LOANS AND BORROWINGS</b>		
<b>Current</b>		
Hire purchase liabilities – secured	<b>32,238</b>	30,345
	<b>32,238</b>	30,345
<b>Non-current</b>		
Non redeemable preference shares	<b>60</b>	60
Hire purchase liabilities – secured	<b>61,384</b>	61,358
Bank loans – secured	<b>20,625</b>	13,625
	<b>82,069</b>	75,043
Commitments in respect of hire purchase agreements are payable as follows:		
Not later than one year	<b>36,246</b>	34,737
Later than one year but not later than five years	<b>65,169</b>	66,138
	<b>101,415</b>	100,875
Deduct: future finance charges	<b>(7,793)</b>	(9,172)
Total hire purchase liability	<b>93,622</b>	91,703
Current	<b>32,238</b>	30,345
Non-current	<b>61,384</b>	61,358
	<b>93,622</b>	91,703

### Fair value disclosures

The carrying amount of the Group's current and non-current borrowings is \$114,307,000, the fair value of these is \$113,176,000. Details of the fair value of the Group's interest bearing liabilities are set out in Note 3.

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 18 INTEREST BEARING LOANS AND BORROWINGS (continued)

#### Hire purchase contracts

The consolidated entity leases plant & equipment under hire purchase agreements for periods of one to five years. At the end of the term, the consolidated entity has the option to purchase the equipment at the agreed residual value.

Hire purchase liabilities are secured by the relevant asset.

The written down value of assets secured by hire purchase agreements is \$144,469,694 (2015: 124,207,076). The weighted average cost of these facilities was 4.88% (2015: 5.49%).

#### Bank loans

All bank loans are denominated in Australian dollars. Bank loans are secured by fixed and floating charges over the assets of the consolidated entity. Bank loans are also secured by registered mortgages over a number of properties of the consolidated entity to the extent of \$110,599,000 (2015: \$106,467,000). The non-current bank loans are subject to annual review.

The Group has bank loan facilities available for a period beyond June 2016. Maturity dates for the Group's facilities are:

Facility amount (\$'000)	Expiry
25,000	4 January 2020
33,000	26 November 2017
40,000	26 November 2019

The facilities bear interest at 3.54% (2015: 3.40%).

#### CONSOLIDATED

2016	2015
\$'000	\$'000

#### Financing facilities available

##### Total facilities available:

Bank overdrafts	7,000	7,000
Bank loans	84,000	84,000
Standby letters of credit	14,988	19,488
	<b>105,988</b>	<b>110,488</b>

#### Standby letters of credit

The Group has the following guarantees at 30 June 2016:

- Bank guarantee of \$14,140,000 has been provided by the Westpac Banking Corporation to Comcare for the due discharge off its liabilities to pay compensation and other amounts under the Safety Rehabilitation and Compensation Act 1988;
- Other bank guarantees of \$847,884 have been provided by Westpac to suppliers.

#### CONSOLIDATED

2016	2015
\$'000	\$'000

##### Facilities utilised at balance date:

Bank overdrafts	-	-
Bank loans	20,625	13,625
Standby letters of credit	14,988	19,488
	<b>35,613</b>	<b>33,113</b>

##### Facilities not utilised at balance date:

Bank overdrafts	7,000	7,000
Bank loans	63,375	70,375
Standby letters of credit	-	-
	<b>70,375</b>	<b>77,375</b>

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### 18 INTEREST BEARING LOANS AND BORROWINGS (continued)

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
Total facilities	<b>105,988</b>	110,488
Facilities used at balance date	<b>35,613</b>	33,113
Facilities unused at balance date	<b>70,375</b>	77,375

#### Bank overdrafts

The bank overdrafts within the consolidated entity are secured by a guarantee from the Company. The bank overdraft is secured by fixed and floating charges over the assets of the consolidated entity. The facilities are subject to annual review by the banks concerned and have been extended to 30 June 2016.

#### Assets pledged as security

Included in the balances of freehold land and buildings are assets on which mortgages have been granted as security over bank loans. The terms of the mortgages preclude the assets being sold or used as security for further mortgages without the permission of the mortgage holder. The mortgage also requires buildings that form part of the security to be fully insured at all times.

