THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL
CHAMPIONS TROPHY CASE COMPETITION 2009

MAINFREIGHT LIMITED

28 January 2009

Case prepared by Carl Xin Li, under the supervision of Mr. Sunny Gu and Mr. Brendon Potter, Director of Student Development, The University of Auckland Business School. This case has been prepared solely for the Champions Trophy Case Competition. All data in this case has been obtained from publicly available sources. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

MAINFREIGHT

Benjamin Banker

From: Ben Banker
Sent: Wednesday, 28 January 2009 8:52
To: * Mainfreight Project Teams
CC: David Dollar; John Jobs; Peter Partner; Warren Wallstreet
Subject: Mainfreight Limited Strategy Presentation

Morning all,

When it comes to international expansion, few New Zealand companies have done it more boldly than our first client, Mainfreight.

Founded with one Bedford truck and $2700 of capital back in 1978, Mainfreight has demonstrated that it can successfully go the distance. Today, only 30 years later, it has gone from a local carrier to a global supply chain logistics provider with revenues approaching NZ$1 billion and operations in Australia, Asia and the United States. The company aims to achieve at least 15% growth next year. Its target for 2010 is to have doubled its 2006 revenue of NZ$886 million and expanded its operations into other major markets including Europe, India, Southeast Asia, South America; and ensuring destinations are successfully reached seems to be this company's forte.

Mainfreight started building its offshore business with a move into the Australian market in 1989, driven by a vision to provide a logistics/technology-based bridge that would allow customers to treat New Zealand and Australia as one market. That bridge has since become a network that extends around the globe. Recent acquisition of US-based freight forwarder Target Logistics for NZ$77.2 million and Australian-based freight and logistics provider Halford International for NZ$26 million show Mainfreight's plans for international expansion are still on track.

At the start of 2009, the world's markets are in slow-motion freefall, retail spending is off significantly, and oil dropped cataclysmically from US$150 to US$40 a barrel in just six months. In the logistics sector, concerns for overcapacity, as well as the collapse of the financial markets have affected many investment decisions. However, Mainfreight has always taken a 'built to last' approach to corporate strategy; basing all its decisions on the assumption it will be around for another 100 years.

Bruce Plested, the chairman and founder of Mainfreight Limited, and the board would like a presentation of no more than ten minutes to hear what you believe to be the key issues facing Mainfreight at the moment, and what strategies you propose to take Mainfreight into the next phase of international growth. This will be followed by a ten minute question and answer session. Information gathered by our research team is attached to this email.

Regards,

Benjamin Banker,
Senior Vice President
SYG Consulting Group

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MAINFREIGHT LIMITED

OVERVIEW

Note: NZ $1 = US $0.55 = AU $0.82 as at December 2008

The following has been complied from Mainfreight's website, 2008 annual report, and various other reports.

Glossary of Terms

4PL	Fourth Party Logistics that incorporates the management of the supply chain for our customers
CABOTAGE	The removal of restrictions for International ship owners to partake in the carriage of domestic freight around the New Zealand coast
EBIT	Earnings before Net Interest and Tax
EBITA	Earnings before Net Interest, Tax, Goodwill and Amortisation
EBITDA	Earnings before Net Interest Expense, Tax, Depreciation, Amortisation, Abnormals and Minority Interests.
FCL	Full Container Load
FOB	Free On Board; a term utilised by importers and exporters determining the buying and selling criteria
FTL	Full Truck Load
INTER CITY	The freight transport between cities
INTRA CITY	The freight transport within a city known as metropolitan cartage or “metro”
IRA	Inventory Record Accuracy; Mainfreight’s level of IRA measures location count, inventory condition, systems alignment to inventory count, product integrity, total inventory count
LCL	Less than Container Load
LINEHAUL	The method and mode used to transport goods between cities and countries
LTL	Less than Truck Load
NPAT	Net Profit After Tax
NVOCC	Non Vessel Operating Common Carrier
NZX	New Zealand Exchange Limited
RETAIL FREIGHT	The industry segment that Mainfreight operates in
SUPPLY CHAIN LOGISTICS	The physical movement and management of supplies and finished product from source to end user
TEU	Twenty Foot Equivalent Unit (Container)
WHARF CARTAGE	The transport of full containers on and off the wharf
WHOLESALE FREIGHT	The industry segment that CaroTrans operates in

Mainfreight Limited (Mainfreight) has activities in freight forwarding, distribution services and supply chain management. The company provides a range of logistics services that include managed warehousing, domestic distribution, metro and wharf cartage, and international air and sea freight operations. The company is a global supply chain logistics provider, specialising in the handling of freight that is 'Less Than Container Load' (LCL), with businesses operating in 165 branches throughout New Zealand, Australia, Asia and the US.

The company operates through five business units: domestic transportation in New Zealand, domestic transportation in Australia, managed warehousing, international transportation in New Zealand and Australia, and wholesale air and sea freight.

The company's global supply chain management systems provide a range of customisable solutions in the area covering a range of aspects of logistics, including time management and assets management, waste removal, and concentrations on improving efficiencies of operations. Mainfreight also owns Owens Group, which has locations at all major ports and airports throughout Australia, New Zealand as well as London, and Los Angeles.

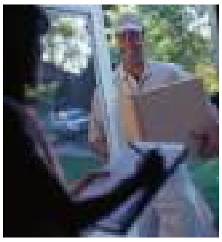
Contents

Operations Overview

Port Operations
The fleet primarily consists of 'Twenty-Forty Swings'. In Auckland and Wellington, Mainfreight Port Operations are located right on the wharf. Mainfreight is directly linked into the major port's computers, which provides instant and accurate access to container status and availability. This also allows us to update customers on vessel arrival and departure times, customs hold or MAF requirements and real-time tracking. Mainfreight Port Operations in Auckland, Wellington and Christchurch link directly with Mainfreight Transport's domestic network, enabling us to offer a seamless transport service ex-wharf throughout New Zealand.

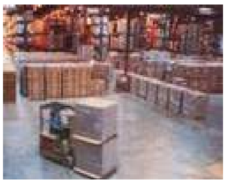
Full Truck Load/Bulk
Their Full Truck Load (FTL) division consists of over 70 vehicles operating throughout New Zealand . They are able to move large consignments from any origin to all destinations nationally. This includes palletised product, containerised product, bulk liquid management, or temperature controlled distribution. 'Half' load options is also available.

Pick and Pack
Mainfreight Logistics, a market leader in pick and pack and distribution across all market sectors. Operating a standardized technology and operation platform supporting their customers with total end to end support including: high Value Luxury Brands through to Fast Moving Consumer Goods, Industrial or Dangerous Goods (large and niche); storage to full pick and pack and dispatch; ability to cater for all pack sizes and attributes, full pallets, cartons, inner picks including single unit management. Their current pick and pack warehouses are located in Auckland, Tauranga, Wellington, Christchurch, Dunedin, Cromwell, Sydney, Brisbane, Melbourne, Adelaide and Perth and growing.



Metro
Established in 1995 to meet the specific transport requirements of New Zealand's largest cities, Auckland, Wellington and Christchurch. Today they provide metro services in all of their New Zealand branches Mainfreight Metro offers the following services: regular same day or next day delivery services, with three regular daily cycles; air and sea freight services, linking in with Mainfreight's international and offering fast delivery from bases near the ports and airports; vehicles available on an hourly hire basis; and dedicated vehicles working direct from the customer's warehouse or factory

Logistics
Mainfreight Logistics is the fastest growing division within the Mainfreight Group. The division is responsible for all warehousing operations and customer-integrated supply chain solutions. With inventory management being the central issue for management of supply chains, Mainfreight Logistics has focussed its resources on technology and invested in strategically networked warehouses to best support its client base.



Mainfreight Mobile Onsite Services
Mainfreight Mobile is a container packing and unpacking service. It is fully equipped with a container-compatible forklift on a trailer, towed by a large truck fully equipped with ramp, unloading and loading gear and assorted tools for preparing a container for export or removing dunnage. Mainfreight Mobile operates as a standalone service or integrated with their Logistics, International, Transport and Port Operations to extend their services further down the supply chain.

Supply Chain Integration
Mainfreight's Global Supply Chain Management delivers tightly-integrated solutions that are backed by their information technology, expertise, knowledge, experience and e-commerce solutions. Their totally integrated approach allows you to focus on your core activities. They work to continually reduce customer's total Supply Chain management costs and improve business performance and competitiveness. They do this through reducing inventory levels, shortening the Supply Chain, reducing product sourcing costs and increasing your ability to respond and service your customers.

