

**Managing Director's Address to Korvest Ltd Shareholders**

**Delivered at the Annual General Meeting on Friday 24<sup>th</sup> October 2014,**

**7<sup>th</sup> Floor, 151 Pirie Street Adelaide SA 5000**

I would like to thank the Board and management team for their support over the last year. The record year is largely due to our people, products and processes.

Korvest has all the ingredients for a sustainable business in a world that is constantly changing. The ingredients needed are basically threefold:

Firstly a business has to have products that people need and not just want. All of Korvest's businesses have products that other businesses need.

Secondly you need excellent people in your company and I am very proud of Korvest's employees, they are part of the evolutionary process that we constantly go through, they embrace change and are empowered to come forward with safety and efficiency improvements, and they do, this is not just words.

And the third ingredient that a good business must have is excellent processes; customers insist on consistent quality and reliable delivery and if you don't have the processes you cannot achieve what your customers demand. Whilst talking about processes we are about to change our ERP system from the old Hills 'commercial system' to a new system called Microsoft Dynamics. This will go live shortly and the new system will improve our ability to manage orders and inventories and further assist us with our 'delivery in full' (DIFOT) targets.

The EzyStrut business benefited from projects predominantly originating from the oil and gas sector. Our entry into this sector did not happen overnight, about 5 years ago we started working with the EPCMs (Engineering, Procurement, Construction Management) to design and engineer products for the extremes of the Australian climate but having well-engineered products is not sufficient to win customers. We also have to be competitive. Our manufacturing plant here in Adelaide is set up for short runs, sometimes only a one off special that can be made effectively and then delivered when the customer requires the product.

With this capability and the added benefit of the vertically integrated galvanising plant we are able to control our lead-times, which is essential for our customers. We have continued to upgrade our plant, we have added a new roll former bringing our number now to 5, a new bigger faster laser cutter to augment the existing one as this was overloaded, a new 300 tonne brake press able to handle 4 metre lengths and we will continue to improve our capabilities to continue to make us competitive. The space that Indax has released will be well used to cater for the expansion of EzyStrut.

We also have made good use of our Asian supply chain to remain competitive with the items that have a high labour content. We regularly benchmark our performance and through our continuous improvement of our processes we remain competitive in a very tight market.

So last year was one of success in new oil and gas markets, and these more than compensated for the decline in mining projects.

Galvanising had a record year that will be difficult to beat as volumes increased through greater demand from our external customer base and from the main internal customer EzyStrut, this increase occurred even with the reduction in demand from Indax. It will be difficult for this division to replicate last year's performance in the current economy.

As Graeme mentioned earlier, in April the Board announced the divestment of Indax, the handrail and grating walkway business. Initially we were hoping to sell the division as a going concern but we found that the buyers only wanted to acquire pieces of the business. Our main competitors have been finding the segment tough and smaller businesses wanting to move into the sector found the whole business too great a number to manage. To that end we have progressively sold the inventory and equipment and we are hopeful that this will be completed by December 2014.

Power Step & Titan Technologies have found it extremely challenging in the last year as mining companies stopped almost all purchases of equipment and spares. With Power Step & Titan's product focus virtually totally on mining this was disastrous.

We have been steadily working on the Power Step products to move into other industries, as the product is a very good safety and secure access

system for use in the transport, marine and communication tower industry segments. In some applications it can be viewed as a 'drawbridge' controlling access to the entrance of a marina or communication tower. It is still early days to see the results from this effort but we are beginning to see some progress of Power Step moving into other industry segments and we are currently designing and prototyping products for a couple of potential customers.

Titan Technologies, which distributes predominantly USA made hydraulic tooling, remains subdued, as the tooling is very specific to large CAPEX equipment that needs high torque bolting. We are now expanding our hire offering for this tooling into WA and have also added a service of calibration of tooling, this includes our competitors tooling but we don't see the results for this part of the business improving in the short term.

This year is seen as one of consolidation due to the decline in the projects in the resources sector and the planning of new infrastructure projects that are not ready for construction. There are still hospitals, for example the RAH and other infrastructure projects being built throughout the country but certainly not at the same rate of the previous years.

In terms of the future and in accordance with the company's growth strategy, Korvest does not want to be solely reliant on the growth or should I say lack of growth of the Australian markets. As market leaders we must expand into global markets. We continue to demonstrate our proven ability on a number of

large projects with demanding specifications and as a result we are investing in export market expansion. In the past we have been opportunistic exporters, a project manager usually Australian, would ring us up from PNG or Dubai and order product for his project but as I say this was opportunistic on our part. We have changed this, this year we have appointed an export manager to develop customers primarily in Asia Pacific but also further afield. Knowing that exports is an area that has its risks we are mitigating these with a strategy of 'following our customer', ie the EPCMs and Wholesalers who know us well in Australia.

As part of our growth strategy we have also invested in a dedicated resource to pursue the Board's acquisition strategy. With EzyStrut at the core of our company, we are in the business of "supporting the transfer of electricity and data". There is a much greater role for us to play in this area and part of our acquisition strategy will see us target similar businesses supplying power distribution and transmission networks and those industries that are large users of electrical infrastructure. However we recognise that power usage is declining, while at the same time the creation, transfer and storage of information grows exponentially. Therefore we will also target those businesses that support the infrastructure that makes this happen. We will look closely at data centres, communications infrastructure, security and machine to machine communications sensors and relays to identify opportunities to provide the support structures, brackets and containment that form the backbone of this infrastructure. We continue to provide the most effective corrosion protection techniques and we plan to leverage Power Step

to provide safety and security support to the electrical and information industries.

Anyone in business knows that Australian manufacturing is under threat, we as a nation are costly relative to other economies but as Korvest has shown we can compete and be successful when you have the right strategies and people supporting you. Australian manufacturing is about efficient low volume short lead-time production. To that end our Kilburn factory has been successful. It is important that manufacturers continue to assist and influence government policy. I am the Deputy President of the South Australian branch of the Australian Industry Group; I am also the Chair of the Mining Industry Participation Office Advisory Council here in South Australia and a member of the Major Projects Industry Participation advisory panel in South Australia and Korvest is a member of the Australian Advanced Manufacturing Council. Consequently Korvest has the opportunity to influence policy and vice versa these organisations can help shape our strategies.

I look forward to a tough year but an exciting one where we expand into export markets, synergistic acquisitions and additional markets for the Power Step products. We have a way forward through this time of change.

Thank you.

Alexander Kachellek

Managing Director

24 October 2014