

Freightways

ANNUAL REPORT | 2009

Freightways

Freightways



New Zealand Couriers
www.nzcouriers.co.nz



Post Haste Couriers
www.posthaste.co.nz



Castle Parcels
www.castleparcels.co.nz



Now Couriers
www.nowcouriers.co.nz



SUB60
www.sub60.co.nz



Kiwi Express Couriers
www.kiwiexpress.co.nz



Security Express



DX Mail
www.dxmail.co.nz



Parceline Express



Online Security Services
www.onlinesecurity.co.nz



Document Destruction Service
www.destruction.co.nz



Data Security Services
www.datasecurity.co.nz



Archive Security
www.onlinerecords.co.nz



Databank
www.databank.com.au



Shred-X
www.shred-x.com.au



Air Freight NZ



Fieldair Engineering
www.fieldair.co.nz



Freightways Information Services

COMPANY PARTICULARS

BOARD OF DIRECTORS

Wayne Boyd (Chairman)
Dean Bracewell (Managing Director)
Sir William Birch
Roger Corcoran
Warwick Lewis
Sue Sheldon

REGISTERED OFFICE

32 Botha Road
Penrose
DX CX10120
Telephone: (09) 571 9670
Facsimile: (09) 571 9671
www.freightways.co.nz

AUDITORS

PricewaterhouseCoopers
188 Quay Street
Auckland
DX CP24073

SHARE REGISTRAR

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
DX CX10247

STOCK EXCHANGE

The fully paid ordinary shares of Freightways Limited are listed on NZSX (the New Zealand Stock Exchange).



As pioneers of New Zealand's express package industry, we trace our origins back to 1964.

TABLE OF CONTENTS

Company Particulars	1
Group Profile	4
Financial Summary	6
Report from the Chairman and Managing Director	8
Directors' Report	12
Auditors' Report	17
FINANCIAL STATEMENTS	
Income Statements	18
Statements of Changes in Equity	19
Balance Sheets	20
Statements of Cash Flows	21
Notes to the Financial Statements	22
Shareholder Information	62
Corporate Governance Statement	64
Directory	69

GROUP PROFILE

FREIGHTWAYS' STRATEGY

Freightways' primary business strategy is to continue the organic growth of its express package brands and expand its emerging information management and business mail operations. In addition, the Company will consider acquisition and alliance opportunities in areas that will enable it to leverage off its existing capabilities.

Express package and business mail

Freightways delivers approximately 200,000 items each business day and approximately 50 million items each year. In addition to its extensive nationwide network, Freightways offers a worldwide delivery service through alliances with international express package operators.

Freightways employs a multi-brand strategy within the network courier segment of the Express Package market via New Zealand Couriers, Post Haste Couriers, Castle Parcels and NOW Couriers. This strategy allows Freightways to successfully segment the market by meeting varying customer service and price requirements.

Freightways services the point-to-point segment through its SUB60 and Kiwi Express brands, and provides secure express package services through Security Express.

DX Mail is a niche player in the New Zealand postal services market, catering specifically to business mail customers nationwide. As a specialist business mail delivery company, DX Mail is the only dedicated nationwide business mail alternative to New Zealand Post, providing a fast and cost effective service to targeted customers.

Established in the 1970s as a document exchange system primarily for the legal, travel and financial sectors, deregulation of the New Zealand postal market has enabled DX Mail to expand its range of services to offer a total mail processing and delivery solution to the general business community including box-to-box delivery, domestic street delivery in several New Zealand locations and international delivery.

Information management

In New Zealand, Freightways' information management division, Online Security Services (OSS), operates three brands that collectively offer a complete range of secure paper-based and electronic business information management solutions. OSS is a registered security business, with all employees being licensed under the Private Investigators and Security Guards Act 1974. OSS outsources the pick-up and delivery function of its Data Security Services and Archive Security brands to Freightways' secure express package provider, Security Express.

In Australia, Freightways' information management division is located in New South Wales, Victoria, Queensland, South Australia, Western Australia and the Australian Capital Territory. Freightways operates the brands of DataBank, Archive Security and Shred-X in Australia.

Internal service providers

Freightways manages its road and air linehaul requirements through the Parceline Express and Fieldair divisions and provides information technology systems to its various businesses via Freightways Information Services (FIS).



FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	2009 \$000	2008 \$000	PERCENTAGE VARIANCE
Operating revenue		339,491	323,910	5%
EBITA	(i)	60,971	60,478	1%
Profit for the year		34,593	32,250	7%
Depreciation & software amortisation		9,577	7,985	20%
Net interest expense and finance costs		15,094	14,420	5%
Net operating cash flows before interest and tax		66,709	67,482	(1%)
Earnings per share (cents)		26.1	25.1	4%
Dividends to ordinary shareholders		22,222	23,797	(7%)

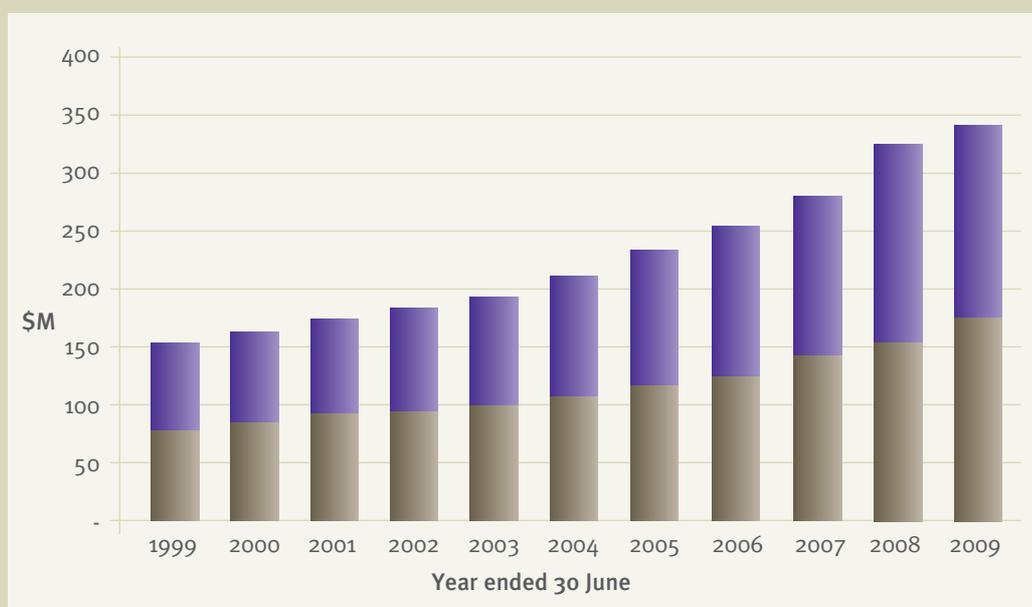
Note:

(i) Operating profit before interest and income tax

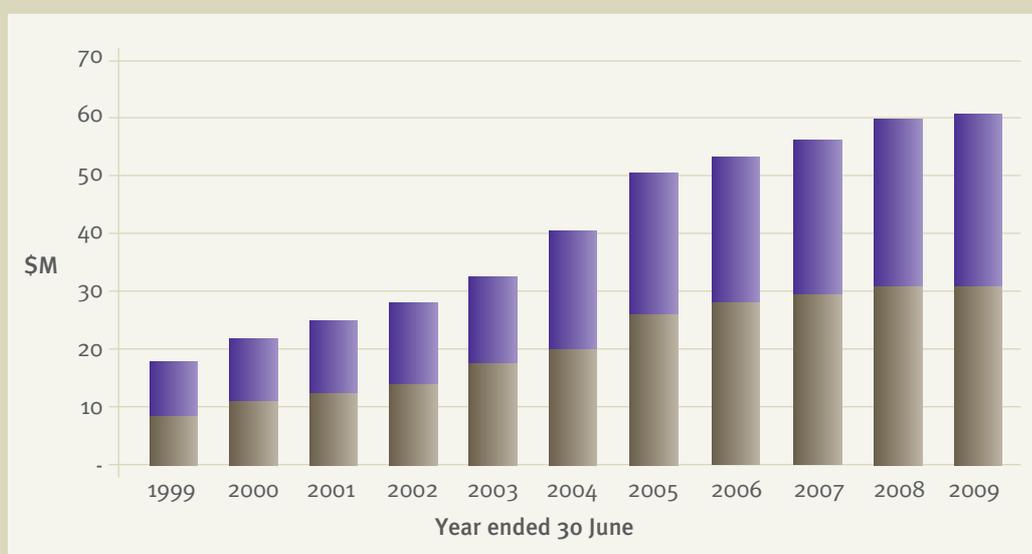
FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2009

FREIGHTWAYS OPERATING REVENUE



FREIGHTWAYS EBITA



1st half
 2nd half

NB: Historic EBITA amounts above for the years ended 30 June 1999 to 2003 have been presented on a pro-forma basis consistent with the Freightways Investment Statement and Prospectus issued in August 2003.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

The Directors are pleased to present the financial results of Freightways Limited (Freightways) for the year ended 30 June 2009. While the current economic downturn has naturally affected Freightways' performance, the resilience of its business model, the strength of its brand positioning, the importance of its recent strategic growth and capital management decisions and the commitment of its people have combined to report a satisfactory overall result.

Operating performance

Consolidated operating revenue of \$340 million for the full year was 5% higher than the prior corresponding period.

Earnings before interest, tax, depreciation and goodwill amortisation (EBITDA) of \$70.5 million for the full year was 3% higher than the prior corresponding period, while earnings before interest, tax and goodwill amortisation (EBITA) of \$61 million for the full year was 1% higher than the prior corresponding period.

Consolidated net profit after tax (NPAT) of \$34.6 million for the year was 7% higher than the prior corresponding period.

Included in these EBITDA and EBITA numbers is a one-off profit of \$4 million (NPAT included \$3.9 million) generated from the sale and lease-back of a property in Wellington.

Cash generated from operations before interest and tax was \$66.7 million.

Capital management initiatives

During the year Freightways implemented a number of capital management initiatives that included:

- The sale and lease-back of a property in Wellington. The sale price was \$8.3 million, which resulted in an after-tax profit of \$3.9 million being recognised.
- The raising of \$49 million of new equity (net of issue costs) via an institutional placement and subsequent retail share purchase plan.

The proceeds from these capital management initiatives were used to reduce net bank debt in order to strengthen Freightways' balance sheet.

Dividend

The Directors have declared a final dividend of \$12.7 million, which translates into 8.5 cents per share, and will be fully imputed at a tax rate of 33%. When determining the 2009 final dividend, Directors have given particular consideration to:

- the Freightways' dividend policy to distribute 75% of NPATA (NPAT before goodwill amortisation);
- implications of the current economic downturn; and
- the overall funding requirements of the business, including its ability to fund future complementary acquisitions.

The one-off gain arising from the recent sale of a Wellington property has not been included in determining the final dividend, as was indicated to the market at the time the sale was announced.

In light of the current, exceptionally uncertain operating environment, Directors have elected to introduce a Dividend Reinvestment Plan (DRP). As a further capital management initiative, this DRP will provide all eligible existing shareholders at the dividend record date with the opportunity to increase their equity stake in Freightways, should they choose to do so. It will also serve to further strengthen Freightways' balance sheet by introducing new equity and by enabling the company to maintain its current level of cash reserves that would otherwise have been reduced to pay a cash dividend.

The first dividend that the DRP will apply to will be the final dividend for the financial year ended 30 June 2009, that is payable on 30 September 2009. Directors have determined that on this occasion a discount of 2.5% will be applied against the VWAP (measured over the 5-day trading period following the dividend record date of

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

18 September 2009) in calculating the issue price for the DRP. The Company has also signed an underwriting agreement in respect of this upcoming dividend.

Full details relating to the DRP in respect of the final dividend for the financial year ended 30 June 2009 will be sent to shareholders during August and published on the NZX website. As a capital management initiative, the application of the DRP will be reviewed for each future dividend.