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000

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The carrying amount of assets pledged as security for current and non-current interest bearing liabilities are:

#### Non-current

##### First Mortgage

- Freehold land and buildings	<b>110,084</b>	105,723
- Plant and equipment	<b>515</b>	744
Total non-current assets pledged as security	<b>110,599</b>	106,467

#### Non-cash financing and investment activities

During the financial year, the economic entity acquired property, plant and equipment with an aggregate fair value of \$36,359,000 (2015: \$39,772,000) and disposed of property, plant and equipment with an aggregate fair value of \$nil (2015: \$nil) by means of finance lease or hire purchase arrangements. These acquisitions and disposals are not reflected in the Statement of Cash Flows.

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FOR THE YEAR ENDED 30 JUNE 2016

	<b>CONSOLIDATED</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>19 PROVISIONS</b>		
<b>Current</b>		
Employee benefits	<b>20,886</b>	19,854
Self insured workers' compensation liability	<b>3,293</b>	3,111
	<b>24,179</b>	22,965
<b>Non-current</b>		
Employee benefits	<b>4,784</b>	5,564
Make good provision	<b>367</b>	346
Directors' retirement allowance	<b>359</b>	459
Self insured workers' compensation liability	<b>7,285</b>	6,585
	<b>12,795</b>	12,954

No dividends have been provided for the year ended 30 June 2016. The extent to which dividends were franked, details of the franking account balance at balance date and franking credits available for the subsequent financial year are disclosed in Note 8.

### a) Movements in provisions

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	Make Good Provision \$'000	Directors Retirement Allowance \$'000	Self insured workers' compensation liability \$'000	Total \$'000
<b>CONSOLIDATED</b>				
At 1 July 2015	346	459	9,878	10,683
Arising during the year	21	-	700	721
Utilised	-	(100)	-	(100)
At 30 June 2016	367	359	10,578	11,304



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	Make Good Provision	Directors Retirement Allowance	Self insured workers compensation liability	Total
	\$'000	\$'000	\$'000	\$'000
<b>19 PROVISIONS (continued)</b>				
CONSOLIDATED				
Current 2016	-	-	3,293	3,293
Non Current 2016	367	359	7,285	8,011
	<u>367</u>	<u>359</u>	<u>10,578</u>	<u>11,304</u>
Current 2015	-	-	3,111	3,111
Non Current 2015	346	459	6,585	7,390
	<u>346</u>	<u>459</u>	<u>9,696</u>	<u>10,501</u>

### b) Nature and timing of provisions

#### i) Make good provision

In accordance with various lease agreements, the Group must restore leased premises in Western Australia, South Australia, Victoria, Queensland, New South Wales and the Northern Territory to their original condition at the end of the leases.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provisions is the costs that will ultimately be incurred.

#### ii) Long service leave

Refer to Note 2(z) and Note 2(cc) 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) 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 Actuaries reports prepared in accordance with the K & S Comcare self insurance licence.

## 20 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
<b>a) Ordinary shares</b>		
<b>Contributed Equity</b>		
121,201,356 (2015: 117,616,625) ordinary shares fully paid	<u>152,518</u>	147,674
	<u>152,518</u>	<u>147,674</u>

Effective 1 July 1998, the Corporations Legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital or par value in respect of its issued capital.

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.

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 20 CONTRIBUTED EQUITY AND RESERVES (continued)

	<i>Thousands</i>	<i>\$'000</i>
<i>Movements in ordinary shares on issue</i>		
At 1 July 2014	116,093	145,415
Issued through Employee Share Plan – 402,000 ordinary shares at \$1.46	402	587
Issued through Dividend Re-investment Plan – 519,914 ordinary shares at \$1.4941	520	777
Issued through Dividend Re-investment Plan – 602,039 ordinary shares at \$1.4878	602	895
At 30 June 2015	117,617	147,674
Issued through Employee Share Plan – 429,900 ordinary shares at \$1.25	430	537
Issued through Dividend Re-investment Plan – 2,070,245 ordinary shares at \$1.3108	2,070	2,714
Aero Refuellers Purchase – 300,979 ordinary shares at \$1.3289	301	400
Issued through Dividend Re-investment Plan – 783,607 ordinary shares at \$1.5222	784	1,193
At 30 June 2016	121,202	152,518

#### b) Capital management

When managing capital, the Group's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to Shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity. The Group is not subject to any externally imposed capital requirements.