Seafreight
Mainfreight International is one of Australia and New Zealand's leading freight forwarders offering a full range of services to and from worldwide markets. They can tailor solutions to suit your business needs. Track your shipments down to product type or number; receive automatic notification once your export cargo has been delivered.
•LCL Consolidation Service
•FCL Services via Conference and Non-Conference Carriers
•Break bulk Cargoes
•Project Shipping
•Door to Door Services
•Full Documentation
•Marine Insurance
•Dedicated Customer Service
•EDI capabilities
•Order Tracking System

Airfreight
With their extensive international agency network and their experienced team, they can tailor solutions to suit your business needs. Track your shipments down to product type or number; receive automatic notification once the customer's export cargo has been delivered.
•IATA Accredited Cargo Agents
•Direct and Consolidation Services
•Door to Door Services
•Order Tracking System
•Electronic Air Cargo Automation

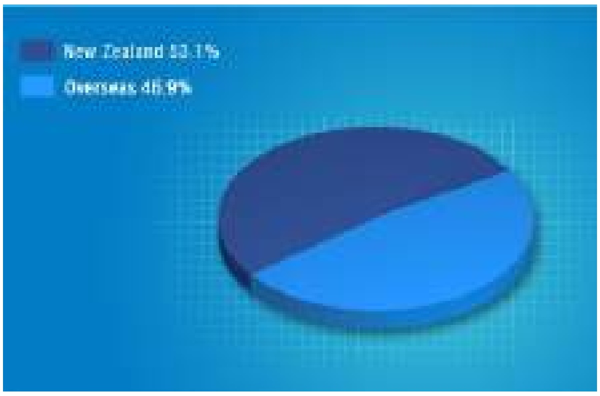
Perishable
With their specialised branches in New Zealand which are licensed by New Zealand Food Safety Authority and Bio-Security New Zealand to all major markets, they have the capacity and capability to handle all of your international perishable airfreight and seafreight requirements, effectively and efficiently.
• #1 ranked IATA Accredited Cargo Agent
•Direct and Consolidation Services
•Door to Door Services
•Order Tracking System
•Electronic Air Cargo Automation

Company Expansion History

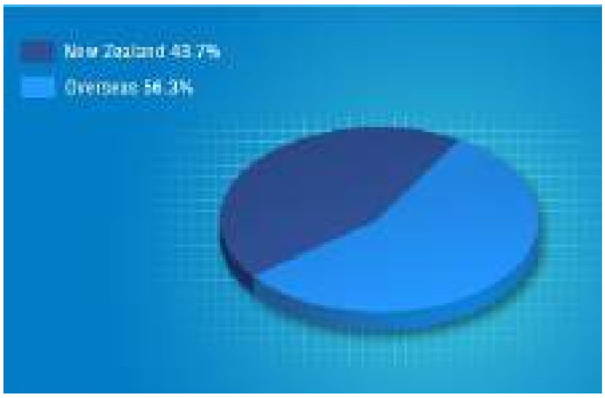
- Incorporated in New Zealand in 1978.
- In Sept. 1996, Mainfreight purchased a 75% share in Lep Freightways International Ltd., changing the name to Lep International (N.Z.) Ltd.
- In Mar. 1997, Mainfreight acquired Combined Haulage Ltd and Senco Haulage Ltd.
- On Apr. 17, 1999, Mainfreight acquired a 49.5% interest in Carotrans International Inc.
- In Apr. 2000, Mainfreight acquired 50% of Travel Style Pty. Ltd. for NZ$147,000.
- On Apr. 2, 2000, Mainfreight acquired K&S Express division for NZ$10,940,000.
- On Apr. 3, 2000, K&S Express division was merged with Co.
- On Feb. 1, 2001, Mainfreight acquired the business of Brambles Perth International division for NZ$1,357,000.
- On Apr. 2, 2001, Mainfreight acquired a further 12.5% of Bolwick Ltd. for NZ$80,000 (HK$250,000) bringing shareholding to 37.5%.
- On Nov. 1, 2002, Mainfreight acquired a further 2.6% of Carotrans International Inc, bringing the effective shareholding to 52.1%.
- On May 27, 2003, Mainfreight acquired 10.08% of Owens Group Limited for NZ$5,472,000.
- On June 6, 2003, Mainfreight acquired a further 42.6% of Carotrans Inc. for US$1,845,808.
- On June 13, 2003, Mainfreight acquired a further 4.92% of Owens group for NZ$2,761,552, bringing its total shareholding to 15.0%.
- In July 2003, Mainfreight launched a takeover bid for Owens Group, ending up with 79.6% after Toll Holdings acquired a minority position.
- On Oct. 31, 2003, Mainfreight increased its shareholding in Owens Group Ltd to 79.66%. Total price for this shareholding including acquisition costs was NZ$50,001,000.
- In May 2005, it completed a full takeover of Owens Group when Toll sold its 11.8% stake.
- In May 2006 it merged the operations of Mainfreight International and Owens International into a business known as Mainfreight Owens International.
- In April 2007 it sold Pan Orient Project Logistics and its 75% shareholding in LEP (New Zealand and Australia) for over AUD$83m.
- In September 2007 it announced its largest acquisition to date a US$53.7m acquisition of US based Target Logistics, a freight forwarding and logistics company.

Growth Strategies and Opportunities

Mainfreight's style of doing business is successful not only in New Zealand, but also acts as a recipe for success in other countries. Earnings from outside New Zealand will come to dominate Mainfreight's future. The following charts compare the relative revenue and EBITDA (Earnings before Interest, Tax, Depreciation and Goodwill Amortisation) contributions of the Mainfreight Group's New Zealand and overseas-based operations for the year to 31 March 2007.



EBITDA Percentages



Revenue Percentages

Growth Opportunities

Mainfreight marked its 30th anniversary in March 2008; a vantage point from which to trace the steps that have led them from modest beginnings to the company they are today.

THE NET PROFIT AND REVENUE FOR CONTINUING BUSINESSES IS AS FOLLOWS:

NZ$000's	This Year	Last Year
Group Revenue	$911,719	$758,206
Net Profit New Zealand	$22,612	$18,180
Net Profit Offshore	$18,199	$17,222
Group Net Profit before Abnormals	$40,811	$35,402
Net Profit Sold Businesses	$60,811	$25,198
Group Net Profit	$101,622	$60,600

Extracts from the 2008 Financial Report

During 2008, they completed three significant transactions that have moved them closer to their goals; they finalised the sale of their interests in the LEP and Pan Orient businesses, completed the acquisition of Target Logistic Services in the United States of America, and acquired the remaining interests in their Asian operations to give Mainfreight 100% ownership. As they move into their 31st year of operations, they are now well-established, profitable and growing in Australia, Asia and the United States of America.

Due to the success of **CaroTrans**, their wholesale freight operation in America, they have also launched the CaroTrans brand in New Zealand, Australia and China offering neutral freight consolidation services to the logistics industry. They are actively seeking growth opportunities in Europe. It is their strategy to grow CaroTrans worldwide alongside Mainfreight's retail logistics operations. This strategy will allow synergistic development in both their retail and wholesale brands. The acquisition of Target Logistic Services has expanded their logistics capabilities in the United States. (Target was rebranded "Mainfreight USA" from 1 July 2008 year). Target Logistics is a business that requires change and focus in order to fully exploit the many opportunities available. In particular, the international capabilities that they can offer will provide a much greater range of services to existing customers, and rapidly grow the international revenue base from its current contribution.

Mainfreight continues to develop their capabilities and increase their market share. The decision by the New Zealand Government to purchase back the rail network is a significant policy decision. Mainfreight will seek additional rail services and rolling stock to assist the transfer of freight from road to rail. Their current spending on rail could easily double should the new government regime get the business recipe right.

Mainfreight's acquisition strategies remain unaltered, that is to acquire synergistic businesses that expand their footprint and network efficiently throughout the world, retaining valuable revenue and profit within the Group and providing a seamless, visible supply chain for their customers. Mainfreight's organic growth strategies also remain unaltered, where a minimum of 15% growth per annum is expected from every operating division, no matter the country or the state of their economy. They firmly believe they have the capacity to double the size of their business over the next five years and they are excited about the opportunities available to them.

New Zealand

Mainfreight's home operations continue to improve their returns despite fluctuations in the economy and the relatively small size of the New Zealand market. They have been able to take advantage of the extensive branch network they have built over 30 years to enhance their customers' supply chains.

A significant amount of their sales growth in this past year (and likely in the future) comes from providing full supply chain logistics services to major multi-national and large national distribution organisations. A conscious effort to focus on specific product sectors has seen a level of expertise develop that is attracting further business within those product categories. An example of this is the electronics industry, where their technology "Itemtrac" has become invaluable to this sector providing real-time tracking per item, maintaining a secure supply chain for high-value products.

OPERATING RESULTS, DOMESTIC:

Mainfreight Transport and Logistics, Daily Freight, Chemcouriers, Owens Transport

NZ$000's	This Year	Last Year
Revenue	$281,364	$270,093
EBITA	$30,011	$27,415
As a % of Revenue	10.7%	10.2%
Market Share (Transport)	44%	43%
Market Share (Outsourced Warehousing/Logistics)	30%	28%

Extracts from the 2008 Financial Report

In **Logistics** they have seen a greater utilisation of warehouses, where noticeably higher stock levels are being held by their customers as they take advantage of the strong New Zealand dollar assisting import procurement. Pride Logistics has been formed to provide a more sophisticated supply chain from supplier to warehouse to retail outlet. They expect to see more customers make the decision to outsource logistics as economies tighten; forcing companies to review their fixed infrastructure costs and to adjust to challenging market conditions with flexibility and speed.

In their **International division**, Mainfreight has extended the branch network to 11, opening new branches in Dunedin, Hamilton and a dedicated airfreight branch in Auckland. Revenues have been hit by declining export volumes as a result of the strengthening of the New Zealand dollar against world currencies, but their focus to offset this by concentrating on increasing their import capabilities has seen margins and profitability continue to improve. They have commenced construction of a new airfreight facility at their Auckland site. This site will have a purpose-built temperature controlled loading area to handle perishable products such as flowers, seafood, horticulture and meat for markets in the United States, Japan, Europe, China and Australia.

OPERATING RESULTS – NEW ZEALAND INTERNATIONAL		
Mainfreight International, CaroTrans		
NZ$000's	This Year	Last Year
Revenue	$103,943	$112,995
EBITA	$4,622	$4,033
As a % of Revenue	4.4%	3.6%
Market Share	10%	10%

Extracts from the 2008 Financial Report

Australia

Mainfreight's Australian domestic operations turned in a positive net surplus for the first time in the 2006 financial year, and there are major opportunities for growth from within their combined Australian customer base.

Their **International team** has improved profitability in 2008 and provided revenue growth. Their service offering and strength is in the inbound seafreight markets from Asia, the United States and New Zealand where their market share places they as the largest consolidator from all three countries.

