



CHAIRMAN'S ADDRESS TO SHAREHOLDERS

Delivered at the Annual General Meeting on
Friday 25th October 2013
7th Floor,
151 Pirie Street Adelaide SA 5000

Key Highlights from the address

Board composition

- The Board is continuing to search for another independent non-executive director. It is hoped that a suitable candidate will be able to be appointed in the near future.

Dividend

- Subject to future growth opportunities and their funding requirements, the longer term target dividend payout ratio is in the 65-90% range. Current circumstances would suggest the interim dividend will be in the upper end of that target range.

Capital management

- The Board continues to assess options to maximise the value of Korvest's franking credits to shareholders.

Outlook

- With the more buoyant start to the new financial year it is expected that the first half result will be in the range of 30-45% better than the second half FY2013 result and approximately in line with the previous corresponding period.

Ladies and Gentlemen,

Welcome to the 43rd Annual General Meeting of Korvest Ltd. Today I will be looking back at the results for the year ended 30 June 2013 as well as providing some guidance on how we are seeing trading conditions in the new financial year. The last year saw many changes at Korvest so I will touch on the more significant of those as well as comment on some items that shareholders have raised with us.

FINANCIAL RESULTS

The revenue from trading activities including financial revenues for the year under review was \$61.7m, down 14.7% on the record previous year. Profit after tax was down by 38.3% to \$3.825 million. The year was a difficult one due to the sharp contraction in available project work and a general diminution of business confidence. Over recent years the business has undertaken at least one major project in any given financial year. The record result for the 2012 financial year was achieved as a result of three major projects occurring during that year. Conversely the 2013 result did not include any major projects and was largely the result of day-to-day trading. That said, the day-to-day trading held up well in the first half however in the fourth quarter this also slowed significantly resulting in the second half result being lower than originally expected.

In the Industrial Products group the EzyStrut cable and pipe support business supplies products to contractors for small industrial developments and also supplies products for major infrastructure developments. This was the part of the business most impacted by the lack of major projects during the year. Day-to-day demand remained consistent until the fourth quarter when it slowed appreciably. The trading conditions experienced during 2013 were quite similar to the GFC conditions where major projects were still being discussed and planned however the time taken to come to the supply stage was much longer than would normally have been expected.

Included in the Industrial Products group is the Indax grating and handrail business. Indax was substantially reorganised during the year. Firstly in March 2013 the Queensland fabrication facility was closed after a site reconfiguration at Kilburn created space to accommodate the Queensland capacity. Then in June the Kilburn operations were restructured with an overall reduction in overhead and direct labour costs achieved. The new Indax structure now has the Indax business under the control of the Galvanising General Manager whilst the EzyStrut factory team now oversee the operations of the Indax workshop.

In February 2013 Korvest purchased the Power Step and Titan Technologies businesses. Power Step designs and assembles access systems for large mobile equipment, principally in the mining sector. Titan supplies specialised tools in the form of torque wrenches, hydraulic pumps and related accessories. These businesses did contribute positively to the group result

during their four months of trading but like other Korvest businesses experienced difficult fourth quarter trading conditions.

In the Production group the Galvanising business had an improved year. The level of project work in the South Australian market increased during the year. Local fabricators continued to successfully win work nationally and have the galvanising completed in South Australia. The better performance of the external market offset the reduced internal volumes contributed by the Industrial Products businesses resulting in an increase in plant volumes in overall terms. I am also pleased to advise that just last week the Korvest Galvanising business won the globally recognised galvanising award, the Sorel Award, for its innovative approach to galvanising large structures associated with the upgrade of rail stations in South Australia.

SIGNIFICANT CHANGES

In February 2013 Hills sold their 48% interest in Korvest. Hills had been a major shareholder for many years and the relationship between the two businesses had been mutually beneficial. The time was right though for Hills and Korvest to go their separate ways and Korvest is now able to pursue its own strategic objectives that may not have necessarily been consistent with those of Hills.

Hills had provided Korvest with a number of services in relation to the provision of information technology infrastructure and administration. Hills have agreed to continue to provide those services under the same terms and conditions for such time as is necessary for Korvest to transition to alternative providers. Korvest is progressing with projects to transition away from Hills as a provider and is expected to have achieved a full transition by the end of this financial year.

THE BOARD

The Hills exit coupled with feedback from shareholders about the Board composition has seen some changes occur during the year. Ted Pretty, the Hills Managing Director, served briefly as a Director until shortly after Hills sold their interest. In May 2013 Graeme Billings joined the Board as an independent non-executive director. Graeme is an experienced chartered accountant, is Chairman of the Audit Committee and you will hear from him later in the meeting.

The Board is also continuing to search for another independent non-executive director. It is hoped that a suitable candidate will be able to be appointed in the near future.

In accordance with our Articles of Association I retire by rotation and seek re-election. Graeme Billings seeks re-election having been appointed to fill a casual vacancy since our last Annual General Meeting.

DIVIDEND

We have announced and paid a fully franked final dividend of 20 cents per share. The full year dividend in relation to the 2013 year was 46 cents.

The Board has maintained a policy of paying out around 100% of after tax profits for the last three dividends. This policy was adopted due to the strength of the Korvest balance sheet, available franking credits and the absence of a sizable acquisition. With the longer term goal being to grow the business by acquisition the dividend policy will continue to be monitored with these factors in mind. Subject to future growth opportunities and their funding requirements, the longer term target dividend payout ratio is in the 65-90% range. Current circumstances would suggest the interim dividend will be in the upper end of that target range.

CAPITAL MANAGEMENT

The Board is aware that capital management is an area of particular interest to a number of shareholders. Over the past year the introduction of the higher dividend payout ratio was the first step taken to address the concerns of some shareholders in relation to capital management. The Board continues to assess options to maximise the value of Korvest's franking credits to shareholders.

CURRENT YEAR TO DATE AND OUTLOOK

As highlighted earlier the 2013 financial year finished with a poor fourth quarter as day-to-day business softened. It was felt at the time that a significant factor was that customers were holding back spending in the lead up to the end of financial year. This has proved to be the case as the volume of work has improved significantly in the first quarter of trading.

Pleasingly Korvest has for the first time secured orders in the oil and gas industry in the first quarter with delivery expected to commence in the second quarter. This success can be attributed to the strength of the Korvest in-house engineering resources and the product innovation that has been undertaken.

In general, conditions have improved and there are now seemingly more, larger projects reaching the supply stage than has been the case for much of the last 12 to 18 months. The pipeline of available project work would suggest that a number of larger jobs will commence supply during the second half of this financial year and possibly some in the first half. Whilst not all of these jobs have yet been awarded, Korvest's position in a number of these markets has the Company well placed to secure its share of these projects.

With the more buoyant start to the new financial year it is expected that the first half result will be in the range of 30-45% better than the second half FY2013 result and approximately in line with the previous corresponding period. Further guidance will be provided in January 2014 in relation to the full year result.

P.W. STANCLIFFE
Chairman
25 October 2013