During 2016, the Group paid dividends of \$5,938,000 (2015: \$7,595,000).

Management monitor capital through the gearing ratio (net debt / net debt + Shareholders funds). The gearing ratios based on continuing operations at 30 June were as follows:

	<b>CONSOLIDATED</b>	
	<b>2016</b>	2015
	<i>\$'000</i>	<i>\$'000</i>
Total interest bearing loans and borrowings	114,307	105,388
Less cash and cash equivalents	(7,392)	(7,326)
Net debt	106,915	98,062
Net debt + Shareholders funds	306,303	392,631
Gearing ratio	34.9%	25.0%

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### 20 CONTRIBUTED EQUITY AND RESERVES (continued)

#### Nature and purpose of reserves

##### *Asset revaluation reserve*

The asset revaluation reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

##### *Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

### 21 DERIVATIVE FINANCIAL INSTRUMENTS

#### a) Hedging activities

The Group has no interest rate swap agreements in place at 30 June 2016.

#### b) Interest rate risk

Information regarding interest rate risk exposure is set out in Note 3.

### 22 COMMITMENTS

#### CONSOLIDATED

2016 2015

\$'000 \$'000

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The estimated maximum amount of commitments not provided for in the accounts as at 30 June 2016 are:

#### Capital expenditure commitments

The aggregate amount of contracts for capital expenditure on plant and equipment due no later than one year

**28,166** 35,246

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#### Lease rental commitments

Operating lease and hire commitments:

- Not later than one year	<b>13,953</b>	15,333
- Later than one year but not later than five years	<b>25,778</b>	30,344
- Later than five years	<b>6,998</b>	10,102
	<b>46,729</b>	55,779

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The consolidated entity leases property under non-cancellable operating leases expiring from one to fifteen years. Leases generally provide the consolidated entity with a right of renewal, at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

Finance lease commitments are disclosed in Note 18.

### 23 CONTINGENT LIABILITIES

#### Guarantees

The Company and all its subsidiaries have interlocking guarantees in support of the Company's banking facilities with Westpac Banking Corporation ("WBC") and Commonwealth Bank of Australia ("CBA"). Details are:

- Interlocking guarantee and indemnity between WBC and the Company and its wholly owned subsidiaries dated 23 September 2002, pursuant to which the Company and its wholly owned subsidiaries jointly and severally guarantee to WBC the performance by the Company and its wholly owned subsidiaries of their respective obligations under the WBC multi-currency multiple option facility agreement.
- Guarantee and indemnity between CBA and the Company and its wholly owned subsidiaries dated 15 June 2007, pursuant to which the Company and its wholly owned subsidiaries jointly and severally guarantee to CBA the performance by the Company and its wholly owned subsidiaries of their respective obligations under the CBA multiple option facility agreement.

Cross guarantees given by the Company and its wholly owned controlled entities are described in Note 24.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 23 CONTINGENT LIABILITIES (continued)

#### Legal claim

DTM Pty Ltd ("DTM"), a subsidiary of the Company, was served with legal proceedings out of the Supreme Court of Victoria in December 2013. DTM is one of five named defendants to those proceedings. DTM has also applied to join a further five parties as defendants to those proceedings. The claims relate to property damage sustained in a fire at a DTM warehouse in 2007. The quantum of the claims the subject of those proceedings is \$8.65 million. Liability has not been admitted and the claims against DTM will be defended.

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

### 24 DEED OF CROSS GUARANTEE

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports, and Directors' reports. It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

Reid Bros Pty Ltd	K&S Group Pty Ltd
Kain & Shelton Pty Ltd	DTM Holdings (No. 2) Pty Ltd
K&S Freighters Pty Ltd	Alento Pty Ltd
K&S Group Administrative Services Pty Ltd	DTM Holdings Pty Ltd
Kain & Shelton (Agencies) Pty Ltd	DTM Pty Ltd
K&S Transport Management Pty Ltd	Regal Transport Group Pty Ltd
Blakistons-Gibb Pty Ltd	Strategic Transport Pty Ltd
K&S Logistics Pty Ltd	Vortex Nominees Pty Ltd
K&S Project Services Pty Ltd	K&S Freighters Limited *
K&S Integrated Distribution Pty Ltd	Cochrane's Transport Limited *
Scott Corporation Pty Ltd	Hyde Park Tank Depot Pty Ltd
Bulktrans Pty Ltd	Energytrans Pty Ltd
Chemtrans Pty Ltd	

\* Both K&S Freighters Limited and Cochrane's Transport Limited are New Zealand entities.