OPERATING RESULTS – AUSTRALIAN INTERNATIONAL		
Mainfreight International, CaroTrans		
A$000's	This Year	Last Year
Revenue	A$126,794	A$119,998
EBITA	A$6,494	A$5,428
As a % of Revenue	5.1%	4.5%
Market Share	5%	5%

Extracts from the 2008 Financial Report

Opportunities exist in the development and growth of their trade lanes to and from Europe and South-east Asia in both seafreight and airfreight. To assist this development they have entered into a call option deed to acquire **Halford International Pty Limited**. The acquisition of this business will provide valuable airfreight tonnage and a stronger connection to and from Europe. By integrating Halford with Mainfreight they will strengthen their world-wide international freight network.

They are aggressively expanding their **Domestic transport and Logistics operations** by growing

OPERATING RESULTS – DOMESTIC		
Mainfreight Distribution and Logistics, Owens		
A$000's	This Year	Last Year
Revenue	A$130,104	A$106,955
EBITA	A$9,282	A$9,341
As a % of Revenue	7.1%	8.7%
Market Share (Transport)	5.5%	5%
Market Share (Logistics)	4%	4%

Extracts from the 2008 Financial Report

their market share in both sectors. Revenues have grown by 21.6% and their EBITA margins continue to increase towards the levels they achieve in New Zealand. With this growth comes cost, particularly in their warehousing and logistics facilities. The investment they have made in larger warehouses has inhibited bottom line profit for this past financial year. They are, however, very confident that as utilisation of these warehouses is increased, profit contribution will improve. In the past year they have increased warehousing capacity by 35% with the commissioning of four new facilities. They now occupy 93,000 m^2 of warehousing which has attracted larger multi-national accounts. The freight generation from these facilities has almost doubled from 66,000 consignments to 104,000 consignments for the year.

During the year they purchased the Clayton, Melbourne facility with the objective of improving the facility's capabilities to handle increased freight tonnage, in a more efficient and cost effective manner. They took occupation of the new Sydney facility at Prestons in April of this year and although this increases operating costs, the site will bring immediate benefits for their customers in terms of efficiency and improved freight handling. With the Logistics warehouse now located on-site, the shared infrastructure will provide significant supply chain synergies. Mainfreight expects to see an associated lift in profit, quality, customer service and growth materialise over the next 12 months.

United States

Mainfreight continues to research potential acquisitions in the US, as well as seeking land to develop larger facilities. The US business also provides an important gateway for Mainfreight to access the developing South American and ready access to the large European markets.

OPERATING RESULTS

CaroTrans

US$000's	This Year	Last Year
Revenue	US$94,623	US$72,849
EBITA	US$5,381	US$4,195
As a % of Revenue	5.7%	5.8%
Market Share	20%	18%

Extracts from the 2008 Financial Report

The performance of **CaroTrans** has been very satisfying, with an increase in profitability of 28.3% and continuing improved revenue growth of 29.9% and margins of 18.7%. Of further significance, CaroTrans has increased market share earning a valuable reputation as a very good neutral NVOCC consolidator. This has strengthened their position in the market and enhanced their services around the world. For this reason, CaroTrans will be allowed to further expand its network around the world, apart from Mainfreight. This will allow them to develop their footprint in countries outside of their current locations, with Europe being a high priority. They have established offices in China, Hong Kong, Australia and New Zealand providing CaroTrans with the neutrality and resources they require for their customers. European expansion is likely to come through acquisition activity. Again this will be aligned with their Group acquisition strategies ensuring that each transaction meets their freight network fundamentals.

On 1 November 2007, Mainfreight acquired the shares in the public-listed American logistics company **Target Logistic Services**. The acquisition of this business provides them with an excellent platform to build Mainfreight within the USA. The business has a strong reputation in the urgent, next day express domestic freight market, acting as a non asset based freight forwarder. Services to Canada, Mexico and some international freight volume, mostly inbound from Asia, completes the product range. Their ability to provide a larger range of international services to their customers, better technology platforms and the introduction of Mainfreight's culture and freight disciplines will see revenues and margins improve. Cross-trading opportunities between CaroTrans and Mainfreight abound and are already being explored and implemented.

OPERATING RESULTS		
Mainfreight USA/Target – 5 months' of trading only		
US$000's	This Year	
Revenue	US$72,997	
EBITA	US$1,554	
As a % of Revenue	2.1%	
Market Share	0.5%	

Extracts from the 2008 Financial Report

Chinese volumes to the USA have been transferred to Mainfreight Asia and will provide a stronger base for their Asian operation to increase trade-lane growth, particularly in airfreight. It is their intention to create a strong supply chain logistics business with Mainfreight USA.

Asia

While Mainfreight's Asian growth has been prudent as they find their feet in the largest freight market in the world, their desire is to increase their level of activity to and from Asia over the next five years. Their interests in developing further joint ventures in Malaysia, Thailand and Singapore are further enhanced as the industry consolidates, through mergers and acquisitions. As with their existing Asian interests, partnerships are at times more suitable than 100% ownership.

OPERATING RESULTS – INTERNATIONAL		
Mainfreight Express Lines		
US$000's	This Year	Last Year
Revenue	US$13,741	US$11,407
EBITA	US$2,143	US$2,035
As a % of Revenue	15.9%	17.8%
Market Share	3%	2%

Extracts from the 2008 Financial Report (Operations in Asia)

On 1 August 2007 they acquired the remaining shares in their Hong Kong and Chinese operations giving them 100% ownership of those businesses. Their former partners, David Shiau, Sylvia Tsai, and Linda Huang, have all chosen to remain with them and head up each of their respective operations to continue the growth and development of Mainfreight Asia. The acquisition of Mainfreight USA brought with it an agency relationship throughout China for inbound air and seafreight to the United States. Through the ownership change, they have been able to convert this freight to their network. Branch development continues; the opening of Guangzhou branch in January 2008 gives them five branches throughout China and Hong Kong. They expect to increase their branch locations by another five within the next two years.

Mainfreight's service offering has expanded during the year to include the trade lanes to South America and the United Kingdom. European and intra- Asian trade-lane development remains a high priority. Their Asian technology upgrade during this coming year will see all their international offices operating on the same software platform. This will provide a greater level of data efficiency and transparency for their customers. During the past year they have achieved much in securing their Asian footprint and are now intent on growing their coverage and branch locations. Asia remains the key to developing Mainfreight's world-wide logistics network.

Key Internal Strategies

People

Mainfreight Group is committed to investing in giving their team members the skills they need to meet both their customers' expectations and to contribute to the ongoing development of business. Every team member now attends a week-long course at the Mainfreight Training Academy to ensure that the values of Mainfreight are understood and applied. Leadership courses have also been developed for their current management and potential branch managers, providing their business with a ready supply of talented branch managers to help facilitate their growth and building on their philosophy of internal promotion to strengthen their culture and development.

Capital Expenditure

Capital expenditure can be classified into three divisions – property and buildings, information technology and general, including plant and equipment. IT expenditure decisions are based on improving ongoing operational and administrative efficiencies and the ability to further enhance their competitive advantages within the market, including adding further value to their customer relationships and their supply chain requirements.

It is not Mainfreight's desire to be an owner of trucks and associated equipment and although some trucks are purchased for short-term initiatives, once these are viable for owner-operators, they are transferred.

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INDUSTRY INFORMATION

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MAINFREIGHT

Contents

The Logistics Industry

Highlights:

- The global logistics market grew by 7.3% in 2007 to reach a value of US$804.6 billion.
- In 2012, the Global logistics market is forecast to have a value of US$1,040.6 billion, an increase of 29.3% since 2007.
- Retail logistics services dominate the global logistics market with 63.9% of the market's value.
- Americas accounts for 35.2% of the global logistics market's value.

Market Analysis

The global logistics market generated total revenues of US$804.6 billion in 2007, representing a compound annual growth rate (CAGR) of 6.2% for the period spanning 2003-2007. In comparison, the European and Asia-Pacific markets grew with CAGRs of 3.2% and 10.5%, respectively, over the same period, to reach respective values of US$248.7 billion and $272.3 billion in 2007. The retail logistics segment was the market's most lucrative in 2007, generating total revenues of US$514 billion, equivalent to 63.9% of the market's overall value. Logistics for the automotive sector contributed revenues of US$105.8 billion in 2007, equating to 13.2% of the market's aggregate value. The performance of the market is forecast to follow a similar pattern, with an anticipated CAGR of 5.3% for the five-year period 2007-2012, which is expected to drive the market to a value of US$1,041 billion by the end of 2012. Comparatively, the European and Asia-Pacific markets will grow with CAGRs of 0.6% and 9.7%, respectively, over the same period, to reach respective values of US$255.6 billion and $431.9 billion in 2012.

Competitive Landscape

The global logistics market has been driven in recent years by factors such as expansion of the retail sector. Therefore, modern, high-performance transit centres are highly appreciated because they offer fast and labour-efficient productivity. The demand for less well-equipped but lower-cost centres, which can be used as ordinary storage facilities, has increased more slowly. The degree of rivalry is moderate, as although there has been healthy market growth over the past five years, many logistics players are competing in the global market.

Buyers of the logistics market comprise manufacturers that need to distribute products to their own customers. Thus, the number of the buyers is large, and they are of a wide range of sizes. Switching costs include the difficulty of leaving a long-term logistics contract, and the potential for disrupting the distribution chain if a new logistics supplier is chosen. However, buyers tend to switch from one player to another if the circumstances require such an action, especially if considering the fact that distribution is likely to be a significant cost for many manufacturers. It is also an absolutely vital part of their operations, which weakens their buyer power considerably - although the ability of these buyers to revert to in-house distribution at any time (backwards integration into logistics) strengthens their position. The logistics services are not highly differentiated although some players may offer the highly specialized, extra services, diversifying the product to the extent. As logistics is important for buyers, their buyer power is weakened even further.

