MAINFREIGHT GROUP LIMITED

Financial result for the twelve months ended 31 March 2012 (Unaudited)

Commentary

Mainfreight is pleased to announce a record full year profit before abnormals of $65.75 million for the year ended 31 March 2012, an increase of 39.2% over the prior year.

Sales revenues were also at record levels; $1.81 billion, up nearly half a billion or 35.2% on the prior year.

EBITDA shows a similar trend, up 50.9% to $138.19 million.

Excluding the contribution from our recently acquired European business, Wim Bosman Group, performance of the remaining business units has similarly produced record results, with sales revenues reaching $1.40 billion, up 4.1% and EBITDA at $110.06 million, an increase of 20.2%. (Excluding foreign exchange effects, revenue was up 7.2% and EBITDA 22.3%).

These results are satisfactory and, in general, are in line with our expectations. Certainly the momentum created in the previous twelve months has assisted our growth and while our second half results were somewhat behind our aspirations, we are satisfied with the final result.

Business performance improved in our Australian and New Zealand operations where strong sales activity, particularly in the food, beverage and DIY/home improvement categories saw freight volumes expand.

Our North American and Asian operations have had mixed results with Mainfreight USA continuing its improvement from the year prior. CaroTrans, our independent NVOCC operation, disappointed as they encountered lower than expected US export volume in a difficult shipping environment.

Similarly, Asia performed below expectations as falling freight rates and rising cost structures impacted profitability.

Our latest acquisition, Wim Bosman Group, had a challenging second half, where lost warehousing volume and poor Belgium freight performance affected profits. Financial performance was below the level that would have triggered an additional €10 million earn-out, and this sum (equivalent to NZ$17.06 million) has been written back to the profit and loss account as an abnormal item.

Nevertheless, the significance of establishing ourselves in Europe should not be underestimated, where our profile is increasing with multi-national customers who continue to search for more efficient supply chains.

Non-recurring gains after tax were $14.70 million. The gain comes from the write-back of the Wim Bosman acquisition earn-out of €10 million (NZ$17.06 million), partially offset by non-recurring costs of $2.36 million.

Overall, a satisfactory financial result as world economic conditions continue to be challenging. Once again, Mainfreight has taken significant steps towards our global aspirations.

Divisional Performance (figures in local currencies)

New Zealand **(NZ$)**
Our New Zealand business units show continued improvement in their financial performance compared to the year prior. The ongoing focus on FMCG (fast moving consumer goods) has increased domestic freight revenue and improved warehousing utilization.

Regardless of New Zealand's economic conditions, we remain positive about our own performance in this market and expect a similar trend of improvement to continue into the 2013 financial year.

Total revenues for the **New Zealand group** business units increased 8.8% to NZ$449.04 million from NZ$412.56 million. EBITDA improved 14.1% to NZ$54.60 million.

In our New Zealand **Domestic** operations, revenues improved 8.7% to NZ$316.13 million, and EBITDA improved 13.0% to NZ$47.75 million.

Our usage of rail linehaul continues to increase, and our spend with KiwiRail now exceeds $35 million per annum. Our new Wellington rail-served facility is completed and is currently receiving and sending a combined total of more than 50 rail units per week.

Our **Domestic Warehousing** operations have seen good increases in utilization as customer out-sourcing of warehousing gains momentum.

A new food-grade warehouse has been commissioned in Auckland and this, together with further development in Christchurch, will relieve some of the pressure resulting from growth.

In our New Zealand **International** operations, revenues improved 9.1% to NZ$132.91 million. EBITDA improved 22.0% to NZ$6.84 million.

Revenue growth has improved across all trade lanes with our Sea Imports up significantly, followed closely by Air Export growth – particularly to long-haul destinations. Once again Perishable volume declined slightly as the strong NZD/USD cross rate affected perishable export sales.

<u>Australia</u> **(AU$)**
While the Australian general business economy weakened during this past twelve months, Mainfreight has continued to increase its profile and market share, particularly in the domestic transportation and warehousing sectors.

