MAINFREIGHT GROUP LIMITED

Financial result for the twelve months ended 31 March 2010 (Unaudited)

Commentary

The Mainfreight Group is pleased to report a net surplus after taxation and abnormals of $36.37 million for the twelve months of the 2010 financial year; an increase of 2.5% on the previous year's result of $35.48 million.

Total revenue (sales) decreased by 10.5% to $1.13 billion, from $1.26 billion last year (excluding foreign exchange, this represents a decrease of 10.3%).

EBITDA declined 6.7% to $75.85 million.

Included in these results is a $3.04 million ($2.09 after tax) discretionary bonus for our teams throughout the world, wherever branch performance bettered that of the previous year. A total of 55 branches and 1,104 team members will participate. The previous year's discretionary bonus was forgone by all our people as a measure to address the deteriorating economic conditions. Team bonuses, while discretionary, are an integral part of Mainfreight culture.

Abnormals totalled $1.89 million; $800k related to leases surplus to requirements and the balance predominantly to restructuring costs incurred in our Mainfreight USA operations. Abnormal costs for the previous year totalled $4.5 million.

These past 12 months have been an exciting and challenging time for us. With economies around the world faltering, freight volumes deteriorated in most of our business units.

Our response to this decline was to manage our cost structures better, improve margins, aggressively expand our market share by increasing our sales activities and, importantly, continue to improve our quality and levels of service.

As the year progressed, these initiatives saw our performance strengthen quarter on quarter.

Seasonality certainly plays a part in the second half result, however revenue improved 11.2% and EBITDA improved 58.4% when comparing second half performance to that of the first half.

Initiatives to reduce costs, to achieve more with less, saw savings of $32.43 million on the previous year.

Offshore sales revenue accounts for 67% of our total revenue and is expected to increase as our overseas growth develops impetus.

Difficulties and challenges are still with us in our newly acquired North American operations of Mainfreight USA, and we have yet to find acceptable levels of growth in our Asian operations.

Despite the economic difficulties of the past year we have continued to open new branches in China, New Zealand and Australia and continue to identify new areas where we can extend our services around the world.

We are satisfied with this result and in particular the momentum we have as we progress into the 2011 financial year.

Divisional Performance (all figures in NZ dollars)

United States of America

In the United States, one of the world's largest freight markets, we have some of our biggest challenges, and of course some of our most significant opportunities. We have a presence in both the domestic and international freight sectors, with market share in both categories still small in comparison to what is available.

Revenue levels declined 24.1% to $336.98 million across the **US group** operations, with EBITDA declining 59.3% to $7.27 million.

Second half performance improved over our first half with EBITDA improving 45.2% (60.2% excluding foreign exchange) and revenues up 4.6% (excluding foreign exchange this increases to 17.2%). This level of improvement continues into the new financial year.

Mainfreight USA's performance saw revenues decline year on year by 28.5% to $190.12 million and EBITDA decline to a deficit of $(4.21) million.

This performance is below our expectations and has been disappointing. Domestic freight tonnage within the United States declined during the year, at the same time as we embarked on our journey of change and improvement.

Through the year we have extended our service offering by:

- Providing LTL freight services across all states
- Expanding our trans-border services into Canada and launching a new Mexican service
- Developing a stronger common overseas agent network throughout Asia and Europe
- Expanding our customs brokerage services
- Establishing our FTL division in Atlanta.

The considerable operational progress made during the year gives us more confidence in the opportunities available in the United States.

CaroTrans' revenues declined during the year from $178.23 million to $146.87 million. EBITDA declined 15.8% to $11.48 million as FCL export volume slowed, particularly from the United States to Europe. There was a noticeable improvement in the LCL sector which improved margins and assisted the development of added groupage services to more European, Middle East and South American destinations.

Export volumes from the United States of America have begun to improve and are expected to continue to rise as the USA looks to the export sector to assist economic recovery.

Asia

We are now well established within China and Hong Kong, with branches in Shanghai, Ningbo, Shenzhen, Guangzhou, Xiamen and of course Hong Kong. Plans are in place to open branches in Chengdu, Tianjin and Qingdao during 2010.

Sales revenues improved 8.0% to $27.88 million, however EBITDA declined 21.4% to $2.06 million as margins were compromised with intense competition in a difficult market. Additional costs continue to be incurred as our network strengthens.

In light of the tough trading conditions we have viewed this performance as satisfactory, and find ourselves well positioned as freight volume grows with economic recovery assisting an increase in China exports.

Australia

Australia's economy proved more resilient than most and our operations have been our most successful during this past year. Both our International and Domestic businesses returned improved profits compared to the previous year despite declining freight volumes.