REVIEW OF OPERATIONS

Express package and business mail

The core express package business contributes the majority of Freightways' revenue and earnings. Freightways operates the brands of New Zealand Couriers, Post Haste Couriers, Castle Parcels, NOW Couriers, SUB60, Security Express and Kiwi Express.

The current economic downturn has translated into lower express package volumes from some of Freightways' existing customers. In addition, volumes are continuing to fluctuate week to week which creates difficulties in financial forecasting and when planning near-term operational capacity. Overall, the full year earnings performance of Freightways' express package business is below the prior year. The just completed fourth quarter has been particularly quiet when compared to the same period in the prior year.

Freightways first saw signs of slowing activity from existing customers in 2006. Its positive strategies that have been implemented since that time include various acquisitions and alliances that have strengthened its competitive positioning, the introduction of new service lines and new customer interfacing technologies, training and development of its people to enhance expertise and service quality and productivity improvements wherever they have been possible to achieve. The success of the many initiatives associated with each of these points has again resulted in excellent customer retention. While Freightways' express package division will naturally continue to be impacted by reduced activity from some of its customers, it remains very well positioned with quality capacity, a highly variable cost base, a shared-risk business model, market leading brands and very experienced and highly motivated teams of people.

Freightways' express package strategy is to continue to defend and extend its presence in the express package market and to actively develop the market opportunities that are expected to materialise in this more challenging operating environment.

DX Mail operates in New Zealand's postal services market. DX Mail competes directly with NZ Post across a wide range of postal services, including the street delivery of mail in a number of regions around New Zealand and through its box-to-box document exchange business. DX Mail has gained real traction in the market and won several important new customers. This market support demonstrates the value customers attribute to DX Mail's provision of a competitive postal service. DX Mail is closely integrated with Freightways' express package business that performs the majority of its pick-up services.

DX Mail's earnings contribution to Freightways is relatively small. These earnings, while well down on the prior corresponding period, have in latter months started recovering as recent market share gains offset declining volume from some of its existing customers.

DX Mail's strategy is to continue to profitably grow and develop its presence across the NZ postal market.

Information management

Freightways entered the information management market in 1999. Since that time it has grown to be a leading operator in New Zealand in two of its three primary service lines and the number two operator in its third service line. In 2006, Freightways entered the Australian information management market. Since that time Freightways has both acquired and started its own businesses to now have a presence in every major state of Australia. While there remain further business development opportunities in each of its service lines, the

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

success of this growth strategy to date has been important in assisting the diversification and strengthening of Freightways' overall earnings profile.

The full year earnings performance of Freightways' information management division is well ahead of the prior corresponding period.

The economic downturn has not had any noticeable effect upon either the data or document storage service lines. Demand for these services is expected to continue to grow due to businesses seeking to free up expensive office space by outsourcing document storage, needing to professionally manage the growing volume of business information they are generating and needing to meet their ever-increasing compliance requirements.

In regard to the document destruction service line, revenue is earned firstly through the collection and secure destruction of paper and secondly through the sale of the related paper to the recycling market. The current economic downturn has resulted in reduced global demand for recycled paper, which has subsequently resulted in reduced prices for the paper sold by Freightways to recyclers, particularly in the second half of this financial year.

As flagged in recent announcements, margins in the information management division have contracted in the fourth quarter due to these lower paper prices and also due to our recent investment in increased capacity. This increased capacity is required to satisfy the growing demand for our core information management services.

Having successfully established a sound operating platform across New Zealand and Australia, Freightways' information management strategy is to now leverage this platform to realise the positive growth opportunities that exist in this market, including the introduction of new complementary service lines, while continuing to investigate potential acquisition opportunities.

The information management business has contributed approximately 19% of Freightways' total operating earnings in 2009. The overall full year performance of this division has been very good.

Internal service providers

Fieldair Holdings Limited provides airfreight linehaul services, Parceline Express provides road linehaul services and Freightways Information Services provides IT support to the Freightways front line express package and business mail businesses. All three internal service providers have continued to deliver exceptional service.

Corporate

Corporate costs have increased year on year, primarily to assist and support our strategic growth opportunities.

Capital expenditure during 2009 of \$21 million has been significant and has included the one-off investment in new facilities in both Australia and New Zealand to accommodate the future growth of the information management division. This cash outlay experienced during 2009 will underpin Freightways' ability to drive stronger earnings in the future.

Freightways has accepted terms to renew its finance facilities for three years, taking effect from 1 September 2009. Freightways has elected to move from its current structure of two primary lenders to three for the term of its new facilities. While competitive pricing in the current environment has been negotiated, the overall bank margin cost has increased significantly.

Freightways has a very large customer base that is spread over many industry sectors, which minimises its exposure to a single business or industry failure. While its credit management policies and processes are well established with its customers, Freightways has been affected by an increased level of doubtful and bad debts, particularly in the latter half of 2009 that has resulted in its year end provisioning being increased substantially from \$0.7 million at year end 2008 to \$1.3 million at year end 2009.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

OUTLOOK

Until New Zealand experiences a sustained recovery in the economy, performance of the express package & business mail division is expected to continue to track behind the prior year. While organic growth initiatives are being accelerated wherever possible, existing customer activity will ultimately determine volumes and revenues. Overall, costs are expected to decline in the near term, except in those businesses where market growth is still being experienced.

Near term performance in the information management division is also expected to initially track behind last year, due to the increased cost of recent capacity investment and lower paper sales revenue. This performance is expected to improve as the year progresses and spare capacity is utilised and also if we experience an improvement in paper prices. Paper prices are influenced by global demand and accordingly are expected to react positively to global economic improvement.

Forecast capital expenditure in 2010 of approximately \$13 million is significantly lower than 2009 levels. Overall, cash flows are expected to continue to remain strong throughout the year.

Proceeds from capital management initiatives executed during 2009 have been used to reduce debt and strengthen Freightways' balance sheet so that the company is more strongly positioned to navigate through the current economic turmoil. The introduction of a fully underwritten DRP in respect of the 2009 final dividend will also assist in this regard. Newly renegotiated finance facilities provide funding certainty through until August 2012.

