



# Con-way: A Strong Brand Gets Stronger

## DEAR FELLOW SHAREHOLDERS:

Con-way navigated a challenging year in 2006 that saw us tested by adversity on several fronts

and rising to meet the challenge. The blistering growth we experienced the past three years moderated in 2006 as a broad-based economic slowdown dampened industrial output and retail demand in the second half of the year. Those macroeconomic conditions put the brakes on freight tonnage growth industry-wide as volumes at our flagship LTL business, Con-way Freight, retreated from the record levels of 2005. The tonnage decline also reflected the effect of our own yield management initiatives.

At Menlo Worldwide, the transformation of its business model continued to make progress in 2006 as the company broadened its value proposition and extended its services across a larger market base. Outsourcing of logistics remains a growth market, particularly in Europe and Asia, a trend we saw validated as Menlo landed a record number of new contract wins in the year, with Europe leading the way. Our logistics company also made progress improving its processes and its margins. Coming out of 2006, Menlo is gaining momentum and enters the new year primed for growth.

## 2006 – YEAR IN REVIEW

Despite the challenges of our markets and the economy, the Con-way enterprise turned in a number of noteworthy accomplishments in 2006 through disciplined management and focused performance. Among these:

**Streamlined business portfolio.** We decided early in the year that our focus needed to be on markets that offer the best prospects for meaningful, sustainable long-term growth and profits. As a result, we took a hard look at our business profile and made two strategic decisions. The first was the closure of Con-way Forwarding, removing us from a market that had been commoditized and disintermediated by high-service regional trucking. The second was the sale of

Con-way Expedite, which was a good company but in a highly cyclical and fragmented market with limited growth potential. We retained the truckload freight brokerage operations of the former Expedite division, and at the beginning of this year, placed those under the transportation management arm of Menlo. We also repositioned Con-way Truckload by more closely focusing the asset-based team-driver operations on support of the transcontinental line-haul needs of our LTL business.

**Vector SCM transaction.** At mid-year, we were notified by General Motors of its intent to exercise its call option to purchase Menlo's membership interest in Vector SCM. Following a third-party valuation process, we secured from GM a payment of \$84.8 million for Menlo's membership interest in our 4PL joint venture. We successfully transitioned Vector's non-GM commercial accounts to Menlo, which has continued to provide us a platform upon which we can build a lead-logistics practice.

**Strategic network investments.** Our capital investment for fleet, land, facilities and equipment consumed \$308 million in 2006. Our ability to provide industry-leading service performance is built upon strategically located operations and reliable equipment. These investments position us for efficient growth, keep our fleet one of the youngest in the industry, and help minimize the disruption from new engine technologies. Our comprehensive service center infrastructure, density of coverage and flexible network design is a unique, sustainable competitive advantage that provides capacity for growth and the foundation for increasing returns.

**Rebranding launched.** Shareholders approved our proposal to change the corporate name to Con-way, which we have adopted as the master brand for the enterprise. We formally launched the new brand with a Con-way Investor Day at the New York Stock Exchange last spring, with Con-way stock trading under the new CNW ticker symbol. The physical

effort to change our look has begun in earnest, as our LTL fleet and facilities undergo the conversion to the bold, new signature Con-way brand and colors, an effort that will proceed over the next 24 months. For the time being, Menlo Worldwide will continue with its current name under the Con-way master brand. As we move forward in 2007, we will continue the rebranding efforts and further incorporate the brand equity of the Con-way name into our operating companies.



**Pension plan conversion.** We initiated changes to our defined benefit pension plan while launching substantial improvements to our 401(k) defined contribution plan, providing employees with an enhanced and contemporary retirement savings program. The effort to communicate these changes to employees was extensive, but it paid off. Employees understood the need for change and recognized the company's continued commitment to a competitive

retirement benefits package. The changes increase company funding for their 401(k) accounts, give employees more direct control over their retirement funds and will mitigate the risk of pension volatility for years to come.

**Stock repurchase plan expanded.** In a continued effort to apply our cash reserves in ways that bolster shareholder value, we made judicious use of our expanded stock repurchase authorization in 2006, acquiring \$350 million of Con-way stock through open market as well as strategic transactions. We plan to utilize the balance of our \$400 million authorization through the first half of 2007.

## A CATALYST FOR CHANGE

I characterize 2006 as a year of learning for Con-way. We saw our share of adversity, but in that adversity we also found the catalyst for change. It gave us a mandate to critically examine where we are in the market and how we bring our services to customers.

We spent the latter part of the year understanding the issues, and listening intently to our customers, who provided useful feedback in a series of focus groups. We came away with insight into our strengths, knowledge of what we needed to do to improve, and direction as to how we could work more effectively with our customers to align their expectations with our value proposition. Some of the key takeaways:

- Con-way Freight's focus should evolve into a more external-facing, proactive enterprise in the marketplace. Our LTL company traditionally has been focused to a great degree on the internal "blocking and tackling" of the business: operations, efficiency, productivity and service excellence. The model works: customers cite Con-way's service as the best, and they don't want that to change. But we learned we have a great opportunity to build on this strength. Our LTL company will more aggressively and strategically market its core services. We've installed programs to improve market



analysis and market research, revamp our sales training and sales management, and sharpen how we evaluate and respond to customer needs.

- Price is not the only means to volume growth. Customers understand the value of differentiated service. Our LTL infrastructure, with its capacity, density of coverage and market-leading service standards, is an asset that provides sustainable competitive advantage. We can introduce more volume into this industry-leading network by adding complementary new service products. Customers also can leverage the reliability and superior transit times of our LTL operating model to reduce inventory buffer and safety stock, creating additional savings within their overall supply chains. This presents a compelling opportunity for Con-way to increase our share of our customers'



## LOOKING AHEAD

We enter 2007 in a much different position than we started 2006. We have never been stronger financially. Our balance sheet provides flexibility and ample resources to fund our growth and improvement strategies. We are aligning sales and marketing in new ways to accelerate

growth and capture new opportunities. We are recognized as industry leaders in freight transportation and logistics. Our reduced capital expenditure plans for 2007 will support strong free cash flow, further strengthening our balance sheet.

I am confident that we will look back at 2007 as the year we began to unlock new value throughout the Con-way enterprise, driven by the foundational changes that we put in place in 2006. We have narrowed our focus to primary businesses that have fundamental, long-term customer demand, and where there is superior opportunity to differentiate our value. We made smart investments in infrastructure, talent, tools and training for our people to deliver exemplary service and customer satisfaction.

In closing, it is said that the better measure of a company is how it transforms adversity to advantage. We drew many positives from the challenges of 2006. We come into 2007 an energized organization with purpose, momentum and a sense of excitement about the changes we are making – and the tremendous opportunities we see across our markets. I'm confident that our customers and shareholders will be pleased to see how the culture of the Con-way organization, exemplified by the commitment and values of our employees, is creating a stronger, more nimble and aggressive enterprise, geared for growth in 2007 and beyond.

Sincerely,

Douglas W. Stotlar

President and Chief Executive Officer  
March 9, 2007

transportation and logistics spend.

- Menlo Worldwide is on the right track. Customers are responding to Menlo's approach to the market, which emphasizes key industry groups, and leveraging multi-use facilities, shared resources,

proven best practices in transportation management and "lean" expertise to drive out waste. Menlo increasingly is being sought out for international services; more than half of its new contract wins in 2006 were outside North America. Under its transformed business model, Menlo has established capabilities for large, complex integrated logistics projects, as well as an excellent value proposition for the mid-market.