Suppliers are often large companies. A logistics company wishing to use a particular air transport hub can buy access only from the one airport operating company, which arguably has a natural monopoly. Such a situation strengthens the supplier power.

The likelihood of new entrants is assessed as moderate. It is possible to enter the market successfully as brand new company starting its operation in logistics, by extending the range of countries served by an existing logistics operation, or by diversification into logistics services. It is possible to enter the market on a relatively small scale, although scale-related economies such as the ability to offer a more seamless service to a wider range of destinations are becoming vital in the market. Other factors that have to be taken into consideration while deciding whether to enter the market or not are: reduction in operating costs, business development, enhancement of customer service standards, improving efficiency and linking supply chains with business strategy.

The main substitute threatening third-party logistics companies is in-house logistics. Switching costs for buyers are high: they include the cost of sourcing and staffing a new road transport fleet (or expanding an existing one), together with the administrative costs of organizing air and marine transportation from third-party transportation specialists.

The third-party logistics market exhibits moderate rivalry. Major players, such as DHL or FedEx, are large companies, offering similar services and having similar business models. The market is very important to such players, as they generally have not diversified much beyond their core transportation-related offerings. The healthy rate of market growth during the past five years, driven by factors such as expansion of the retail sector, has ameliorated rivalry to some extent during this time.

Market Data

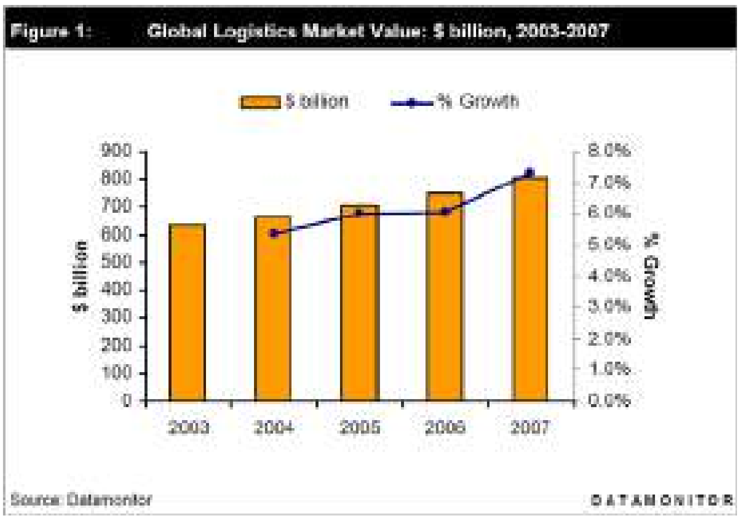


Figure 2: Global Logistics Market Segmentation I: % Share, by Value, 2007

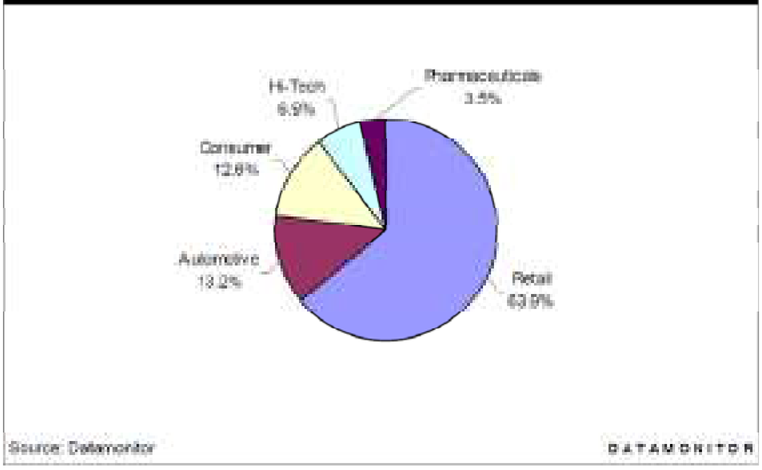
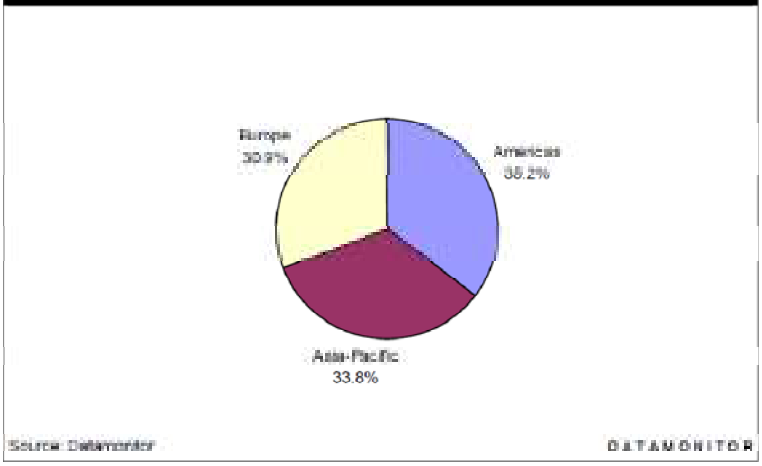


Figure 3: Global Logistics Market Segmentation II: % Share, by Value, 2007



Mainfreight's Competitors

Hub Group

Hub Group is a transportation management group that provides intermodal, truck brokerage, logistics and distribution services. It is one of North America's leading asset-light freight transportation management companies. Hub primarily operates in the US. It is headquartered in Downers Grove, Illinois and employs 1,412 people.

Through its intermodal division, Hub Group arranges for the movement of its customers' freight in containers and trailers, typically over long distances of 750 miles or more. Other intermodal services provided by the group include negotiation of rail and drayage rates, electronic tracking of shipments in transit, consolidation of billing and handling claims for freight loss or damage on behalf of the customers. In addition, Hub Group contracts with railroads to provide transportation for the long haul portion of the shipment and with local trucking companies, known as drayage companies, for pickup and delivery. The group uses its network to access containers and trailers owned by leasing companies, railroads and steamship lines. As of December 31, 2007, Hub Group had exclusive access to approximately 2,935 rail-owned containers for its dedicated use on the Burlington Northern Santa Fe (BNSF) and the Norfolk Southern (NS) rail networks and approximately 3,175 rail-owned containers for its dedicated use on the Union Pacific (UP) rail network.

Hub Group is one of the largest truck brokers in the US. It provides customers with another option for their transportation needs. Hub Group provides customers with specialized programs. Through the Dedicated Trucking Program, certain carriers have informally agreed to move freight for the group’s customers on a continuous basis. As part of its truck brokerage services, the group negotiates rates, tracks shipments in transit and handles claims for freight loss and damage on behalf of its customers.

The group’s logistics business operates under the name of Unyson Logistics. It offers a wide range of transportation management services and technology solutions including shipment optimization, load consolidation, mode selection, carrier management, load planning and execution and web based shipment visibility. The group's multi-modal transportation capabilities include small parcel, heavyweight expedited, less-than-truckload, truckload, intermodal and railcar. Unyson Logistics operates throughout North America.

The company recorded revenues of US$1,658.2 million during the financial year ended December 2007, an increase of 3% over 2006. The increase in revenues was due to growth in sales of all the company’s business divisions. The operating profit of the company was US$90.7 million in 2007, an increase of 17.5% over 2006. The net profit was US$59.8 million in 2007, an increase of 22.8% over 2006.

Patrick Corporation

Patrick is an Australian company that was formerly known as Lang. Patrick is particularly focused on shipping transport, stevedoring and other port related transport logistics. The company exists as a holding company for a number of subsidiary companies, which operate more specialized activities. The company operates through five divisions: terminals, general stevedoring, port services, portlink and auto care.

The company's terminal division offers container terminals, with state of the art facilities in all major ports. It owns and manages an integrated chain of freight movement operations that are seamlessly interlinked; it allows the company to be fully in charge of cargo throughout its journey, which results in greater efficiencies, saves both time and money. The company's general stevedoring division provides its clients with total logistics solutions through integrated network of freight logistics and transport operations.

The company's port services offers a complete range of land-based services to shipping lines, freight forwarding agents, customs brokers, importers and exporters. The company's portlink division provides the interface between Patrick's road, rail and stevedoring services. The company's autocare division offers an integrated service of processing, storage and distribution of imported motor vehicles. Patrick

Patrick is a subsidiary of Asciano, as such it is not obliged to release its financials independently.

THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Champions Trophy Case Competition

MAINFREIGHT LIMITED

EXTRACTS FROM 2008 ANNUAL REPORT

MAINFREIGHT

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

CHAMPIONS TROPHY CASE COMPETITION 2009

30 Years on, who are we?

Mainfreight Limited is a global supply chain logistics provider, with businesses operating in 166 branches throughout New Zealand, Australia, Asia and the United States.

The company was founded in 1978 by Executive Chairman, Bruce Plested, and has become the pre-eminent supply chain logistics provider in New Zealand and Australia. Operations are now well-established in China and the United States of America, and it is our intention to extend our footprint to be located in all the major trading countries of the world.

We provide our customers with world class service across a full range of logistics services that includes managed warehousing, domestic distribution, metro and wharf cartage and international air and sea freight operations, with sophisticated technology providing full supply chain transparency.