In recent years, Freightways has strengthened its earnings profile by diversifying its activities both geographically and deeper into the information management market. Freightways will continue to seek and investigate growth opportunities to support this strategy and will also explore other opportunities that complement its core capabilities.

Freightways will continue to be affected by the current economic downturn. While accurate forecasting remains difficult, the resilience that Freightways has shown in recent years to lower economic activity is expected to continue to be evidenced in its overall performance, subject naturally to any further deterioration in the economy or business factors beyond its control. In the medium to long-term, Freightways is exceptionally well positioned to reap the benefits of any improvement in the marketplace.

CONCLUSION

In a difficult operating environment, Freightways has delivered a satisfactory result. Its core express package business has performed soundly, albeit below last year, and its information management business has delivered very good performance. The current economic turmoil will clearly continue to impact on Freightways' performance in the near term. Medium to longer term and subject to business factors beyond its control, Freightways expects to continue achieving positive performance for its shareholders and other stakeholders, and is well positioned to benefit from any improvement in the economy.

The Directors acknowledge the outstanding work and ongoing dedication of the Freightways team in this very difficult trading environment.



Wayne Boyd
Chairman
17 August 2009



Dean Bracewell
Managing Director

DIRECTORS' REPORT

The Directors of Freightways Limited (Freightways) resolved to submit the following report with respect to the financial position of the Company and the Group as at 30 June 2009 and their financial performance and cash flows for the year ended on that date.

DIRECTORS

The names of the Directors of the Company in office at the date of this report are:

Wayne Boyd CHAIRMAN LLB (HONS), F INST D MAICD

Wayne was appointed a Director and elected Chairman of Freightways in June 2003. After practising law for 18 years and spending 5 years in investment banking, he established a specialist advisory business and a career as a professional director. Wayne is Chairman of Telecom Corporation of New Zealand Limited, Meridian Energy Limited and Vulcan Steel Limited.

Dean Bracewell MANAGING DIRECTOR

Dean has been Managing Director of the Freightways Group since 1999. He joined the Group in 1979 and other than a 5-year period, including time overseas, he has spent his entire career with the Freightways Group. Dean held a range of senior executive and general management roles in a number of the Freightways businesses prior to his appointment as Managing Director.

Sir William Birch GNZM, M NZ INST OF SURVEYORS, J.P.

Sir William began his career in 1957, when he established a private practice as a surveyor in Pukekohe. His keen interest in community affairs led to 6 years as Deputy Mayor of Pukekohe and election to Parliament in 1972. During his 27 years in Parliament he served for 15 years as a Minister of the Crown. His portfolios included Energy, Labour, State Services, Health, Employment and 6 years as Minister of Finance between 1993 and 1999. Following the general election in 1999, Sir William retired from Parliament to start a private consultancy. Until the takeover last year of ABN AMRO by the Royal Bank of Scotland he was a member of the ABN AMRO Australia and New Zealand Advisory Council and a director of ABN AMRO Australia Holdings Pty Limited. He is now a member of the Royal Bank of Scotland Australian Advisory Council. He is also currently a director of a number of other public and private companies, Chairman of Investment Research Group Limited and is a trustee of the MFL and SIL Superannuation funds. Sir William was knighted by the Queen for public services in 1999.

Roger Corcoran

Roger, who is based in Australia, was appointed a Director in May 2009. He has gained extensive global business experience during a 30-year career with multi-national transport & logistics operator, TNT. Roger retired as CEO of TNT Australia, New Zealand and the Pacific Islands in December 2008, having worked throughout the world during his years with TNT.

Warwick Lewis FCILT

Warwick established Chep Handling Systems Limited in 1974, having previously spent 18 years in the shipping industry both in New Zealand and the United Kingdom. After 13 years with Chep, he was appointed Commercial Manager of Freightways in 1986. Warwick became Managing Director in 1994 where he remained until his retirement in 1999.

DIRECTORS' REPORT

Sue Sheldon CNZM, B.COM, FCA, M INST D

Sue is a Chartered Accountant and full time professional director. She is a director of the Reserve Bank of New Zealand, Contact Energy Limited, Smiths City Group Limited, Wool Grower Holdings Limited and Electronic Transaction Services Limited. She will shortly be completing terms as Chairman of the National Provident Fund Board of Trustees and as a director and Deputy Chairman of Christchurch International Airport Limited. Sue is a former President of the Institute of Chartered Accountants of New Zealand.

The Board has determined for the purposes of the NZSX Listing Rules that, as at 30 June 2009, Wayne Boyd, Sir William Birch, Roger Corcoran, Warwick Lewis and Sue Sheldon are independent Directors and Dean Bracewell as Managing Director is not an independent Director.

PRINCIPAL ACTIVITIES

Along with holding the investment in Freightways Express Limited (FEL), the Company guarantees the finance facilities of FEL and its subsidiaries.

The principal activities of the Group during the year ended 30 June 2009 were the operation of express package & business mail services and information management services.

CONSOLIDATED RESULT FOR THE YEAR

	2009 \$000	2008 \$000
Operating revenue	339,491	323,910
Profit before income tax	45,877	46,058
Income tax	(11,284)	(13,808)
Profit for the year	34,593	32,250

DIRECTORS HOLDING OFFICE DURING THE YEAR WERE:

Parent:

Wayne Boyd (Chairman)
Dean Bracewell (Managing Director)
Sir William Birch
Roger Corcoran (appointed 15 May 2009)
Warwick Lewis
Sue Sheldon

Subsidiaries:

Dean Bracewell
Mark Royle

DIRECTORS' REPORT

REMUNERATION OF DIRECTORS

	GROUP		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
Wayne Boyd	120,000	113,000	120,000	113,000
Dean Bracewell	719,339	641,405	-	-
Sir William Birch	52,000	48,000	52,000	48,000
Roger Corcoran	8,000	-	8,000	-
Warwick Lewis	52,000	48,000	52,000	48,000
Sue Sheldon	60,000	55,000	60,000	55,000
Mark Royle	474,357	437,130	-	-
	1,485,696	1,342,535	292,000	264,000

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2009 in respect of the two previous six-month performance periods (1 January to 30 June 2008 and 1 July to 31 December 2008). No amount was paid, or included above, in respect of incentive payments for the period 1 January to 30 June 2009. Incentive payments for the six months ended 30 June 2009 were paid in August 2009.