A consolidated Statement of Comprehensive Income and consolidated Statement of Financial Position, comprising the Company and subsidiaries which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2016 is set out below:

	CLOSED GROUP	
	2016	2015
	\$'000	\$'000
<b>Statement of Comprehensive Income</b>		
<b>Profit/(loss) before income tax</b>	<b>(109,905)</b>	18,798
Income tax benefit/(expense)	5,730	(5,490)
<b>Profit/(loss) after income tax</b>	<b>(104,175)</b>	13,308
Retained profits at the beginning of the year	115,018	109,305
Transfer asset revaluation reserve	-	-
Dividends provided or paid	(5,938)	(7,595)
<b>Retained earnings at the end of the year</b>	<b>4,905</b>	115,018

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### 24 DEED OF CROSS GUARANTEE (continued)

	CLOSED GROUP	
	2016	2015
	\$'000	\$'000
<b>Statement of Financial Position</b>		
Cash	7,392	7,326
Trade and other receivables	66,632	86,909
Inventories	4,229	3,963
Income tax receivable	897	-
Prepayments	9,171	8,117
<b>Total current assets</b>	<b>88,321</b>	<b>106,315</b>
Other receivables	1,509	1,422
Investment in associate	395	413
Property, plant and equipment	334,365	326,842
Intangibles	6,307	91,088
Deferred tax assets	14,107	10,179
<b>Total non-current assets</b>	<b>356,683</b>	<b>429,944</b>
<b>Total assets</b>	<b>445,004</b>	<b>536,259</b>
Trade and other payables	62,274	73,476
Interest bearing loans and borrowings	32,238	30,345
Current tax liabilities	-	1,302
Provisions	24,179	19,854
<b>Total current liabilities</b>	<b>118,691</b>	<b>124,977</b>
Other payable	-	6,585
Interest bearing loans and borrowings	82,069	75,043
Deferred tax liabilities	32,061	28,716
Provisions	12,795	6,369
<b>Total non-current liabilities</b>	<b>126,925</b>	<b>116,713</b>
<b>Total liabilities</b>	<b>245,616</b>	<b>241,690</b>
<b>Net assets</b>	<b>199,388</b>	<b>294,569</b>
Contributed equity	152,518	147,674
Reserves	41,965	31,877
Retained earnings	4,905	115,018
<b>Total equity</b>	<b>199,388</b>	<b>294,569</b>

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

	Class of Share	Country of Incorporation	% Equity Interest	
			2016	2015
<b>25 CONTROLLED ENTITIES</b>				
<b>Particulars in relation to controlled entities</b>				
<b>Name</b>				
K&S Corporation Limited				
<b>Controlled Entities</b>				
Reid Bros Pty Ltd	Ord	Australia	100	100
Kain & Shelton Pty Ltd	Ord	Australia	100	100
K&S Freighters Pty Ltd	Ord	Australia	100	100
K&S Group Administrative Services Pty Ltd	Ord	Australia	100	100
Kain & Shelton (Agencies) Pty Ltd	Ord	Australia	100	100
K&S Transport Management Pty Ltd	Ord	Australia	100	100
Blakistons-Gibb Pty Ltd	Ord	Australia	100	100
K&S Logistics Pty Ltd	Ord	Australia	100	100
K&S Integrated Distribution Pty Ltd	Ord	Australia	100	100
K&S Group Pty Ltd	Ord	Australia	100	100
DTM Holdings (No. 2) Pty Ltd	Ord	Australia	100	100
Alento Pty Ltd	Ord	Australia	100	100
DTM Holdings Pty Ltd	Ord	Australia	100	100
DTM Pty Ltd	Ord	Australia	100	100
K&S Project Services Pty Ltd	Ord	Australia	100	100
Regal Transport Group Pty Ltd	Ord	Australia	100	100
Strategic Transport Services Pty Ltd	Ord	Australia	100	100
Vortex Nominees Pty Ltd	Ord	Australia	100	100
K&S Freighters Limited	Ord	New Zealand	100	100
Cochrane's Transport Limited	Ord	New Zealand	100	100
Scott Corporation Pty Ltd	Ord	Australia	100	100
Bulktrans Pty Ltd	Ord	Australia	100	100
Chemtrans Pty Ltd	Ord	Australia	100	100
Hyde Park Tank Depot Pty Ltd	Ord	Australia	100	100
Energytrans Pty Ltd	Ord	Australia	100	100