In 1996 Mainfreight listed on the New Zealand Stock Exchange. Today Mainfreight employs over 3,000 people, has in excess of 20,000 customers worldwide, and 3,320 shareholders.

www.mainfreight.com

Targets and Achievements

2007 TARGET	2007 STATUS	2008 TARGET	2008 STATUS
• To have identified and completed successful acquisitions in Australia and the USA	• Completed in the USA; likely 2008 for Australia	• To have revenues exceeding $1 billion	• On target for the 2009 financial year
• To have a business in the United Kingdom contributing significantly to our international divisions	• No longer an option and now a consideration for European expansion	• To have our offshore interests generating more profit than our New Zealand businesses	• Achieved 45% of net profit before abnormals from outside of New Zealand and likely to increase substantially
• To have six or more profitable operations in North East Asia	• Likely 2008 and onward	• To be the dominant LCL logistics supply chain operator in Australasia	• On target
• To have Mainfreight International throughout the USA and generating more revenue than CaroTrans	• The acquisition of Target Logistic Services (to be renamed Mainfreight from 1 July 2008) will provide revenues in excess of US$190 million per annum	• To be achieving in excess of 7% profit before tax in our international divisions	• On target with CaroTrans achieving 5.7% and Mainfreight Asia 15.9%. Currently averaging 4.8% across all international operations
• To have developed a presence in South East Asia and India	• Acquisitions continue to be reviewed	• To begin to have global significance in international logistics using our foundations in USA, Europe, China and Australasia	• On target
• To be seen by the market as a significant New Zealand owned company earning substantial profits offshore for the benefit of New Zealand	• In our considered opinion, we now contribute worthwhile profits to the New Zealand economy from our operations offshore	• To increase the regional networks of Mainfreight International in New Zealand and Australia	• Mainfreight International New Zealand has opened branches in Hamilton and Dunedin. Mainfreight International Australia is yet to establish any additional branches

2009 TARGET	2009 STATUS	2010 TARGET	2010 STATUS	2011 TARGET	2011 STATUS	2012 TARGET
• To be further established as a Global Supply Chain Logistics Operator	• On target	• To have doubled our revenue from our 2006 result	• Likely in 2012 as organic growth and acquisition activity both contribute to our growth	• To be significantly progressed in doubling our revenue from 2006	• On target	• To have more than $2 billion of revenue from worldwide operations
• To have international operations across Europe and the United States, China, India, South East Asia and South America	• On target	• To be well established, with our own businesses, around the world in all countries of trading importance	• On target	• To have more than 300 branch operations around the world	• On target	• To have more than 400 branch operations around the world
• To have established logistics operations in China and the USA with some involvement in domestic distribution	• On target; Target Logistic Services (Mainfreight USA) provides domestic distribution and some logistics services within the USA. China opportunities continue to be reviewed.	• To increase airfreight revenue to match seafreight revenue	• On target			• To have the Mainfreight brand recognised around the world
		• To have CaroTrans established as a worldwide NVOCC operator.	• On target			
• To have our Australian domestic and warehousing operations earning similar profits to that of our New Zealand operations	• Likely during 2012					
• To have our American interests earning more profit than our Australian and New Zealand International operations	• Likely in 2012					
• To have all our international freight forwarding businesses operating on the same technology platform for uniformity in data entry and customer interface	• Likely in 2010					

Operating Statistics

DOMESTIC CUSTOMER SERVICE MEASUREMENT

The following figures provide an insight into our commitment to excellence and our performance in freight handling

CLAIMS NEW ZEALAND

2004	517 consignments for 1 claim
2005	513 consignments for 1 claim
2006	471 consignments for 1 claim
2007	462 consignments for 1 claim
2008	462 consignments for 1 claim

* Claim ratios for Australia are not measured as under Common Carrier Law customers' insurance is direct

LOADING ERRORS NEW ZEALAND

2004	2.75 loading errors per 100 consignments
2005	2.76 loading errors per 100 consignments
2006	2.81 loading errors per 100 consignments
2007	2.95 loading errors per 100 consignments
2008	2.79 loading errors per 100 consignments

LOADING ERRORS AUSTRALIA

2006	2.24 loading errors per 100 consignments
2007	2.33 loading errors per 100 consignments
2008	3.28 loading errors per 100 consignments

NEW ZEALAND DOMESTIC STATISTICS

	This Year	Last Year
Total Tonnes	1,770,989	1,907,088
Total Cubic Metres	4,215,812	4,204,370
Total Consignments	3,178,750	3,088,303
Delivery Performance	95.56%	95.10%

AUSTRALIAN DOMESTIC STATISTICS

	This Year	Last Year
Total Tonnes	372,532	314,578
Total Cubic Metres	1,235,560	1,064,854
Total Consignments	849,795	691,295
Delivery Performance	95.1%	97.13%

INTERNATIONAL STATISTICS

	This Year	Last Year
Airfreight		
Inbound and Outbound (kilos)	43,567,769	42,862,595
Seafreight		
Inbound and Outbound (TEU's)	141,122	134,067
Customs Clearances	60,208	59,700
IATA Ranking		
New Zealand	1st	1st
Australia	32nd	34th

LOGISTICS STATISTICS

	This Year	Last Year
New Zealand		
Inventory Record Accuracy (IRA)	97.8%	98.4%
Orders Processed	390,021	308,144
Facility Utilisation	82%	78%
Warehousing Footprint	78,000m2	89,400 m2
Domestic Consignments Generated	228,803	165,076
Percentage of Domestic Freight	7.2%	5.3%
Australia		
Inventory Record Accuracy (IRA)	97.1%	98.0%
Orders Processed	215,476	109,404
Facility Utilisation	72%	80%
Warehousing Footprint	93,020m2	70,000 m2
Domestic Consignments Generated	104,321	66,328
Percentage of Domestic Freight	10.8%	9.6%

Mainfreight's level of IRA measures location count, inventory condition, systems alignment to inventory count, product integrity, total inventory count.

TRAINING STATISTICS

	New Zealand		Australia	
	This Year	Last Year	This Year	Last Year
Induction	271	354	132	160
Licensing	691	720	0	27
Procedural	740	1,458	260	118
Systems	155	266	298	424
Total	1,857	2,798	690	729

TEAM NUMBERS

	This Year	Last Year
NZ Domestic *Mainfreight, Daily Freight, Chemcouriers, Logistics, Owens*	1,613	1,647
NZ International *Mainfreight International, CaroTrans*	137	140
Australian Domestic *Mainfreight Distribution, Logistics, Owens*	667	609
Australian International *Mainfreight International, CaroTrans*	236	208
International *CaroTrans USA, Mainfreight USA, Mainfreight Asia*	540	223
Total Group	3,193	2,827

DEBTORS DAYS OUTSTANDING

	This Year	Last Year
Debtors Days Outstanding	41.73	35.84

GENDER RATIOS

	Male	Female
New Zealand	80%	20%
Australia	69%	31%
USA	49%	51%
Asia	37%	63%
Total	71%	29%
Last Year	63%	37%

TRAINING AND HR SPEND

	This Year	Last Year
Training and HR Spend	$3.17 million	$2.74 million
As a % of Revenue	0.35%	0.36%

INFORMATION TECHNOLOGY

	This Year	Last Year
IT Spend	$16.5 million	$13.3 million
As a % of Revenue	1.81%	1.75%

REVENUE COMPARISON

(000's)	This Year	Last Year
NZ Domestic NZ$	$281,364	$270,093
NZ International NZ$	$103,943	$112,995
Australian Domestic A$	$130,104	$106,955
Australian International A$	$126,794	$119,998
USA Domestic & International US$	$167,620	$72,849
Asia International US$	$9,273	$0
Continuing Businesses Group Total NZ$	$911,719	$758,206

EBITDA COMPARISON

(000's)	This Year	Last Year
NZ Domestic NZ$	$37,384	$33,799
NZ International NZ$	$4,919	$4,329
Australian Domestic A$	$10,369	$10,333
Australian International A$	$6,818	$5,708
USA Domestic & International US$	$7,840	$4,692
Asia International US$	$1,573	-
Continuing Businesses Group EBITDA NZ$	$74,334	$63,945

INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	Notes	Group 2008 $000	Group 2007 $000	Parent 2008 $000	Parent 2007 $000
Operating Revenue		910,159	757,855	185,432	175,439
Interest Income		1,560	351	901	198
Dividends Received		-	-	33,742	55,255
Total Revenue		911,719	758,206	220,075	230,892
Transport Costs		(590,553)	(493,634)	(102,388)	(98,356)
Labour Expenses		(162,955)	(128,310)	(41,685)	(36,777)
Occupancy Expenses		(15,580)	(15,770)	3,925	1,381
Depreciation and Amortisation Expenses	6	(10,608)	(8,916)	(6,495)	(5,475)
Other Expenses		(66,697)	(56,196)	(22,351)	(19,508)
Finance Costs		(4,728)	(5,494)	(3,085)	(11,375)
Non-cash Share Based Payment Expense	28	(585)	(477)	(585)	(477)
Non-recurring items in Continuing Operations	34	-	448	-	-
Share of Profit of Associates	14	434	1,147	-	-
Profit From Continuing Operations Before Taxation for the Year		60,407	51,004	47,411	60,305
Income Tax Expense on Continuing Operations	7	(19,596)	(15,260)	(5,484)	(2,117)
Profit From Continuing Operations After Taxation for the Year		40,811	35,744	41,927	58,188
Profit From Discontinued Operations Before Taxation	8	645	10,340	-	-
Gain on Sale from Discontinued Operations		61,893	16,971	71,373	-
Income Tax Expense on Discontinued Operations	8	(1,622)	(1,060)	-	-
Net Profit for the Year		101,727	61,995	113,300	58,188
Attributable to:					
Minority Interest		105	1,395	-	-
Members of the Parent		101,622	60,600	113,300	58,188

Earnings per share for profit attributable to the ordinary equity holders of the company are:

		Notes	2008 Cents	2007 Cents
Basic Earnings Per Share:	Continuing Operations	10	42.26	37.05
	Discontinued Operations	10	62.97	25.76
	Total Operations	10	105.23	62.81
Diluted Earnings per Share:	Continuing Operations	10	41.83	36.73
	Discontinued Operations	10	62.34	25.54
	Total Operations	10	104,17	62.28

The accompanying notes form an integral part of these financial statements.