REMUNERATION OF EMPLOYEES

The number of employees, not being directors, within the Group receiving annual remuneration and benefits above \$100,000 are as indicated in the following table:

	GROUP		PARENT	
	2009	2008	2009	2008
\$100,000 – \$109,999	15	14	-	-
\$110,000 – \$119,999	14	13	-	-
\$120,000 – \$129,999	12	8	-	-
\$130,000 – \$139,999	6	5	-	-
\$140,000 – \$149,999	8	5	-	-
\$150,000 – \$159,999	10	6	-	-
\$160,000 – \$169,999	2	2	-	-
\$170,000 – \$179,999	3	-	-	-
\$180,000 – \$189,999	2	1	-	-
\$190,000 – \$199,999	1	3	-	-
\$200,000 – \$209,999	2	3	-	-
\$210,000 – \$219,999	1	-	-	-
\$220,000 – \$229,999	2	1	-	-
\$240,000 – \$249,999	3	2	-	-
\$250,000 – \$259,999	1	1	-	-
\$260,000 – \$269,999	1	1	-	-
\$280,000 – \$289,999	2	-	-	-
\$290,000 – \$299,999	-	1	-	-

DIRECTORS' REPORT

ENTRIES IN THE REGISTER OF DIRECTORS' INTERESTS

The register of Directors' Interests records that the following directors of Freightways Limited and its subsidiaries have an equity interest in the Company. These Directors therefore have an interest in any transactions between Freightways Limited and any of its subsidiaries:

Freightways Limited shares

At balance date Directors held the following number of equity securities in the Company:

DIRECTOR	FULLY PAID ORDINARY SHARES		PARTLY PAID
	BENEFICIALLY	NON-BENEFICIALLY	ORDINARY SHARES BENEFICIALLY
Wayne Boyd	-	282,334	-
Dean Bracewell	-	2,880,737	-
Sir William Birch	-	127,018	-
Roger Corcoran	-	-	-
Warwick Lewis	-	253,625	-
Sue Sheldon	-	118,113	-
Mark Royle	-	675,000	9,967

The following table shows transactions recorded in respect of securities acquired or disposed of by Directors of the Company during the year ended 30 June 2009:

	NOTE	NUMBER ACQUIRED	\$ COST
Wayne Boyd			
Non-beneficial ownership in shares acquired 5 June 2009	(i)	449	1,096
Dean Bracewell			
Non-beneficial ownership in shares acquired 5 June 2009	(i)	449	1,096
Sir William Birch			
Non-beneficial ownership in shares acquired 5 June 2009	(i)	449	1,096
Warwick Lewis			
Non-beneficial ownership in shares acquired 5 June 2009	(i)	449	1,096
Sue Sheldon			
Non-beneficial ownership in shares acquired 1 September 2008		1,000	3,399
Non-beneficial ownership in shares acquired 5 June 2009	(i)	449	1,096
Mark Royle			
Beneficial ownership in partly paid shares acquired 1 January 2009	(ii)	9,967	100

Notes: (i) Allocation under the Freightways Limited Share Purchase Plan Offer.

(ii) Allocation under the Freightways Senior Executive Performance Share Plan.

DIRECTORS' REPORT

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Deeds of indemnity have been granted by the Company in favour of the Directors of the Company and its subsidiaries, to the fullest extent permitted by the Companies Act 1993. In accordance with the deeds of indemnity, the Company has insured all its Directors and the Directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as Directors. The insurance does not cover liabilities arising from criminal actions.

For and on behalf of the Board this 17th day of August 2009.



Wayne Boyd
Chairman



Dean Bracewell
Managing Director

AUDITORS' REPORT

PricewaterhouseCoopers Tower
188 Quay Street
Private Bag 92162
Auckland
New Zealand
DX CP24073
Telephone +64 9 355 8000
Facsimile +64 9 355 8001

To the shareholders of Freightways Limited.

We have audited the financial statements on pages 18 to 61. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2009 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 22 to 28.

Directors' Responsibilities

The Company's Directors are responsible for the preparation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2009 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- (a) The significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- (b) Whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and through the provision of taxation services.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- (a) Proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) The financial statements on pages 18 to 61:
 - (i) Comply with generally accepted accounting practice in New Zealand; and
 - (ii) Comply with International Financial Reporting Standards; and
 - (iii) Give a true and fair view of the financial position of the Company and Group as at 30 June 2009 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 17 August 2009 and our unqualified opinion is expressed as at that date.



Chartered Accountants, Auckland

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	GROUP		PARENT	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Operating revenue	2	339,491	323,910	-	-
Dividends received from subsidiaries		-	-	24,000	27,000
		339,491	323,910	24,000	27,000
Transport and logistics expenses*		(155,461)	(149,846)	-	-
Employee benefits expenses*		(76,695)	(68,916)	-	-
Occupancy expenses		(9,980)	(7,914)	-	-
General and administration expenses		(26,807)	(28,771)	(427)	(394)
Operating profit before interest, tax, depreciation and software amortisation		70,548	68,463	23,573	26,606
Depreciation and software amortisation	3	(9,577)	(7,985)	-	-
Operating profit before interest and income tax		60,971	60,478	23,573	26,606
Net interest and finance costs		(15,094)	(14,420)	-	-
Profit before income tax		45,877	46,058	23,573	26,606
Income tax	4	(11,284)	(13,808)	128	127
Profit for the year		34,593	32,250	23,701	26,733
Earnings per share	23				
Basic earnings per share (cents)		26.1	25.1	-	-
Diluted earnings per share (cents)		26.0	25.1	-	-

* Employee benefits of \$7,618,000 (2008: \$6,367,000) have been included in Transport and logistics expenses, due to the function performed by the relevant employees. The total Employee benefits expenses of the consolidated group for the year ended 30 June 2009 were \$84,313,000 (2008: \$75,283,000).

