

MAINFREIGHT GROUP LIMITED

Financial result for the twelve months ended 31 March 2009 (Unaudited)

Highlights

- Revenue increase of 39% to a record \$1.27 billion
- Net surplus before abnormals of \$40.00 million, on par with prior year
- EBITDA performance a record \$81.26 million, an increase of 9%
- Full year dividend of 18.5 cents per share, in line with the previous year.

Commentary

The Mainfreight Group is pleased to report a net surplus after taxation but before abnormals of \$40.00 million for the twelve months of the 2009 financial year. This is on par with the previous year's record of \$40.81 million.

Total revenue (sales) increased by 38.8% to \$1,265.58 million, from \$911.72 million last year (excluding foreign exchange, this represents an increase of 28.8%).

Organic growth, excluding foreign exchange and acquisitions saw a 5.5% improvement.

EBITDA improved 9.3% to \$81.26 million (excluding foreign exchange this increase reduced to 4.3%).

Net surplus after abnormals reduced to \$35.48 million. Of these abnormals, \$4.12 million were provisions for leases surplus to our requirements.

This is a significant achievement in the current economic climate and has required a great deal of effort and sacrifice on the part of our team worldwide. Set the challenge of growing sales, maintaining quality, and delivering more freight than ever with reduced team numbers, our people have also sacrificed annual salary reviews and bonuses this year. Team bonuses, while discretionary, have long been an integral part of our Mainfreight culture and accounted for \$9.02 million in pre-tax profit for the prior year.

These past twelve months have seen mixed fortunes for Mainfreight. We have continued to find growth across all our markets, however in the second half of the financial year our results faltered as economies around the world slowed and freight volumes deteriorated.

Trading into the first quarter of our new financial year continues the trend seen in our second half. With this deterioration in volumes a number of initiatives have been put in place to protect our position through 2009 and beyond:

- Since September 2008 we have ceased hiring or replacing (where possible) people across all operations. Natural attrition has seen a decline in our team numbers by approximately 250 people.
- Capital expenditure has been reduced across all sectors including placing on hold property development of \$59.55 million.
- Surplus leases have been exited, particularly warehouses in Australia and New Zealand, incurring a one-off cost of \$4.12 million after tax in this year's result.
- A strong focus is underway by branch management and their teams to reduce costs and to improve margins, particularly in the areas of pick-up, delivery and linehaul.

Our targeted sales approach in every market has delivered increased market share while maintaining an emphasis on existing customer retention. Sales revenues from outside New Zealand were 68.1% of the total, and will continue to grow in significance.

Divisional Performance (all figures in NZ dollars)

New Zealand

Our home base has weathered the tougher economic conditions satisfactorily.

Our **Domestic** operations saw EBITDA improve by 11.2% to \$41.55 million on revenue growth of 4.8% to \$294.81 million.

During the year our New Zealand team continued to build on core strengths through our broad network coverage, warehousing investment, and the ability to deliver logistical services better than our competitors. This remains a key driver for increasing sales.

In our **International** operations we have continued to see revenues increase, up 4.2% to \$108.30 million. EBITDA declined 0.4% to \$4.90 million as margins and rate levels, particularly in seafreight, remain suppressed compared to previous years with reduced volumes across trade lanes that are over-tonnaged with shipping capacity.

The opening of our new airfreight facility in Auckland has been a significant milestone for our team and customers. The purpose-built temperature controlled loading areas handle New Zealand exports of flowers, seafood, horticulture and meat to markets across the world. As recent currency adjustments assist New Zealand's exporters, so we see corresponding growth in this market.

Australia

Our operations in Australia have performed reasonably well in what is a difficult economic climate. Import volumes declined steadily through the year as retailers reduced stock holdings, particularly from Asian suppliers, our largest trade lane internationally.

Domestically our revenues increased 23.2% to \$183.20 million. Excluding foreign exchange this is an improvement of 15.7%. EBITDA declined 39.1% to \$7.22 million; excluding foreign exchange a decrease of 42.8%.

While our market share continued to improve, volumes and consignment size deteriorated, particularly in the second half of the year, with margins and selling rates adversely affected. With the volume decline, further rationalisation in our **Logistics** sector saw a consolidation of facilities from eleven warehouses to seven. This has provided for better utilization and improved customer service.

Internationally our revenues increased 44.5% to \$209.44 million assisted by the acquisition of Halford International. Excluding foreign exchange the improvement is 35.7%. EBITDA declined 8.9% to \$7.10 million as additional costs were incurred with the acquisition and against an environment of declining freight rates.

Disappointingly the merger of Halford's operations, technology and people has been more protracted than anticipated, slowing the expected financial returns. Full integration will be completed by August 2009.

USA

Our American operations span a range of services through the two divisions we now have operating. Mainfreight, our latest acquisition, provides retail freight forwarding across the logistics supply chain for both international and domestic requirements. CaroTrans is our neutral NVOCC seafreight wholesale operation providing consolidation services for LCL and FCL freight carried internationally to and from North America.