FINANCIAL STATEMENTS

BALANCE SHEET AS AT 31 MARCH 2008

	Notes	Group 2008 $000	Group 2007 $000	Parent 2008 $000	Parent 2007 $000
Shareholders' Equity					
Share Capital	24	57,124	56,539	57,124	56,539
Accumulated Surplus		154,351	68,180	154,865	57,016
Revaluation Reserve		43,607	38,497	42,776	37,666
Foreign Currency Translation Reserve		(4,889)	(2,903)	-	(376)
Shareholders' Equity		250,193	160,313	254,765	150,845
Minority Interest		-	5,266	-	-
TOTAL EQUITY		250,193	165,579	254,765	150,845
Non-current Liabilities					
Bank Term Loan	22	100,386	-	4,714	-
Employee Entitlements	19	550	497	-	-
Deferred Tax Liability	7	-	-	440	84
Finance Lease Liability	23	598	42	-	-
		101,534	539	5,154	84
Current Liabilities					
Bank Term Loan	22	-	84,457	-	84,457
Bank Overdraft		5,200	-	5,200	-
Intercompany Creditors	26	-	-	10,617	28,498
Intercompany Advances	26	-	-	-	40,000
Directors Loan	26	-	2,413	-	2,413
Trade Creditors & Accruals	18	101,843	65,260	22,426	17,788
Derivative Financial Instruments		607	-	-	-
Employee Entitlements	19	17,369	14,908	3,636	2,853
Provision for Taxation		1,824	6,412	765	-
Finance Lease Liability	23	415	30	-	-
Liabilities of disposal group classified as held for sale	8	-	21,192	-	-
		127,258	194,672	42,644	176,009
TOTAL LIABILITIES AND EQUITY		$478,985	$360,790	$302,563	$326,938

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET AS AT 31 MARCH 2008

	Notes	Group 2008 $000	Group 2007 $000	Parent 2008 $000	Parent 2007 $000
Non-current Assets					
Property, Plant & Equipment	16	196,522	144,336	147,473	131,599
Software	17	7,150	6,077	5,565	4,520
Goodwill	17	91,828	29,125	-	-
Other Intangible Assets	17	4,485	-	-	-
Investments in Subsidiaries	15	-	-	95,045	151,483
Investments in Associates	14	-	2,046	-	-
Other Investments		80	80	80	157
Deferred Tax Asset	7	6,044	5,275	-	-
		306,129	186,939	248,163	288,012
Current Assets					
Bank	11	26,786	15,809	4,763	2,844
Trade Debtors	12	148,053	91,748	25,046	19,779
Intercompany Debtors	26	-	-	22,911	4,617
Income Tax Receivable		1,201	1,706	-	-
Tax Paid in Advance		-	-	-	1,779
Properties Available For Sale	16	-	1,867	-	1,067
Other Debtors	13	6,894	8,906	1,692	5,291
Derivative Financial Instruments		-	33	-	33
Assets of disposal group classified as held for sale	8	-	53,890	-	2,128
		182,856	173,952	54,400	38,039
TOTAL ASSETS		[illegible]	[illegible]	[illegible]	[illegible]

For and on behalf of the Board who authorised the issue of these Financial Statements on 27 June 2008

Bruce G. Plested, Executive Chairman — Carl G. O. Howard-Smith, Director

The accompanying notes form an integral part of these financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	Notes	Group 2008 $000	Group 2007 $000	Parent 2008 $000	Parent 2007 $000
Cash Flows From Operating Activities					
Receipts from Customers		926,477	959,200	180,990	174,831
Interest Received		1,560	399	901	198
Dividend Received		824	922	33,742	55,256
Payments to Suppliers		(856,955)	(889,238)	(165,295)	(156,585)
Interest Paid		(4,692)	(5,487)	(544)	(5,633)
Income Taxes Paid		(26,515)	(17,908)	(2,589)	(3,760)
NET CASH FLOWS FROM OPERATING ACTIVITIES	25	$40,699	$47,888	$47,205	$64,307
Cash Flows From Investing Activities					
Proceeds from Sale of Property, Plant & Equipment		237	536	175	61
Proceeds from Sale of Subsidiaries	8	80,123	-	73,501	-
Proceeds from Sale of Investments		4,709	22,747	4,364	-
Repayments by Employees and Contractors		19	28	11	23
Purchase of Property, Plant & Equipment		(37,720)	(31,750)	(13,619)	(28,755)
Purchase of Software		(4,014)	(2,325)	(3,387)	(1,660)
Interest Costs Capitalised		(516)	(812)	(516)	(812)
Advances to Employees and Contractors		(23)	(17)	(12)	(12)
Acquisition of Subsidiaries	29	(81,410)	-	(10,531)	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		$(38,595)	$(11,593)	$49,986	$(31,155)
Cash Flows From Financing Activities					
Proceeds of Long Term Loans		103,521	12,188	4,714	12,501
Advances from Director	26	2,606	3,107	2,606	3,107
Advances and Repayments from Subsidiaries		-	-	(2,863)	4,000
Proceeds of Share Issues		-	653	-	653
Dividend Paid to Shareholders		(15,451)	(40,544)	(15,451)	(40,544)
Dividend Paid to Minority Interests		(450)	(718)	-	-
Repayment of Advances from Director	26	(5,020)	(694)	(5,020)	(694)
Repayment of Loans		(84,524)	(72)	(84,458)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		$682	$(26,080)	$(100,472)	$(20,977)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		2,786	10,215	(3,281)	12,175
Net Foreign Exchange Differences		(821)	(1,441)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		19,543	10,769	2,844	(9,331)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		$21,508	$19,543	$(437)	$2,844
Comprised					
Bank and Short Term Deposits	11	26,708	19,543	4,763	2,844
Bank Overdraft		(5,200)	-	(5,200)	-
		$21,508	$19,543	$(437)	$2,844

The accompanying notes form an integral part of these financial statements.

THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

CHAMPIONS TROPHY CASE COMPETITION 2009

MAINFREIGHT LIMITED

SEPTEBMER 2008 INTERIM FINANCIAL RESULT

MAINFREIGHT

Income Statement for the Six Months Ended 30 September2008

	30 Sept 2008 $000	30 Sept 2007 $000	31 March 2008 $000
Operating Revenue	625,016	383,013	910,159
Interest Income	-	315	1,560
Total Revenue	625,016	383,328	911,719
Transport Costs	(420,038)	(246,729)	(590,553)
Labour Expenses	(114,378)	(71,353)	(162,995)
Occupancy Expenses	(12,831)	(6,772)	(15,580)
Depreciation and Amortisation Expenses	(6,399)	(4,820)	(10,608)
Other Expenses	(42,409)	(29,197)	(66,697)
Finance Costs	(2,386)	(1,405)	(4,728)
Non-cash Share Based Payment Expense	(550)	(240)	(585)
Non-recurring Items in Continuing Operations	(174)	-	-
Share of Profit of Associates	-	434	434
Profit From Continuing Operations Before Taxation for the Year	25,851	23,246	60,407
Income Tax Expense on Continuing Operations	(8,754)	(7,521)	(19,596)
Profit From Continuing Operations After Taxation for the Year	17,097	15,725	40,811
Profit From Discontinued Operations Before Taxation	-	644	645
Gain on Sale from Discontinued Operations	-	62,857	61,893
Income Tax Expense on Discontinued Operations	-	(1,927)	(1,622)
Net Profit For the Year	17,097	77,299	101,727
Attributable to:			
Minority Interest	-	105	105
Members of the Parent	17,097	77,194	101,622

Statement of Cash Flows for the Six Months Ended 30 September 2008

Operating Activities	20,238	16,029	40,699
Investing Activities	(39,318)	62,198	(38,595)
Financing Activities	6,613	(95,103)	682
FX Rate Fluctuations on Cash Held	1,476	(345)	(821)
NET INCREASE (DECREASE) IN CASH	(10,991)	(17,221)	1,965

Balance Sheet as at 30 September 2008

	30 Sept 2008 $000	30 Sept 2007 $000	31 March 2008 $000
Shareholders' Equity			
Share Capital	64,111	56,545	57,124
Accumulated Surplus	161,791	139,426	154,351
Revaluation Reserve	43,607	38,107	43,607
Foreign Currency Translation Reserve	2,643	(3,448)	(4,889)
SHAREHOLDER AND TOTAL EQUITY	272,152	230,630	250,193
Non-current Liabilities			
Bank Term Loan	127,838	-	100,386
Trade Creditors & Accruals	2,561	-	-
Employee Entitlements	994	750	550
Finance Lease Liability	602	32	598
	131,995	782	101,534
Current Liabilities			
Bank Overdraft	-	-	5,200
Trade Creditors & Accruals	133,487	75,745	101,843
Derivative Financial Instruments	730	-	607
Employee Entitlements	20,823	14,378	17,369
Provision for Taxation	-	1,738	1,824
Finance Lease Liability	379	30	415
	155,419	91,891	127,258
TOTAL LIABILITIES AND EQUITY	$ 559,566	$ 323,303	$ 478,985
Non-current Assets			
Property, Plant & Equipment	204,725	151,054	186,522
Software	7,700	6,650	7,150
Goodwill	125,025	41,922	91,828
Other Intangible Assets	6,411	-	4,465
Investments in Associates	-	-	-
Other Investments	80	91	80
Deferred Tax Asset	7,357	5,611	6,084
	351,298	205,328	296,129
Current Assets			
Bank	10,517	2,322	26,708
Trade Debtors	187,871	104,548	148,053
Income Tax Receivable	1,072	-	1,201
Other Debtors	8,808	11,105	6,894
	208,268	117,975	182,856
TOTAL ASSETS	$ 559,566	$ 323,303	$ 478,985