NB: All revenue and earnings are from continuing operations.

The above Income Statements should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	GROUP		PARENT	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Equity at the beginning of the year	19	91,724	83,140	82,742	79,567
Exchange differences on translation of foreign operations		(30)	266	-	-
Cash flow hedges taken directly to equity, net of tax		(7,282)	(370)	-	-
Net income recognised directly in equity		(7,312)	(104)	-	-
Profit for the year		34,593	32,250	23,701	26,733
Total recognised income and expenses for the year		27,281	32,146	23,701	26,733
Dividends paid	5	(22,222)	(23,797)	(22,222)	(23,797)
Issue of ordinary shares		49,272	235	49,293	239
Equity at the end of the year	19	146,055	91,724	133,514	82,742

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

The Board of Directors of Freightways Limited authorised these financial statements for issue on the date below.

For and on behalf of the Board this 17th day of August 2009.



Wayne Boyd
Chairman



Dean Bracewell
Managing Director

BALANCE SHEETS

AS AT 30 JUNE 2009

	NOTE	GROUP		PARENT	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
Current assets					
Cash and cash equivalents	6	16,970	2,296	3	2
Trade and other receivables	7	46,975	45,094	1,130	2,191
Inventories	8	6,765	6,288	-	-
Derivative financial instruments	9	-	197	-	-
Other current assets		-	127	-	-
Total current assets		70,710	54,002	1,133	2,193
Non-current assets					
Investments in subsidiaries	10	-	-	121,013	121,013
Trade and other receivables	7	232	1,381	143,517	91,674
Property, plant and equipment	11	75,389	67,771	-	-
Intangible assets	12	246,268	235,394	-	-
Derivative financial instruments	9	-	1,959	-	-
Deferred tax asset	13	1,109	832	-	-
Other non-current assets		37	65	-	-
Total non-current assets		323,035	307,402	264,530	212,687
Total assets		393,745	361,404	265,663	214,880
Current liabilities					
Trade and other payables	14	40,116	43,279	15	4
Finance lease liabilities	15	262	422	-	-
Provisions	16	915	712	-	-
Derivative financial instruments	9	49	-	-	-
Unearned income	17	15,539	18,457	-	-
Total current liabilities		56,881	62,870	15	4
Non-current liabilities					
Trade and other payables	14	1,862	1,405	-	-
Borrowings (secured)	18	180,078	201,219	132,134	132,134
Deferred tax liability	13	-	3,728	-	-
Finance lease liabilities	15	191	458	-	-
Derivative financial instruments	9	8,678	-	-	-
Total non-current liabilities		190,809	206,810	132,134	132,134
Total liabilities		247,690	269,680	132,149	132,138
Net assets		146,055	91,724	133,514	82,742
Equity					
Contributed equity		107,624	58,352	107,651	58,358
Retained earnings		43,615	31,244	25,863	24,384
Cash flow hedge reserve		(5,412)	1,870	-	-
Foreign currency translation reserve		228	258	-	-
Total equity	19	146,055	91,724	133,514	82,742

The above Balance Sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	GROUP		PARENT	
		2009 \$000 INFLOWS (OUTFLOWS)	2008 \$000 INFLOWS (OUTFLOWS)	2009 \$000 INFLOWS (OUTFLOWS)	2008 \$000 INFLOWS (OUTFLOWS)
Cash flows from operating activities					
Receipts from customers		341,968	322,253	-	-
Payments to suppliers and employees		(275,259)	(254,771)	-	-
Cash generated from operations		66,709	67,482	-	-
Interest received		578	153	-	-
Interest and other costs of finance paid		(16,098)	(12,806)	-	-
Income taxes paid		(9,139)	(13,966)	(959)	(1,198)
Net cash inflows (outflows) from operating activities	21	42,050	40,863	(959)	(1,198)
Cash flows from investing activities					
Payments for property, plant & equipment		(19,902)	(14,367)	-	-
Payments for software		(1,186)	(892)	-	-
Proceeds from disposal of property, plant and equipment		8,361	213	-	-
Payments for businesses acquired	28	(18,231)	(40,641)	-	-
Advances to associates		(2,418)	(1,268)	-	-
Cash flows from other investing activities		21	(45)	-	-
Net cash outflows from investing activities		(33,355)	(57,000)	-	-
Cash flows from financing activities					
Dividends paid		(22,222)	(23,797)	(22,222)	(23,797)
Increase (decrease) in bank borrowings		(20,333)	42,127	-	-
Net proceeds from issue of ordinary shares		48,727	-	48,727	-
Finance lease liabilities repaid		(408)	(826)	-	-
Loans advanced from (to) subsidiaries		-	-	(25,545)	24,994
Net cash inflows from financing activities		5,764	17,504	960	1,197
Net increase (decrease) in cash and cash equivalents		14,459	1,367	1	(1)
Cash and cash equivalents at beginning of year		2,296	1,673	2	3
Exchange rate adjustments		215	(744)	-	-
Cash and cash equivalents at end of year	6	16,970	2,296	3	2

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Reporting entity and statutory base

Freightways Limited is a profit-orientated company registered and domiciled in New Zealand under the Companies Act 1993, and is an issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993.

The consolidated financial statements for the year ended 30 June 2009 comprise Freightways Limited ('the Company' or 'Parent') and subsidiary companies (together with the Company, referred to as the 'Group').

The financial statements are stated in New Zealand dollars rounded to the nearest thousand, unless otherwise indicated.

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and with International Financial Reporting Standards.

Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

Critical accounting estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates, where necessary, and may require management to exercise judgement in the process of applying the Group's accounting policies. Specific areas of critical accounting estimates and assumptions are as follows:

(i) Carrying value of indefinite life intangible assets

Impairment reviews are performed by management, at least annually, to assess the carrying value of indefinite life intangible assets, including goodwill and brand names. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(ii) Accounting for unearned income

An unearned income liability is recorded in the balance sheet reflecting the future service obligation for products that have been sold in advance of their use. The balance is supported by reference to historical customer prepaid product usage patterns.

b) Basis of consolidation

Subsidiaries are entities that are controlled either directly by the Company or where the substance of the relationship between the Company and the entity indicates the Company controls it. The results of businesses acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal. In the financial statements of the Parent, investments in subsidiaries are stated at cost.