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### 26 RELATED PARTY DISCLOSURES

#### DIRECTORS

The names of each person holding the position of Director of K&S Corporation Limited during the financial year and up to the date of signing the financial report are Messrs. T Johnson, L Winser, G Boulton, R Smith, and P Sarant. Greg Boulton resigned on 31 August 2015.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

#### Other transactions with the Company or its Controlled Entities

Zenaray Pty Ltd, the major shareholder of the following entities which provide goods and services to the economic entity are:

AA Scott Pty Ltd  
Ascot Haulage (NT) Pty Ltd  
The Border Watch Pty Ltd  
Scott Corporation Limited – prior to 24 February 2014  
Scott's Agencies Pty Ltd  
Scott's Management Pty Ltd  
Scott's Transport Industries Pty Ltd  
128 Bedford Street Pty Ltd  
Smart Logistics Australia Pty Ltd

Mr Winser has an interest as an alternate Director of several companies within the Scott Group.

128 Bedford Street Pty Ltd has an interest in a transport facility in Adelaide which the Company rents on a commercial basis. Rent in 2016 was \$103,884 (2015: First Radio Pty Ltd \$415,538). The lease for this property has now ended.

Mr Johnson has an interest as a Director of AA Scott Pty Ltd.

The aggregate amount of dealings with these companies during 2016 were as follows:

	Purchases		Sales	
	2016	2015	2016	2015
	\$	\$	\$	\$
Ascot Haulage (NT) Pty Ltd	<b>50,519</b>	2,776,928	-	-
Northern Territory Freight Services Pty Ltd	-	1,920	-	-
Scott's Transport Industries Pty Ltd	<b>991,577</b>	129,903	<b>989,191</b>	1,102,753
Scott's Agencies Pty Ltd	-	68	-	-
The Border Watch Pty Ltd	<b>18,707</b>	15,763	-	-

Mr Johnson was founder and former partner in Johnson, Winter & Slattery, a firm of solicitors. This firm renders legal advice to the economic entity. The aggregate amount of dealings with this firm during 2016 was \$31,168 (2015: \$112,545) in professional service fees.

Mr R Smith has an interest as Director of Cleanaway Waste Management Ltd. Transactions with this company during 2016 were sales of \$Nil (2015: \$2,930) and purchases of \$88,359 (2015: \$126,998).

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

	<b>CONSOLIDATED</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>26 RELATED PARTY DISCLOSURES (continued)</b>		
<p>Amounts payable to and receivable from Directors and their Director related entities at balance date arising from these transactions were as follows:</p>		
<b>Current receivables (included within trade debtors)</b>		
Scott's Transport Industries Pty Ltd	113	90
Smart Logistics Australia Pty Limited	1,160	-
<p>No provision for doubtful debts has been recognised in respect of these balances as they are considered recoverable.</p>		
<b>Current payables (included within trade payables)</b>		
Scott's Transport Industries Pty Ltd	79	194
Transpacific Industries Limited	5	4
AA Scott Pty Ltd	10	-
Smart Logistics Australia Pty Limited	4	-
<b>Wholly-owned Group</b>		
<p>Details of interests in wholly-owned controlled entities are set out at Note 25.</p> <p>Details of dealings with these entities are set out below:</p>		
<b>Balances with entities within the wholly-owned group</b>		
<p>The aggregate amounts receivable from, and payable to, wholly-owned controlled entities by the Company at balance date:</p>		
	<b>PARENT</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Receivables		
- Current	79,080	78,286
- Non current	17,961	17,961
	<b>97,041</b>	96,247
<b>Terms and conditions of transactions within the wholly-owned group</b>		
<p>Sales to and purchases from within the wholly-owned group are made at arm's length. Terms and conditions of the tax funding agreement are set out in Note 6. Outstanding balances at year-end are unsecured and interest free.</p>		



# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 26 RELATED PARTY DISCLOSURES (continued)

DIRECTORS' SHARE TRANSACTIONS	CONSOLIDATED	
	2016	2015
<b>Shareholdings</b>		
Aggregate number of shares held by Directors and their Director-related entities at balance date:		
- Ordinary shares	1,759,891	1,975,379
- Preference shares	-	-
All share transactions were with the parent Company, K&S Corporation Limited.		
<b>Dividends</b>	<b>\$'000</b>	<b>\$'000</b>
Aggregate amount of dividends paid in respect of shares held by Directors or their Director-related entities during the year:		
- Ordinary shares	95	135
- Preference shares	-	-

#### Directors' transactions in shares and share options

Purchases of shares by Directors and Director related entities are set out in the Directors Report.

#### Ultimate parent entity

The immediate parent entity and ultimate controlling entity of K&S Corporation Ltd is AA Scott Pty Ltd, a company incorporated in South Australia.

### 27 KEY MANAGEMENT PERSONNEL

#### a) Details of Key Management Personnel

##### i) Directors

Mr T Johnson	Non-Executive Chairman
Mr G Boulton	Non-Executive Deputy Chairman (Resigned 31 August 2015)
Mr R Smith	Non-Executive
Mr L Winsler	Non-Executive
Mr P Sarant	Managing Director

##### ii) Executives

Mr B Walsh	Chief Financial Officer
Mr C Bright	General Counsel & Company Secretary
Mr R King	Executive General Manager Western Australia
Mr G Price	Executive General Manager Commercial (Appointed 24 August 2015)
Mr S Hine	Executive General Manager Business Development
Mr S Skazlic	General Manager HS&E / Compliance
Ms K Evans	Executive General Manager Human Resources
Mr P Dale	General Manager K&S Energy (Appointed 19 November 2015)
Mr D Keane	Executive General Manager Scott Corporation
Mr M Kohne	Executive General Manager DTM
Mr G Beurteaux	Executive General Manager K&S Freighters (Resigned 22 February 2016)

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

### 27 KEY MANAGEMENT PERSONNEL (continued)

#### b) Compensation for Key Management Personnel

	CONSOLIDATED	
	2016	2015
	\$	\$
Short-term	4,165,876	4,411,998
Long-term	63,229	61,380
Termination payments	-	167,500
Post employment	380,869	362,429
	<b>4,609,974</b>	<b>5,003,307</b>

### 28 EVENTS SUBSEQUENT TO BALANCE DATE

No matters have 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.

### 29 BUSINESS COMBINATIONS

#### Acquisitions in 2016

On 2 November 2015, K&S Corporation Limited (K&S) acquired the business and assets of Aero Refuellers ("AR").

AR supplies, manages and operates numerous aviation refuelling facilities, largely at airfields in regional New South Wales and Victoria and in addition supports aerial fire fighting activities in several states.

Goodwill of \$2,211,000 was recorded on acquisition.

The acquisition of Albury-based AR presents significant opportunities for K&S to expand its current transport and fuel operations into the aviation sector. In addition, it is complimentary to K&S' existing service offering and skill-set and operates in a higher value add market sector.

<sup>1</sup>The provisional fair values of identifiable assets and liabilities is as follows:

	Fair Value at Acquisition Date \$'000	Carrying Value \$'000
Property plant & equipment	4,328	4,328
Prepayments	59	59
Inventory	623	623
Deferred tax assets	34	34
	<b>5,044</b>	<b>5,044</b>
Provision for employee entitlements	(113)	(113)
Deferred tax liability	(18)	(18)
	<b>(131)</b>	<b>(131)</b>
Provisional fair value of identifiable net assets	4,913	
Goodwill on acquisition	2,211	
Purchase consideration transferred	<b>7,124</b>	

<sup>1</sup> The net assets recognised in the 30 June 2016 financial statements were based on a provisional assessment of their fair value while the group sought an independent valuation for property plant & equipment owned by Aero Refuellers. The valuation had not been completed by the date the 2016 financial statements were approved for issue by the Board of Directors.