Statement of Changes in Equity for the Six Months Ended 30 September 2008

Six Months to 30 September 2008	ORDINARY SHARES	ASSET REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTERESTS	TOTAL EQUITY
Balance at 1 April 2008	57,124	43,607	(4,889)	154,351	250,193	-	250,193
Changes in equity for the six months ended 30 September 2008							
Exchange Translation difference			7,532		7,532		7,532
Revaluation Reserve		-			-		-
Net Income Recognised Directly in Equity	-	-	7,532	-	7,532	-	7,532
Profit for the period				17,097	17,097		17,097
					-		-
Total Recognised Income and Expense for the Period	-	-	7,532	17,097	24,629	-	24,629
Shares Issued	6,437				6,437		6,437
Executive Share Scheme Costs	550				550		550
Supplementary Dividends				(291)	(291)		(291)
Dividends Paid				(9,657)	(9,657)		(9,657)
Foreign Investor Tax Credit				291	291		291
Sale of Subsidiaries With Minority Interest					-		-
Balance at 30 September 2008	64,111	43,607	2,643	161,791	272,152	-	272,152

Six Months to 30 September 2007	ORDINARY SHARES	ASSET REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTERESTS	TOTAL EQUITY
Balance at 1 April 2007	56,305	38,497	(2,903)	69,957	161,856	5,266	167,122
Changes in equity for the six months ended 30 September 2007							
Exchange Translation difference			(545)		(545)	63	(482)
Revaluation Reserve		(390)			(390)		(390)
Net Income Recognised Directly in Equity	-	(390)	(545)	-	(935)	63	(872)
Profit for the period				77,194	77,194	105	77,299
					-		-
Total Recognised Income and Expense for the Period	-	(390)	(545)	77,194	76,259	168	76,427
Shares Issued					-		-
Executive Share Scheme Costs	240				240		240
Supplementary Dividends				(298)	(298)		(298)
Dividends Paid				(7,725)	(7,725)	(450)	(8,175)
Foreign Investor Tax Credit				298	298		298
Sale of Subsidiaries With Minority Interest					-	(4,984)	(4,984)
Balance at 30 September 2007	56,545	38,107	(3,448)	139,426	230,630	-	230,630

Twelve Months to 31 March 2008	ORDINARY SHARES	ASSET REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	TOTAL	MINORITY INTERESTS	TOTAL EQUITY
Balance at 1 April 2007	56,539	38,497	(2,903)	68,180	160,313	5,266	165,579
Changes in equity for the year ended 31 March 2008							
Exchange Translation difference			(1,986)		(1,986)	63	(1,923)
Revaluation Reserve		5,110			5,110		5,110
Net Income Recognised Directly in Equity	-	5,110	(1,986)	-	3,124	63	3,187
Profit for the period				101,622	101,622	105	101,727
					-		-
Total Recognised Income and Expense for the Period	-	5,110	(1,986)	101,622	104,746	168	104,914
Shares Issued					-		-
Executive Share Scheme Costs	585				585		585
Supplementary Dividends				(558)	(558)		(558)
Dividends Paid				(15,451)	(15,451)	(450)	(15,901)
Foreign Investor Tax Credit				558	558		558
Sale of Subsidiaries With Minority Interest					-	(4,984)	(4,984)
Balance at 31 March 2008	57,124	43,607	(4,889)	154,351	250,193	-	250,193

Mainfreight Segmental Reporting

The Group operates in the domestic supply chain (i.e. moving and storing freight within countries)and international freight industries (i.e. moving freight between countries).
The segmental results from continuing and discontinued operations are disclosed below. Included in the results of discontinued operations last year are Lep International (NZ) Ltd, Lep International Pty Ltd, Pan Orient Shipping Services Pty Ltd and Kurada No.8 Ltd.,

Industrial and Geographical Segments

Mainfreight Six Months Ended September 2008 ($000's).

This Year

		Revenues	EBITDA	Total Assets
New Zealand Domestic		153,506	16,914	214,685
New Zealand International		50,987	1,633	25,757
Australian Domestic		95,083	4,246	68,344
Australian International		94,739	2,792	71,044
USA ****		218,818	8,413	158,494
Asian International		11,883	1,363	24,262
Intercompany		-	-	(3,020)
Total and Continuing Group		$625,016	$35,361	$559,566
USA ****	Carotrans	$91,083	$4,987	$33,594
	Mainfreight USA	$127,735	$3,426	$124,900
		$218,818	$8,413	$158,494

Last Year

	Revenues	EBITDA	Total Assets
New Zealand Domestic	134,059	14,996	253,908
New Zealand International	48,778	1,956	19,124
Australian Domestic	69,296	4,989	44,428
Australian International	67,406	2,638	29,168
USA	61,863	3,534	31,163
Asian International	1,926	609	4,003
Intercompany	-	-	(58,491)
Continuing Group	$383,328	$28,722	$323,303
Discontinued Operations	32,447	689	-
Total Group	$415,775	$29,411	$323,303

EBITDA is defined as earnings before net interest expense, tax, depreciation,amortisation,abnormals, share based payment expense, minority interests and associates.

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SELECTED PRESS ARTICLES

The following has been obtained from the press as indicated.

2009 Logistics Rate Outlook: Window of Opportunity

By John Paul Quinn, Contributing Editor -- Logistics Management, 1/1/2009

The confluence of global economic weakening and widespread carrier problems offers shippers a rare rate opportunity—but for how long?

As 2008 came to a close, world markets were in slow-motion freefall, retail spending was off significantly, and overcapacity was the prevailing condition of virtually every transportation mode.

Rather than a perfect storm, this represents a perfect break in the weather for shippers who have been battered for months by heavy fuel surcharges and uncertainty as to what modal alternatives to consider. With oil dropping cataclysmically from US$150 to $50 a barrel in just six months, and ships, trains, and trucks empty and idle, observers agree that the first half of 2009 should be the time for shippers to turn the situation to their own cost-saving advantage.

But how long this opportunity will last depends on the duration of the present economic doldrums. "The economy will continue to shrink into the middle of this year, and we don't expect to see growth again until 2010," says James Haughey, director of economics for RBI-US, Logistics Management's parent company. "The worst period will probably be the next three to four months."

Haughey believes that oil prices will settle in the US$60-$70 range while the global economy remains slack, so fuel-cost adjustment clauses will actually benefit shippers over this time.

"The concern for carriers of all types is when the upturn will happen," adds Paul Svindland of supply chain advisory firm AlixPartners. "Even if the new administration stimulates the economy and things start to fall into place in February or March, the effect may not hit the freight industry until the summer. So shippers should understand that even in a best case scenario, it may be as late as the third or fourth quarter before there is any improvement in the carrier position."

The critical takeaway is this: Now is the time to review all carrier contracts and strike while the iron is hot. Bargain hard while lower rates are available and work for agreements with as long duration as possible; but remember to exercise judgment in maintaining carrier relationships given the dangerous uncertainty of future market conditions. Here is a snapshot of what shippers can expect to encounter in the modes of transport they use.

Rates Under Pressure on the Rails and Roads

While sources report that rail rates were down 8 percent for the last quarter of 2008, many rail contracts have already been negotiated for 2009. But for those shippers who have not yet committed themselves, there is wiggle room.

"Demand for rail line-haul operations will only turn around in mid-2009 at the earliest, so rates will be under intense pressure, and this is the best time to negotiate in this sector in years," says David Jacoby, president of Boston Strategies International, a supply chain strategy consultancy.

In terms of the intermodal situation, the leverage is even more in favor of the shipper. "Shippers should buy capacity between now and June," advises Brooks Bentz, partner, supply chain transportation at Accenture. "If a shipper is considering changing his network or shifting to intermodal, or going from LTL to TL, he should do it now. The opportunity won't get any better than in the first half of this year, so this is the time for the shipper to take care of business."

The urgency relates to a large extent, Bentz believes, on the precariously transitory nature of oil prices: "Anyone who thinks the fuel crisis is over is not living in the real world. Shippers have to be aware that fuel will inevitably come back as a major factor and be up in price and down in supply."

But cheap fuel and the resulting evaporation of surcharges aren't the only complications carriers face.

"For both rail and trucking carriers this is a brutal market, and there is no indication that volumes will pick up in the first half of 2009," says AlixPartners' Svindland. "So, from the shipper's side of the equation, with plenty of capacity available, trucking rates will be in their favor because it's a buyer's market with significant downward pressure on pricing."

The sharp drop in fuel pricing factors significantly in the shipper's negotiating position, according to Svindland. "Historically, shippers shift from truck to intermodal when fuel prices are high and capacity is tight," he notes. "But now with the major retail, construction and automotive markets all weak, both trucking and intermodal carriers are hungry for business and aggressive in bargaining to get it. So, shippers may want to stay with going over-the-road, or if they are into long-haul traffic that is not crucially time-sensitive, this is an opportunity to consider the intermodal option."

Add to this the fact that a number of TL companies have gone out of business, others are downsizing their fleets, owner-operated trucks are being repossessed, and the likelihood is that the rate situation will most probably stay stalled—since the drop in capacity has been matched by a drop in shipper volume and fuel surcharges are no longer an issue.

But on the LTL side, things might become more competitive due to the labor and volume problems of Yellow Transportation, the largest player in this sector. "LTL rates could be down 1 to 4 percent for early 2009," says John Larkin of investment advisory Stifel, Nicolaus & Co. "They would only rebound dramatically depending on what happens to the largest carrier in the field. If Yellow has to continue to consolidate internally and shed traffic, this would tighten up capacity and there would be more freight than the industry could carry."