The consolidated financial statements include the Company and its subsidiaries accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

All material transactions between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation. Accounting policies of subsidiaries are consistent with those adopted by the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

c) Segment reporting

A segment is a component of the entity that can be distinguished from other components of the entity by the products or services it sells, the market it operates in and the risks and returns applicable to it. Operating segments are reported upon in a manner consistent with the internal reporting used for allocating resources, assessing performance and strategic decision making.

d) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year, adjusted to include all dilutive potential ordinary shares (for example, partly-paid shares on issue) as if they had been converted to ordinary shares at the beginning of the year.

e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Zealand dollars, which is Freightways' functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(iii) Foreign operations

The results and balance sheets of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

f) Revenue recognition

(i) Goods and services

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business. Income invoiced and received in advance of a service being provided is recorded in the balance sheet as 'Unearned Income.' This income is brought to account in the year in which the service is provided.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

(ii) **Interest income**

Interest income is recognised on a time-proportionate basis using the effective interest method, which takes into account the effective yield on the relevant financial asset.

(iii) **Dividend income**

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

g) Income tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose as a result of a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable income.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts that have been recognised directly in equity, are also taken directly to equity.

h) Leases

(i) **Finance leases**

Leases of property, plant and equipment where the Group has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. The asset is depreciated over the shorter of the asset's useful life and the lease term. Finance charges are recognised as an expense in the income statement.

(ii) **Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

i) Impairment of non-financial assets

Assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet to the extent they exceed the legal right of off-set against cash included in current assets.

k) Trade and other receivables

Trade and other receivables are recognised at their fair value and subsequently measured at amortised cost using the effective interest rate, less provision for impairment.

Recoverability of trade and other receivables is reviewed on an ongoing basis. Amounts that are known to be uncollectible are written off when identified. An allowance for doubtful receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

l) Inventories

Inventories are stated at the lower of cost, determined on a first-in-first-out basis, and net realisable value. Full provision is made for obsolescence, where applicable.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

m) Property, plant & equipment

Property, plant & equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes all expenditure directly attributable to the acquisition or construction of the item, including interest.

Subsequent costs are included in the asset's carrying amount and recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated will flow to the Group and the cost of the asset can be measured reliably. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. All other repairs and maintenance costs are recognised in the income statement as incurred.

Aircraft overhaul costs are capitalised when incurred and depreciated over the shorter of the estimated useful life of the aircraft and the estimated useful life of the overhaul.

Depreciation is calculated on a straight-line basis on all tangible fixed assets, other than land and leasehold improvements, so as to expense the cost of the assets to their estimated residual values over their estimated useful lives. Land is not depreciated. Leasehold improvements are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the improvements. Appropriate depreciation rates and methods have been applied for each component of aircraft. Estimated useful lives are as follows:

	Estimated useful life
Buildings	- 25 to 50 years
Leasehold improvements	- period of the lease or estimated useful life
Motor vehicles	- 5 to 10 years
Equipment, including aircraft components	- 3 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

n) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Brand names

Acquired brand names are recognised at cost, being their fair value at the date of acquisition if acquired in a business combination. Brand names are carried at cost less amortisation and impairment losses. Brand names with indefinite useful lives are not subject to amortisation but are subject to a review for impairment annually or whenever events and circumstances may have triggered an impairment. The useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Brand names are allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating-units that are expected to benefit from the brand names.

(iii) Computer software

External software costs together with payroll and related costs for employees directly associated with the development of software are capitalised. Costs associated with upgrades and enhancements are capitalised to the extent they result in additional functionality. Amortisation is charged on a straight-line basis over the estimated useful life of the software which ranges between 3 and 10 years.

o) Investments

Investments in subsidiaries are stated at cost less impairment. Other investments are stated at fair value.

p) Derivative financial instruments

Derivative financial instruments, such as interest rate caps and collar contracts and fixed rate agreements are entered into from time to time to manage interest rate exposure on borrowings. Forward exchange contracts are also entered into from time to time to manage foreign exchange exposures. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured and restated to their fair value at the reporting date. The method of recognising the resultant gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivative financial instruments as either fair value hedges (hedges of the fair value of recognised assets or liabilities or a firm commitment) or cash flow hedges (hedges of highly probable forecast transactions).

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

(i) Fair value hedges

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are immediately transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken immediately to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting or hedge accounting has not been adopted. Changes in the fair value of these derivative financial instruments are recognised immediately in the income statement.

q) Fair value estimation

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using accepted treasury valuation techniques, such as estimated discounted cash flows, by an external treasury management system provider. The carrying value of trade receivables (less provision for doubtful receivables) and payables are assumed to approximate their fair values.

r) Trade and other payables

Trade and other payables are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. The amounts are unsecured.

s) Employee entitlements

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services rendered up to the reporting date. They are measured for recognition by assessing the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

Liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by the employee. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan for senior executives, under which the Group receives services from employees as consideration for partly-paid ordinary shares in the Company. The fair value of the employee services received in exchange for the partly-paid ordinary shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the partly-paid ordinary shares allotted, taking into account market vesting conditions (for example, total shareholder return measures such as outperforming the median of the NZX50 Index), but excluding the impact of any non-market service and performance vesting conditions (for example, compound growth rates for earnings per share and remaining an employee of the Group over a specified time period). Non-market vesting conditions are included in assumptions about the number of partly-paid ordinary shares that are expected to vest. The total amount expensed is recognised over the relevant vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of partly-paid ordinary shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement.

t) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due only to the passage of time is recognised as an interest expense.

u) Borrowing costs

Costs incurred in establishing finance facilities are amortised to the income statement over the term of the respective facilities.

v) Capitalised interest and finance costs

Interest and finance costs incurred for the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other interest and finance costs are expensed.

w) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a reduction in the amount of proceeds arising from the issue of shares.

x) Goods and services tax (GST)

The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced.

y) Borrowings and inter-company balances

Interest-bearing bank loans and overdrafts are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. In respect of the Company, no interest is payable or receivable on inter-company balances. These balances are recognised at face value, which is also considered to reflect their fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 2. SEGMENT REPORTING

The Group is organised into the following reportable operating segments:

Express package and business mail

Comprises network courier, point-to-point courier and postal services.

