Commentary
Mainfreight’s full year profit after tax and before abnormal items for the year ended 31 March 2013 is $67.98 million, an increase of 3.4% over the previous year’s record profit.

Sales revenue was also at a record level at $1.88 billion.

Our EBITDA level disappoints at $137.45 million, down on the prior year by 0.5% and in line with our guidance issued in March.

In all geographical segments, excluding Europe, we have exceeded the revenue and EBITDA levels of the prior year. Unfortunately our most challenging area, our European business, although achieving stable revenues recorded a decline in EBITDA of 42.7% to €9.46 million (NZ$14.95 million).

This is a direct reflection of the tough trading conditions within Europe coupled with the position we have found ourselves in post-acquisition, with the loss of key trading accounts within the first twelve months of ownership.

Elsewhere we remain comfortable with performance; while at times not necessarily meeting our growth expectations or our high quality standards, nevertheless we are producing satisfying financial returns and sales growth.

Business performance in Australasia remained strong, although our Australian domestic operations have had a poorer than expected last quarter.

Our American operations continue to see good growth in sales and EBITDA, driven primarily by the Mainfreight Domestic and Air & Ocean operations. CaroTrans maintained its profit levels at those of last year.
In Asia, good growth momentum has been sustained and we have expanded our branch network within the region.

Abnormal items after tax totalled NZ$2.10 million and principally relate to brand name protection in Europe.

**Divisional Performance** (figures in local currencies)

**New Zealand (NZ$)**
All of our New Zealand operations performed at a satisfactory level over the year.

Importantly our three divisions, Transport, Logistics (Warehousing) and Air & Ocean, are increasingly aligned in terms of customer service, with more customers benefiting from our full suite of supply chain logistics services than ever before; particularly our trans-Tasman customers, as we create a stronger Australasian logistics service.

Total revenues for the New Zealand group of businesses increased 5.5% to $473.87 million. EBITDA improved 9.8% to NZ$59.92 million.

Our New Zealand **Transport** operations continue to see revenues and EBITDA performance improve.

During the year we completed construction of two more rail-served terminals, in Palmerston North and Invercargill. Land has been purchased in Hamilton to provide similar facilities there by late 2014.

Work has commenced on the reconstruction of our Christchurch facilities which will see a new 12,000m² rail-served freight facility and 17,000m² of food-grade warehousing.

The improved EBITDA in our **Air & Ocean** business has come from better margin management and an expanded range of services for our customers.
Trade within our own Air & Ocean network here and offshore has increased to 65% of all New Zealand Air & Ocean revenue, retaining profit within our network and providing seamless service for our customers.

**Australia (AU$)**

Financial performance for our Australian operations has been satisfactory, with combined revenues and EBITDA both increasing over the prior year.

Total revenues for the Australian group business units increased 12.4% to AU$433.23 million and EBITDA improved 16.6% to AU$30.46 million.

Unfortunately the growth that we have experienced in our Australian **Domestic Transport** business, 20% year on year, has also brought difficulties and we have seen margins decline as operational costs increased in the last quarter of the financial year.

The exceptional growth in this sector has placed pressure on aging and increasingly inadequate operating facilities, as has the amount of parcel traffic that has been attracted to us from the poorer-performing competition, and our desire to satisfy our Australian customer base.

Whilst it has been possible to cope with minimal volumes of parcel traffic in the past, as volumes have grown, it has been to the detriment of our overall service quality and margin with additional labour, facilities and owner driver costs escalating.

Our response has been to provide our customers with a dedicated parcel provider, exiting this parcel freight from our network, ensuring we return to providing our freight customers with the very best of service levels.

Construction of our new facilities in Queensland commences in June, for a May 2014 occupation, Adelaide facility improvements are imminent, and additional leased facilities in Sydney are under construction now. Land has been purchased (conditionally) in Melbourne with expected title and resource consent complete before year end.
Our **Warehousing** operations continue to improve their service quality and levels of utilisation, as we step up our focus on customers in the food, beverage and related industries. Additional warehouse capacity will come with the Brisbane, Sydney and now Melbourne building investments, allowing for further growth in this sector.

Our Australian **Air & Ocean** business has maintained its revenue levels and has been able to improve EBITDA by 4.4%.

During the year we have been able to extend our share of the sea export market, and also achieve an increase in sales revenue for export airfreight. This builds on the success we have had in the perishable airfreight sector for Melbourne and Sydney.

Our position in the Australian logistics sector is now well established and we will continue to invest in our network with high standards of warehousing and freight facilities, equipment and people to strengthen service levels for our customers.

**Asia (US$)**

In our Asian operations we have seen sales revenue increase 3.6% to US$29.90 million and EBITDA improve 21.7% to US$2.60 million.