Larkin also warns that the current reduction in fuel surcharges is a temporary respite, and he suggests that shippers who are heavily into LTL consider options such as intermodal, more TL, and to look for ways to interface TL with regional LTL to achieve the distribution they require.

Plenty of Space at Sea and in the Air

Nowhere is the capacity glut more apparent than in the air and ocean freight sectors; in fact, ocean rates slipped by as much as 30 percent last year due to a combination of factors.

"Until mid-2008, with the weakened dollar, there was a boom in U.S. export traffic, but when the currency situation reversed in the latter half of the year, both imports and exports were down," notes Jacoby at Boston Strategies. "So ocean carriers had to absorb a lot of costs, and at the same time they had commissioned the expansion of their fleets by some 10-12 percent. So for the shipper there is an imperative to act now, because he could lose six months of rate gains if he doesn't renegotiate."

And the carriers are suffering, no matter what sea lanes they work. "The Europe-Asia market has cratered, and the state of trans-Pacific to U.S. traffic is atrocious," states Mike Regan, CEO of freight payment specialist Tranzact Technologies. "Containers that shippers paid US $2,000 for a year ago…they now pay US $700 for, and it may go lower."

And for carriers it's worse up in the air. As an example, Air Japan has canceled its freight service from the Orient to New York, and will fly into Chicago and link with the East Coast by road. "There just isn't enough freight density to keep the planes flying because the volumes aren't there," notes Bentz at Accenture. "Again, it's a question of renegotiating now if you have to ship by ocean or by air."

Parcel Slugfest

The most significant development in the parcel sector has been the virtual exit of DHL from the U.S. marketplace, especially since the company was the acknowledged low-cost provider for price-sensitive shippers (See Patrick Burnson's Parcel Express Roundtable on page 33).

Most likely, former customers of DHL, which was the low-cost provider, will continue to be price-conscious and migrate to USPS, UPS, and then FedEx, according to observers. But this apparent tightening of capacity isn't necessarily a threat for shippers.

"Increasingly, fewer customers actually pay book rates," says Ted Scherck at The Colography Group, an advisory firm for parcel shippers. "When the major parcel carriers announce 6 percent rate increases they will not get anywhere near that in a competitive marketplace. Historically, in a recessionary period, if they get two-thirds of what they ask for they're lucky."

According to Scherck, shippers should respond by bargaining for lower rates, or consider changing the timeframe and thus the mode by which they move their product. Over the latter part of 2008, the trend was from overnight to deferred air or to ground parcel and ultimately to LTL.

What is most critical for shippers in the parcel sector, says our sources, is to do your homework on what the rate structures of UPS, USPS, and FedEx are before bargaining with an existing carrier or switching to another. "When there are only three major players, pricing dynamics come into play," warns Jerry Hempstead at parcel advisory Hempstead Consulting. "This can get complicated, because USPS has only been deregulated for a year and is going through a learning curve on their pricing latitude."

Meanwhile, with DHL gone from the U.S., Hempstead adds that UPS and FedEx can be expected to boost their base rates to take advantage of shippers who don't realize they can renegotiate. "When a carrier has excess capacity and a fixed network, and there are declining volumes in the marketplace...if you have any kind of volume, you are now in the position to demand a better price," he adds.

It's Now or Never

Virtually every industry observer in every sector agrees that the first half of 2009 will be an almost unique period of bargaining strength for the shipper.

And their counsel is consistent: negotiate, renegotiate, and renegotiate again. Be sure you know the new rules and realities of each modal sector. Try to lock in conditions of contract for as long as possible, especially as relates to the fuel situation.

Finally, shippers need to remember that prognosticating transport industry conditions has proven to be both risky and virtually impossible. Six months ago anyone predicting that oil would drop below US $50 a barrel by year's end would have been considered as having open capacity in the I.Q. department. Market tracking models and benchmarks in many cases last no longer than days or weeks, and everything has to be rethought and renegotiated–now.

Because what the rate outlook will be by the middle of 2009 is literally anybody's guess.

Logistics Management 2009

Freight firm trucks ahead with Aussie buy

5:00AM Thursday Jun 12, 2008
By Errol Kiong
nzhearld.co.nz

Don Braid. Photo / Glenn Jeffrey

Freight and logistics company Mainfreight believes the acquisition of Australian privately owned operator Halford International will enable it to further grow its airfreight and international freight forwarding business.

The company announced yesterday that it had signed a call option deed to acquire all of the shares in Halford, an international freight and logistics provider, for approximately AUD$21 million (NZ$26 million). The call option could be exercised at Mainfreight's sole discretion and, pending the completion of certain conditions, the transaction was expected to close next month.

The price has been formulated on a six-times multiple of Halford's projected earnings before interest, tax, depreciation and amortisation (ebitda) for its financial year ending June 30. Eighty per cent of the purchase price is to be paid on completion, and the remainder over a two-year period.

Group managing director Don Braid said barring any unexpected surprises in Halford's full-year results, the acquisition would go ahead. Mainfreight had approached the company last year with the intention to acquire the business.

"It's a privately owned business so it was a matter of being able to work with them to ensure that it was the right time for them to sell, and for the benefits to flow to their people as much as to Mainfreight."

The acquisition provides Mainfreight with a bigger presence in the Australian international freight forwarding sector, he said. Halford provides freight forwarding, customs clearance activities and logistics services to the market throughout Australia and New Zealand. It has six branches in Australia and New Zealand, and a network of international agents throughout the world, including Japan, Germany and the United States.

Its sales revenue for the financial year to June is expected to exceed AUD$65 million, and earnings will be positive. "This business allows us to further grow our abilities in both airfreight and international freight forwarding," said Braid.

There were also opportunities for cost savings, although Braid had no concrete figures. "There's certainly synergies between the two businesses and the benefits would be good for both operations." He expected no material changes at Halford.

"They have a very good operation and we're looking forward to working with their people to develop their business alongside our Mainfreight international operations. All the key management are staying.

"We look forward to the contribution that they'll make to the Mainfreight family."

Mainfreight shares closed down 3c at NZ$7.33. The company reported a net full-year profit increase of 83 per cent to NZ$101.6 million last month, boosted by one-off gains from asset sales.

Net profit from continuing operations before one-offs was up 15.3 per cent to NZ$40.8 million. The company's revenues from outside New Zealand have now exceeded 57 per cent, with the expectation the ratio would continue to rise. Australian domestic revenues rose 19.2 per cent to NZ $148.7 million but ebitda declined 1.5 per cent to NZ $11.85 million with the fourth quarter down 9.6 per cent. Ebitda in the Australian international division rose 17 per cent.

THE DEAL

* Mainfreight has signed a call option deed to acquire Halford International, an Australian-based privately owned, international freight forwarder and logistics provider.

* Halford has six branches in Australia and New Zealand, and a network of international agents throughout the world, including Japan, Germany and the United States.

* The deal values Halford at approximately AUD$21 million (NZ $26 million).

* Mainfreight has sole discretion to exercise the call option, with 80 per cent of the purchase price to be paid on completion, and the remaining 20 per cent over a two-year period.

Mainfreight's business looking good - half year profits up 9.5%

10:15AM Friday Nov 21, 2008
nzhearld.co.nz


Mainfreight's New Zealand operations provided a boost to revenue. Photo / Sarah Ivey

Freight and logistics company Mainfreight posted a 9.5 per cent increase in half year net profit before non-recurring items of NZ$17.2 million.

The company said today the lift from NZ$15.7m a year earlier came as sales revenues improved in all its businesses, in all countries. Consolidated sales revenues for the six months to the end of September were NZ$625m, 63 per cent ahead of a year earlier, while excluding foreign exchange adjustments, the increase was 59.4 per cent.

The upturn seen in operations in the United States reflected the contribution of the newly acquired business of Mainfreight USA, and the ongoing improvements being achieved by CaroTrans, the company said. An interim dividend of 8.5 cents per share is to be paid, compared to 8cps a year earlier.

Net profit was down 77.9 per cent to NZ$17.1m from $77.2m, with the earlier figure including the $62.9m gain on the sale of discontinued operations. Mainfreight shares closed at a year-low of NZ$4.32 yesterday, down from the year-high of $7.45 in June.

- NZPA

Mainfreight boss wins award

4:00AM Thursday Nov 27, 2008
By Errol Kiong
nzhearld.co.nz

Mainfreight chairman and founder Bruce Plested has been given the Shareholders Association's annual Beacon Award. The award, presented to Plested yesterday in Auckland, recognises outstanding performance. Past winners have included former Fletcher Building chief executive Ralph Waters, Guinness Peat Group's

Tony Gibbs, Brook Asset Management's Simon Botherway, Herald columnist and Milford Asset Management executive director Brian Gaynor and ex-Telecom chairman Roderick Deane.

Among factors in the association's decision were leadership on corporate practice and behaviour that is respectful and treats the smallest shareholder with the respect of a business owner. Chairman Bruce Sheppard said Plested was someone who favoured commonsense and simplicity over puffery.

"He is a man who leads from the front in his business and doesn't expect anyone to do that which he is not prepared to do or has done himself.

"He isn't afraid of running at tandem to the pack, so he won't follow a herd if it doesn't make sense to him, and he did a few things in the last 12 months that indicated a willingness to do this, such as harpooning the idiocy of IFRS [International Financial Reporting Standards] and writing a plain English report to shareholders.

"He understands company culture and has integrity and solid values - many do I might add - but he's combined all of the above in a manner that has created an enduring and wonderful business."

Plested founded Mainfreight in 1978 with $2700 in paid up capital and a 1969 Bedford truck. It was listed in 1996 and today has 3200 staff and 169 branches spread throughout New Zealand, Australia, the United States and Asia.