Total **Australian group** performance saw sales revenues maintained at $392.33 million. EBITDA improved 56.9% to $22.46 million from $14.32 million.

Second half performance improved over our first half with EBITDA improving 53.7% and revenues up 14.7%.

In our Australian **International** operations the elimination of duplicated costs associated with the Halford acquisition assisted our returns and in spite of revenue levels from the Halford acquisition being below our expectations we have successfully developed / increased our inbound airfreight tonnage from Europe to complement our inbound seafreight from Asia and the United States.

Revenues declined 3.2% to $202.64 million from $209.44 million. EBITDA improved 29.5% to $9.19 million from $7.10 million.

In our Australian **Domestic** business, improved returns from our warehousing operations and continued growth in our transport operations, saw revenues improve 3.5% to $189.70 million and EBITDA improve 83.8% to $13.27 million.

The introduction of the Chemcouriers brand and operation for the movement of packaged hazardous goods freight has attracted customers and underscored our commitment to hazardous goods warehousing.

Suitable bare land has been identified in Melbourne to enable the construction of a super-site in this region to complement our Sydney operations.

Trading in April and May sees a continuation of the improvements made during the past year.

<u>New Zealand</u>

Improving freight volumes during the year culminated in a better than expected Domestic performance and an improved International performance.

Revenues for the **New Zealand group** operations declined 7.0% to $375.00 million from $403.11 million. EBITDA was 5.1% lower at $44.07 million, down from $46.45 million in the prior year.

In our New Zealand **Domestic** operations, revenue declined to $267.50 million from $294.81 million, with EBITDA down 6.1% to $39.03 million. Second half performance saw revenues improve by 8.4% and EBITDA improve 70.0% over the first half. Seasonality volume increase provides some of this momentum, but so do the measures put in place to improve business performance during the year.

Heads of agreement have been entered into with KiwiRail for leased land in downtown Wellington and Palmerston North. Construction is due to begin mid-year. Both facilities will provide the opportunity for increased rail usage into and from these cities benefiting both Mainfreight and our customers.

The Government's decision to assist KiwiRail with increased funding is welcome, if not overdue. Improving rail infrastructure for future freight growth and supply chain efficiency is crucial for New Zealand, just as port reform also needs addressing.

In our New Zealand **International** operations while revenues declined 0.8% to $107.46 million from $108.29 million, EBITDA improved 2.8 % to $5.04 million from $4.90 million.

While import volumes declined as customers reduced inventory levels our export airfreight grew, particularly in the Perishables sector where our investment in specialist facilities continues to add more value to our customers' supply chain activities.

Our regional airline and shipping relationships has provided our customers with valuable space allocations in the face of capacity constraints.

Mainfreight International now has 11 branches throughout New Zealand, all providing the necessities of international freight forwarding; a network unsurpassed by our competitors

<u>Group Operating Cash Flows</u>

Operating cash flows were $53.69 million down from $63.07 million predominantly due to an increase in the level of debtors during the last quarter.

During the year net capital expenditure totalled $16.80 million. Property development accounted for $7.25 million of this.

Net debt decreased to $82.89 million from $115.28 million due to US dollar loan currency fluctuations and low capital expenditure during the year.

<u>Dividend</u>

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 16 July 2010; payment will be made on 23 July 2009. This takes the full dividend for the year to 18.5 cents per share.

Outlook

In light of the economic conditions during these past twelve months we are satisfied with the result achieved. Importantly, the measures put in place (with the support of the entire Mainfreight team) to address these conditions have seen Mainfreight become a better business.

Further, the momentum created has provided improved results month by month, and this continues into our new financial year, with freight volumes and revenues much improved on the same period in the year prior.

As an example, our top 300 customers in our New Zealand Domestic business have traded 8% ahead in the first six weeks of April/May compared to the same period last year.

While this increase in sales instils confidence, we remain conscious of the continuing fragility in many economies of the world and are focused on maintaining our disciplines and cost initiatives of the past year.

Regardless of the economic by-play, we continue to explore the many opportunities that the world's supply chain logistics market and customers provide us, not only in the countries where we currently reside, but also in those we have yet to reach.

Our capital expenditure will increase as profitability and performance allow. Construction of new facilities on rail-served land in Wellington and Palmerston North, and the purchase of suitable land in Melbourne are the first three major projects we will embark upon.

We are excited by the opportunities that are available and look forward to continuing to deliver exceptional service and performance for our customers and shareholders.

Mainfreight will release its financial results for the first quarter of the 2011 financial year to the market on 19 August 2010.

For further information, please contact Don Braid, Group Managing Director, telephone +64 9 259 5503, +64 274 961 637 or email don@mainfreight.com.