During the year we have been able to develop our network further. We now have eight branches located in China and a further three branches in the Asia region, Hong Kong, Taiwan and Singapore. We expect to open in Thailand within the next half year.

The improvement in financial performance is satisfactory, albeit at levels below our expectations. The China/Asia logistics market offers plenty of opportunity; however growth rates have been slow for us as we develop a small business by market standards. Trading terms are changing, with more decision making being made in-country, and imports continue to feature as a growing area of potential.

Our Asia/Europe/Asia trade lanes are of utmost importance for more growth and we continue to work hard to further our sales efforts in this direction.
The Americas (US$)
Growth for this region saw revenues improve 7.6% to US$357.49 million and EBITDA lift by 10.5% to US$16.92 million. While this is satisfactory growth, our expectations have yet to fully materialise.

The majority of the financial improvement has occurred within the Mainfreight business, while CaroTrans delivered flat earnings and minimal revenue growth as tougher than expected conditions slowed our development.

Mainfreight USA’s momentum can be attributed to a targeted focus on its two key products; Air & Ocean and Domestic transportation. Revenues increased 11.7% and EBITDA improved 30.7%.

Through the year, the Air & Ocean division developed and achieved more than the Domestic operations and we have renewed our focus on Domestic sales to address this.

Our trans-border services found more growth, allowing us to open Canadian and Mexican offices in preparation for more growth. This will allow us to act more strategically on the opportunities both countries provide for North American freight distribution.

CaroTrans maintained its market share, however has struggled to develop this further. Revenue levels increased slightly, however EBITDA declined 3.1%.

Our Chile venture has seen in excess of 27% revenue growth and has focused our attention on surrounding Central and South American countries.

We were able to open our 14th US branch for CaroTrans, in Seattle, and have also opened in Le Havre, France.

As Mainfreight USA has grown, its use of CaroTrans’ services has increased to the point where they now rank as CaroTrans’ second largest customer.
Europe (Euro €)
This is our most challenging business unit, as we confront and guide the business through a series of issues – including high-margin earning customer losses, poor economic trading conditions and the transition from private ownership to being a contributing member of the Mainfreight Group.

Revenue loss has been minimal as increased sales activities to replace lost customers have been moderately successful. Total sales revenues remained steady at €244.74 million as against €244.80 million for the year prior. However high fixed costs and the competitive environment contributed to a decrease in EBITDA of 42.7% to €9.46 million.

Whilst these financial results are less than satisfactory (poor), they certainly do not reflect the effort and contribution from our team to position this business for growth and improved profitability.

During the year our network was extended adding seven new branches; Paris (air freight at Charles de Gaulle), Moscow and St Petersburg Port for customs and sales offices, and transport operations in Cluj-Napoca, Romania; Kiev, Ukraine; Hamina, Finland and Katowice, Poland.

We expect to launch our first Mainfreight-branded vehicle in June 2013 having finally secured the Mainfreight brand in the Netherlands after a legal challenge and subsequent settlement of €1.5 million.

Our Logistics operations have been successful in retaining long-term contracts with a number of our larger customers, and the business has once again received “partner status” with John Deere. Utilisation of all warehouses has improved considerably, although margin levels remain impacted due to a highly competitive marketplace.

Our Air & Ocean business continues to position itself for further growth, particularly within our own global network.
We expect further progress will be made over the next 12 months towards improving returns.

**Group Operating Cash Flows**

Operating cash flows were NZ$83.17 million up from NZ$77.14 million, largely as a result of working capital item movements.

During the year net capital expenditure totalled NZ$53.70 million. Property development accounted for NZ$33.65 million of this.

**Dividend**

The Directors have approved a final dividend of 15 cents per share fully imputed at the 28% company tax rate, with the books closing on 12 July 2013; payment will be made on 19 July 2013. This takes the full dividend for the year to 27 cents per share; a 3.8% increase year on year.

**Outlook**

Trading for the first two months of the current financial year reflects a similar pattern to that of the prior year across the Group’s operations.

This is of concern and reflects a softening in some of the economies where we are located, and the issues we are currently addressing in our Australian Domestic operations. It would be our expectation to have exceeded profit levels of the year prior during this period.

We certainly remain confident of our progress where we have issues, and in our ability to continue to find growth in all markets, albeit at varying levels.

The capital investments in infrastructure that we are making in the Australia domestic business will position us for stronger growth in the near term.

Our New Zealand network, while now complete, will continue to focus on more added value services for our customers across all their supply chain logistics requirements.
Our Asian, American and European interests will benefit greatly from a stronger sales focus in each market.

Mainfreight will release its financial results for the first half of the 2014 financial year to the market on 12 November 2013.

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