Throughout the year we have worked hard on improving our quality, raising levels of service and expanding our network. Whilst progress has been achieved, it has been at a slower rate than expected. We have much to do to further improve our network and its effectiveness, but are comfortable with the advances made to date and the positive customer reaction which has resulted.

Total revenues for the **Australian group** business units increased 5.0% to AU$385.43 million (up from AU$366.97 million in the year prior) and EBITDA improved 31.1% to AU$26.11 million. Interestingly our Australian operations now generate 61.9% of our New Zealand EBITDA – a far cry from the early days!

In our Australian **Domestic** operations, revenues improved 16.1% to AU$203.22 million and EBITDA improved 43.0% to AU$18.78 million from AU$13.14 million last year.

Domestic freight volume was at record levels for Mainfreight and is now at levels where our older facilities in Victoria, Queensland and South Australia are struggling to cope.

Land has been purchased in Brisbane, with construction planned to get underway late 2012 for a super-site incorporating warehousing and freight distribution. The Adelaide leased facility has also been purchased, with an upgrade due to commence mid-year.

Our **Warehousing** operations have recorded significantly improved performance, both financially, and operationally for our customers. Utilization is much improved and recent sales success will see a requirement for additional facilities in the medium term. As with New Zealand, our future facilities will be established to food-grade building standards.

Our **Wharf Cartage** business has expanded its branch network to include Victoria and Western Australia.

In our Australian **International** business, financial performance disappointed. Sales revenues declined 5.1% to AU$182.21 million from AU$191.92 million, while EBITDA improved 8.2% to AU$7.33 million. Our expectations are for improving performance in the short term.

Revenue levels were impacted during the year with the loss of several large FCL shipment customers, and as sea and airfreight rates deteriorated due to over-capacity in some trade lanes.

Profitability improved as more LCL freight was attracted to our container consolidation programme, and cost structures were managed better to offset the revenue decrease.

Perishable facilities have been established in New South Wales to complement our existing Victorian and New Zealand investments.

<u>Asia</u> **(US$)**
Our Asian operations performed poorly by our standards in this past year. Whilst revenue levels improved 8.9% to US$28.87 million, EBITDA was down 15.9% to US$2.14 million from US$2.54 million in the year prior.

Operating gross margins declined as ocean freight rates fell with excess capacity in key trade lanes, and due to an over-commitment to airfreight space as peak season airfreight volumes never eventuated.

To counter this under-performance, we are developing sales capability within Asia to stimulate and gain more in-country sales revenue.

China expansion this year has seen the opening of a branch in Qingdao in northern China, and one in Chengdu in central/western China. This brings the number of branches in China to ten.

Further development is required in the region for high quality, transparent third-party logistics and supply chain capability. We expect to progress this during 2012 and 2013.

United States of America **(US$)**
Our two USA business units, CaroTrans and Mainfreight, have provided modest results for this past year. Combined revenues increased 7.8% to US$332.30 million and EBITDA improved 42.9% to US$15.32 million, predominantly as a result of improving performance within Mainfreight.

CaroTrans revenue declined 0.5% to US$133.35 million as lower export volumes and declining ocean freight rates negatively affected financial performance. EBITDA was down 1.3% to US$9.18 million as a consequence.

During the year we opened our 14th CaroTrans branch, in Seattle, which will enable us to develop direct LCL freight services to and from key Asian cities for our northern California customers.

Offshore growth for CaroTrans continues; the Chile operation celebrates its first year of operation, and within Asian we now have eight branches.

We expect to establish a branch for CaroTrans in Europe in mid-2012, which will provide a valuable beachhead for further expansion of our independent NVOCC operations.

Mainfreight USA has lifted its operational and service levels with a corresponding improvement in financial performance. Revenue increased 14.2% to US$198.94 million and EBITDA improved 333.2% to US$6.14 million from US$1.42 million.

During the year we took the opportunity to split the Mainfreight US business into two profit centres, Domestic and International – as we do elsewhere in the world. This has allowed us to bring more focus to each sector, placing responsibility and resources where needed by creating specialist divisions. Financial results for these sectors will be reported separately in future.