Mainfreight USA has now traded some 18 months under our ownership. In the past 12 months, revenues were \$265.78 million and EBITDA reached \$4.24 million. These results are well below our expectations and are poor at best.

During our period of ownership we have identified a number of shortcomings in the business which we are addressing. Mainfreight Group culture and operating disciplines have been introduced to all of the USA operations, including a stronger branch management focus, the introduction of our owner-driver model for pick-up and delivery, and a more rigorous approach to both fixed and variable cost management.

Our "Cargowise" technology platform was introduced to the business in April 2009 to replace the redundant, inefficient system inherited through the acquisition process.

Domestic volumes have been impacted by current trading conditions and are below our expectations.

Measures to address this include the launch of new services to Canada, the creation of a Government services division which has achieved certified status, and the nationalisation of our fledgling FTL (full truck load) division, all of which are expected to assist our sales strategy for stronger growth.

CaroTrans' performance has continued to improve throughout the year with revenues improving to \$178.23 million, an increase of 43.1% (excluding foreign exchange, an increase of 22.5%). EBITDA increased to \$13.63 million, an improvement of 75.0% (excluding foreign exchange a 49.8% improvement).

CaroTrans' financial performance has been very satisfactory. This success saw us launch the brand and operations in the other markets where we have a presence: Asia, Australia and New Zealand. While this set up has been successful, revenue growth and profitability outside North America has been below our expectations.

International shipping tonnage has declined and is likely to be depressed for some time to come. As a result shippers have fewer orders and those orders are smaller in size, increasing the need for consolidation services. CaroTrans is well positioned to take advantage of these market conditions.

Asia

Our full ownership of the Asian business has now been in place for almost two years. During this period we have been able to develop the business to cover more trade lanes, install our international operating system "Cargowise", establish CaroTrans and develop a flourishing airfreight product.

While Asia has certainly borne the brunt of the global recession, with exports of manufactured products substantially reduced, our own operations have managed to continue to increase revenue, up 22.2% excluding foreign exchange to \$25.82 million. EBITDA declined slightly to \$2.62 million as additional costs were incurred in developing our capability throughout China.

We are well positioned to continue the growth of our business in this region and it remains a significant beachhead for our global development in the years to come.

Carbon Emissions

Mainfreight has always attempted to reduce the environmental impact of its operations. Our sustainability initiatives have often resulted in reduced costs; so the bottom line and the environment are both winners.

Real or not, climate change is fast becoming a core strategic issue for businesses everywhere. For Mainfreight, it begins with accepting that our business is based on an activity that generates carbon emissions and then taking responsibility to reduce those emissions over time; without negatively impacting on our competitiveness.

Last year we commenced a programme of measuring the carbon emissions in our business in New Zealand with a view to extending this measurement to other countries where we have a presence, and to reducing our emissions per tonne of freight moved. We made this information available to the public through our annual report and other avenues.

This year however, we have been faced with significantly increased costs and bureaucracy from the Government departments which oversee carbon emissions, and while as a business we will continue our programme of measurement and reduction to support our long-held policies of environmental responsibility, we have chosen not to incur the substantial costs involved in the audit and certification processes that are now demanded. We believe that incurring these costs would not provide a measurable benefit and therefore would not be in the best interests of our shareholders.

Group Operating Cash Flows

Operating cash flows were \$63.07 million, an improvement of \$22.37 million on the prior year due to substantially improved debtor collections.

During the year net capital expenditure totalled \$40.87 million. Property development accounted for \$23.51 million of this.

Net debt increased to \$115.28 million from \$79.89 million due to the Halford acquisition and the US dollar loan currency fluctuations.

Dividends

The Directors have approved a final dividend of 10 cents per share fully imputed at the 30% company tax rate, with the books closing on 17 July 2009; payment will be made on 24 July 2009. This takes the full dividend for the year to 18.5 cents per share.

Outlook

The uncertain economic environment has seen reduced volumes across all sectors of the logistics industry. Mainfreight has not been immune to the effects of this during early 2009. We expect to see volumes continue to decline for the immediate future and this will affect our profitability in the coming year.

Our response is to manage our business through very strong margin and cost-focused branch management, coupled with sales strategies aimed at increasing market share across all sectors. Our competitive advantage of quality supply chain logistics services will continue to provide growth. Our style and strong people-based culture will be important to manage the process.

Against the possibility of declining revenues in the current economic climate, we remain focused on growing our logistics network around the world. This has resulted in an expanded customer base, leaving us well positioned in all our markets to take advantage of any upturn in the economic cycle.

Our team of very special people has delivered a satisfactory result against the odds in this past year, at considerable personal sacrifice, and yet they remain passionate in all that Mainfreight stands for and aspires to.

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