# K&S CORPORATION LIMITED

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## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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Acquisition date fair value of consideration transferred	
Cash payment	6,724
Shares issued at fair value (300,979 ordinary shares at \$1.3289)	400
Direct costs relating to the acquisition	7
Total outflow on acquisition	<u>7,131</u>

Transaction costs of \$6,600 have been expensed and included in other expenses.

From the date of acquisition, AR has contributed \$15,636,729 of revenue and \$2,243,962 to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been \$22,990,849 and the profit before tax from continuing operations before rationalisation benefits for the Group would have been \$1,935,318.

### Acquisitions in 2015

#### Acquisition of NTFS

On 2 March 2015, K&S Corporation Limited (K&S) acquired the business and assets of Northern Territory Freight Services ("NTFS"). NTFS is one of the largest rail freight forwarders on the Adelaide-Alice Springs-Darwin corridor, while also providing road linehaul services between Adelaide and Darwin.

No goodwill has been recorded.

The acquisition of NTFS presents immediate opportunities for K&S Corporation to expand its current service offering in the Adelaide-Darwin corridor, while also allowing additional services to be provided to the north west regions of Western Australia in conjunction with the Regal business.

The Fair values of identifiable net assets is as follows:

	Fair Value at Acquisition Date \$'000	Carrying Value \$'000
Property plant & equipment	6,294	6,294
Prepayments	142	142
Deferred tax assets	87	87
	<u>6,523</u>	<u>6,523</u>
Provision for employee entitlements	(646)	(646)
Interest bearing loans and borrowings	(2,950)	(2,950)
Deferred tax liability	(239)	(239)
	<u>(3,835)</u>	<u>(3,835)</u>
Fair value of identifiable net assets	<u>2,688</u>	
Cash payment	2,688	
Direct costs relating to the acquisition	0	
Total outflow on acquisition	<u>2,688</u>	

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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### 30 AUDITORS' REMUNERATION

The auditor of K&S Corporation Limited is Ernst & Young.

	CONSOLIDATED	
	2016	2015
	\$	\$
<b>Audit Services:</b>		
Audit and review of the statutory financial reports	<b>179,600</b>	174,500
	<b>179,600</b>	174,500
<b>Other Services:</b>		
Tax Software implementation	<b>17,500</b>	-
Asset Valuation assistance	<b>5,900</b>	-
Scott Corp Limited acquisition assistance	-	59,493
	<b>23,400</b>	59,493

### 31 PARENT ENTITY INFORMATION

	2016	2015
	\$'000	\$'000
Current assets	<b>80,138</b>	79,350
Total assets	<b>182,016</b>	177,423
Current liabilities	-	(1,210)
Total liabilities	<b>(14,488)</b>	(8,798)
Issued capital	<b>152,518</b>	147,674
Asset revaluation reserve	<b>161</b>	161
Retained earnings	<b>14,849</b>	20,790
Total Shareholders' equity	<b>167,528</b>	168,625
Profit after tax of the parent entity	<b>(2,362)</b>	5,434
Total comprehensive income of the parent entity	<b>(2,362)</b>	5,434

#### Guarantees

Cross guarantees given by the Company and its wholly owned controlled entities are described in Note 24.

#### Contingent liabilities

Contingent liabilities of the Company and its wholly owned controlled entities are outlined in Note 23.

# K&S CORPORATION LIMITED

ABN 67 007 561 837

## Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2016

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

In the opinion of the Directors:

a) The financial report of the company and of the consolidated entity is in accordance with the Corporations Act 2001, including:

i) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2 (b).

c) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

d) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2016.

e) As at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 24 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

Dated at Melbourne this 23<sup>rd</sup> day of August 2016.

On behalf of the Board:



Tony Johnson  
Chairman



Paul Sarant  
Managing Director

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

As lead auditor for the audit of K&S Corporation Limited for the financial year ended 30 June 2016, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



Mark Phelps  
Partner  
Adelaide  
23 August 2016

## Independent auditor's report to the members of K&S Corporation Limited

### Report on the financial report

We have audited the accompanying financial report of K&S Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## **Opinion**

In our opinion:

- a. the financial report of K&S Corporation Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

## **Report on the remuneration report**

We have audited the Remuneration Report included in pages 9 to 20 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## **Opinion**

In our opinion, the Remuneration Report of K&S Corporation Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Mark Phelps  
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