Domestic freight sales will concentrate on the FMCG sector and, while we see volumes increasing, we are operating in a very large market and have much to do to realise the full potential available.

The International division is finding momentum and has a significant focus on growing the trade lanes between the USA and our Asian and European operations. We expect to open International branches in Mexico City, Mexico and Toronto, Canada later this year.

<u>Europe</u> **(Euro €)**
We have now completed one full year of ownership of the Wim Bosman business. During this time we have been able to integrate Mainfreight's financial disciplines and begin the process of aligning our new team members to Mainfreight's culture.

Financial performance has not met expectations. Revenue levels were improved, up 2.7% to €244.80 million, however EBITDA reduced 15.0% to €16.49 million. (These results reflect trading from 1 April 2011 to 31 March 2012).

The settlement terms for this acquisition included an earn out incentive for the period 1 January 2011 to 31 December 2011, predicated on achieving a €20 million EBITDA result. This added an additional €10 million to the acquisition price. The EBITDA achieved for this period was below the minimum of €18.33 million, therefore no earn out payment will be made. The accrual has been written back as a non-recurring gain.

Factors impacting financial performance, particularly during the second half, included:

- The loss of Logistics customers to highly competitive tenders
- Poor performance within our Belgium and Air & Sea operations.

Regardless of this financial performance, we remain satisfied with our first European investment.

In addition to developing our understanding of European logistics and the Wim Bosman Group, we have also:

- Established a branch in Lyon, France, a full truck lot operation in Poland; and offices in Hamina, Finland and Moscow, Russia
- Reduced our Belgian transport hubs from three to two for logistics efficiency, and
- Commenced the process of rationalizing our agency relationships throughout Europe.

Three building projects have been completed:

- A new warehouse in Ostend, Belgium,
- An extension to our facility in Paris, France, and
- A 5,000m^2 extension to our Romanian warehouse.

We have also restructured the Air & Sea business, implementing new operational software, branch and senior leadership changes, and have expanded our network with new branches in Paris, Brussels and Amsterdam (Schiphol).

Across the European group we have also addressed our sales strategy and effectiveness, and as a result have gained significant new business. Five major logistics accounts will assist Netherlands' warehouse utilization to return to pre-acquisition levels by mid-2012.

The customer relationships we have inherited are also providing more opportunities across our global network.

Our challenge will be to capitalise on these in the coming years.

Group Operating Cash Flows

Operating cash flows were NZ$77.14 million up from NZ$71.78 million, largely as a result of operating profit improvements.

During the year net capital expenditure totalled NZ$81.88 million. Property development accounted for NZ$58.83 million of this.

Dividend

The Directors have approved a final dividend of 14 cents per share fully imputed at the 28% company tax rate, with the books closing on 13 July 2012; payment will be made on 20 July 2012. This takes the full dividend for the year to 26 cents per share; a 30% increase year on year.

Outlook

Our overall performance in these past twelve months has met our expectations. We would have liked to have had better results from our International divisions, particularly those located in Asia, USA and Europe. We are however building a 100+ year business, and the time we have been present in those countries is only a short interval when compared to this expectation.

Our geographical spread across different countries and economies is assisting our ability to consistently deliver improved results, with stronger economies at times offsetting poor divisional or regional economic performance.

Our vision is set on long-term success, not quarterly results.

Our operations in New Zealand and Australia have become our biggest profit generators for the short-term, but are likely to be surpassed as we redouble our efforts in the Northern Hemisphere.

Trading through April and May has continued the past year’s trends for Australia, New Zealand and the USA.

In Asia, trading has been inconsistent and disappointing.

In Europe, April trading in our Transport divisions was improved on the year prior, however with five fewer working days due to public holidays, May trading has disappointed. Improved results from our Logistics and Air & Sea divisions are not expected until July 2012 as business from new warehousing customers commences.

We remain optimistic with positive expectations for continuing improvement across the Group through 2012 and 2013, albeit with ongoing vigilance towards poor economic trading conditions around the world.

Mainfreight will release its financial results for the first quarter of the 2013 financial year to the market on 9 August 2012.

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