MAINFREIGHT LIMITED

Financial result for the six months ended 30 September 2013 (Unaudited)

The Mainfreight Group is pleased to report a net surplus before abnormals of $29.87 million for the first six months of our 2014 trading year. This is an increase of 7.7% over the same period in the prior year.

EBITDA performance improved 3.7% to $63.30 million, an increase of $2.24 million over the previous year. Excluding foreign exchange effects, the increase is 6.1%.

Total revenue (sales) increased 1.7% to $952.70 million (excluding foreign exchange effects, this is an increase of 4.0% over the same period last year).

Abnormal items after tax for the period total $11.96 million, made up of:

- Settlement of a dispute with the previous owners of the European acquisition, culminating in an after tax gain of $12.74 million
- The discovery of fraud (within a New Zealand subsidiary, Daily Freight, which is currently before the Court) with an estimated after tax cost of $684,000, net of recoveries to date
- Balance of $97,000 relating to redundancy costs incurred in the United States and Europe as business units have reduced team numbers.

After abnormals, a net surplus of $41.83 million was recorded, compared to $27.74 million for the same period last year.

Trading during the first three months of the 2014 financial year saw reduced volumes and profitability across most of the Mainfreight network, however performance through August and September improved and this has continued through October and into November.

During the second quarter, EBITDA improved 26.6% and revenue lifted 3.1% over the first quarter's performance.

Regionally, Australasia and Asia have contributed strongly, while results from Europe and the Americas are disappointing and these remain the areas of greatest concern.

Regional Performance (figures in local currencies)

New Zealand (NZ$)

Once again, all New Zealand divisions performed strongly for the first half year, and are carrying this momentum into our peak period leading up to Christmas.

Total revenue for the New Zealand operations increased 6.5% to $243.15 million, compared to the same period last year. EBITDA improved 14.3% to NZ$27.65 million.

Domestic freight volumes have strengthened further, with our Transport and Warehousing operations benefiting. Stage one reconstruction of our Christchurch facilities has been completed providing much needed additional warehousing capacity.

Our New Zealand Air & Ocean business has delivered increased revenue and profitability, performing well across all trade lanes and in both Air-freight and Sea-freight products.

Australia (AU$)

Our Australian businesses lifted performance in the second quarter to produce satisfactory half year results for both revenue and EBITDA.

Total revenue for the Australian operations increased 7.1% to AU$224.25 million, and EBITDA improved 8.1% to AU$14.08 million, compared to the same period last year.

The majority of this EBITDA increase has come from our Air & Ocean and Logistics divisions, while our Transport operations dealt with the removal of parcel freight from our network to address associated issues of falling margin and quality performance.

Those actions saw trading in our Domestic Transport division falter in the period from June to August, however gross margin recovery and effective cost management are now evident and we are seeing a return to good sales growth and improved quality.

Performance for this division during September and October is better, and our expectations are for this to continue in the second half year.

Our Logistics business continues to perform well with warehouse utilisation at maximum levels.

The Australian Air & Ocean division has found good growth, improving its revenues and EBITDA over the prior year. Solid performance in September and October has continued with both Import and Export growth.

Construction of our new and extended facilities in Brisbane, Sydney and Adelaide remains on schedule, and completion is eagerly anticipated to sustain our progress in the Australian market.

Asia (US$)

Mainfreight Asia continues to find growth and profitability, with improved performance reflected in sales revenue, up 25.6% to US$18.53 million, and EBITDA, up 32.6% to US$1.82 million.

As usual, our reporting of results for the Asia division does not include inter-company trading revenues, which are accounted for within our other divisions. For the current half year those revenues totalled US$11.96 million, being freight paid for by consignees located at destination rather than at the Asian origin.

Improved EBITDA has been generated through gross margins across most trade lanes and product offerings. Trading performance for October, and now November sees similar trends.

The priorities for the Asian business remain to increase in-country sales, develop stronger imports, and to focus on trade lanes to and from Europe.

The Americas (US$)
Performance for this region has been disappointing with both business units struggling to find sales growth.

Revenues in the USA have declined 2.2% to US$178.12 million, down from US$182.04 million for the same period in the year prior. EBITDA is up 3.5% to US$8.40 million, with improved gross margins from CaroTrans. Performance within Mainfreight USA has stalled.

Revenue levels are flat for CaroTrans, as FCL rates are impacted with over-supply of shipping space. However a strong focus on better LCL container utilisation together with improving import tonnages, has benefited CaroTrans' gross margins and EBITDA performance, which has increased by 26.4% over the same period in the prior year.

These profit trends continued for CaroTrans through October and now into November, and are expected to do so for the remainder of the financial year.

For Mainfreight USA, while gross margin levels have improved in both its Domestic and Air & Ocean divisions, increasing overhead costs and zero revenue growth has seen EBITDA decline 18.7% to US$3.36 million across the business.

Trading in October saw some improvement on this trend, however we are disappointed in this performance and have initiated a number of changes to address performance.

Europe (Euro €)
This region continues to be our most challenging.

Sales revenues improved 2.0% to €124.75 million, however overheads increased by three quarters of a million Euro, reducing EBITDA by 24.5% to €3.97 million for the period, down from €5.25 million.

A number of initiatives are in place to bring about improvement across all three divisions; Air & Ocean, Transport and Logistics:

- Restructuring and refocusing the sales team,
- Introducing new technology for the Transport and Logistics businesses (following the successful implementation of new software for the Air & Ocean business),
- Working with network partners to build volume and reduce overheads.

Our move to more food and beverage based customers has built, and will continue to build volume, albeit at considerably more competitive margins.

We are committed to the region and to finding financial improvement and sales growth. However we expect the short to medium-term outlook to be less positive than our performance elsewhere in the world.

Group Operating Cash Flows

Operating cash flows were NZ$42.67 million, up on last year by NZ$11.39 million, reflecting increased earnings which include the abnormal items.

Capital Expenditure totalled NZ$29.17 million, of which NZ$20.37 million related to property development.

Dividend

The Directors of Mainfreight have approved an interim dividend of 13.0 cents per share (an increase of 1 cent on last year's interim dividend of 12.0 cents per share).

This dividend will be fully imputed and will be paid on 13 December 2013, with books closing on 6 December 2013. A supplementary dividend will be paid to non-resident shareholders.

Outlook

This first half has seen satisfactory financial performance in our core markets of New Zealand, Australia and Asia. Disappointingly, this is not the case for the Americas and Europe.

The strong second quarter performance (August and September in particular) is also being seen in November trading through New Zealand, Australia, Asia and in CaroTrans for the USA.

We expect the measures we have initiated in Mainfreight USA will result in better financial performance, particularly in the fourth quarter (January to March 2014).

Europe will take longer, particularly as the economic environment and the competitive logistics industry will take time to improve. Our own initiatives are in place with further reviews underway for particular areas of the European group.

We expect a stronger second half Group result culminating in improved earnings over the year prior.

Mainfreight's full year results to 31 March 2014 will be reported on 28 May 2014.

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