Information management

Comprises secure paper-based and electronic business information management services.

Corporate and other

Comprises corporate, financing and property management services.

The above operating segments categorise the business in its primary markets and reflect the structure and internal reporting used by Management and the Board to assist with strategic decision-making.

The Group has no individual customer that represents more than 2% of external sales revenue.

As at and for the year ended 30 June 2009:

	EXPRESS PACKAGE & BUSINESS MAIL \$000	INFORMATION MANAGEMENT \$000	CORPORATE & OTHER \$000	INTER-SEGMENT ELIMINATION \$000	CONSOLIDATED OPERATIONS \$000
Income statement					
Sales to external customers	278,677	60,799	15	-	339,491
Inter-segment sales	1,056	162	3,638	(4,856)	-
Total revenue	279,733	60,961	3,653	(4,856)	339,491
Operating profit before interest, tax, depreciation and software amortisation	52,703	13,943	3,902	-	70,548
Depreciation and software amortisation expense	(5,789)	(2,798)	(990)	-	(9,577)
Operating profit before interest and income tax	46,914	11,145	2,912	-	60,971
Balance sheet					
Segment assets	220,275	116,074	57,396	-	393,745
Segment liabilities	41,258	10,833	195,599	-	247,690

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

As at and for the year ended 30 June 2008:

	EXPRESS PACKAGE & BUSINESS MAIL \$000	INFORMATION MANAGEMENT \$000	CORPORATE & OTHER \$000	INTER-SEGMENT ELIMINATION \$000	CONSOLIDATED OPERATIONS \$000
Income statement					
Sales to external customers	276,561	47,325	24	-	323,910
Inter-segment sales	1,094	173	3,095	(4,362)	-
Total revenue	277,655	47,498	3,119	(4,362)	323,910
Operating profit before interest, tax, depreciation and software amortisation	56,596	11,712	155	-	68,463
Depreciation and software amortisation expense	(5,029)	(2,001)	(955)	-	(7,985)
Operating profit before interest and income tax	51,567	9,711	(800)	-	60,478
Balance sheet					
Segment assets	223,305	98,595	39,504	-	361,404
Segment liabilities	45,124	11,344	213,212	-	269,680

Transactions between reportable segments are carried out at arm's length. Segment assets and liabilities are disclosed net of inter-company balances.

For the year ended 30 June 2009, external revenue from customers in the Group's New Zealand and Australian operations was \$299.2 million and \$40.3 million, respectively. As at 30 June 2009, non-current assets in respect of the New Zealand and Australian operations (excluding derivative financial instruments and deferred tax assets) were \$236.3 million and \$85.6 million, respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	NOTE	GROUP		PARENT	
		2009 \$000	2008 \$000	2009 \$000	2008 \$000
NOTE 3. INCOME AND EXPENSES					
Profit before income tax includes the following specific income and expenses:					
Income:					
Interest income		636	185	-	-
Operating expenses:					
Net loss (gain) on disposal of property, plant & equipment					
		(4,016)	(8)	-	-
Depreciation	11	8,799	7,505	-	-
Amortisation of software	12	778	480	-	-
Operating lease expenses		11,753	10,978	-	-
Auditors' fees:					
Audit services		295	295	-	-
Other assurance services		-	29	-	-
Taxation services		17	18	-	-
Costs of offering credit:					
Impairment loss on trade receivables		421	155	-	-
Interest:					
Bank borrowings		14,994	14,018	-	-
Finance leases		54	71	-	-
Derivative fair value movement		682	516	-	-
Other:					
Net foreign exchange loss (gain)		(35)	(2)	-	-
Directors' fees		299	264	299	264
Donations		25	24	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
NOTE 4. INCOME TAX EXPENSE				
Current	12,159	14,266	(128)	(127)
Deferred (note 13)	(875)	(165)	-	-
Reduction in New Zealand tax rate (note 13)	-	(293)	-	-
	11,284	13,808	(128)	(127)

Income tax applicable to the Group's net profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entities, as follows:

Profit before income tax	45,877	46,058	23,573	26,606
Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries:	13,763	15,124	7,072	8,780
Tax-effect of amounts which are treated differently when calculating taxable income:				
- Non-taxable intercompany dividends	-	-	(7,200)	(8,910)
- Non-deductible expenses	132	135	-	-
- Capital profit on sale of property, plant and equipment	(1,110)	-	-	-
- Additional amounts deductible	(1,209)	(808)	-	-
- Reduction in New Zealand tax rate (note 13)	-	(293)	-	-
- Other	(292)	(350)	-	3
Income tax expense (benefit)	11,284	13,808	(128)	(127)

The Group has no tax losses (2008: Nil) and no unrecognised temporary differences (2008: Nil).

	GROUP	
	2009 \$000	2008 \$000
Imputation credit account		
Balance at beginning of year	16,765	15,985
Income tax payments made during the year, net of any refunds	6,320	12,500
Imputation credits attaching to dividends paid during the year	(10,947)	(11,720)
Balance at end of year	12,138	16,765
At balance date the imputation credits available to shareholders of the Company:		
Available for use at 33%	5,818	16,765
Available for use at 30%	6,320	-
	12,138	16,765

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	PARENT	
	2009 \$000	2008 \$000
NOTE 5. DIVIDENDS		
Recognised amounts		
Fully imputed dividends declared and paid during the year:		
Final dividend for 2008 at 9.25 cents per share (2007: 9.00 cents)	11,916	11,578
Interim dividend for 2009 at 8.00 cents per share (2008: 9.50 cents)	10,306	12,219
Supplementary dividends	959	1,198
Foreign investor tax credits	(959)	(1,198)
	<u>22,222</u>	<u>23,797</u>
Unrecognised amounts		
Final dividend for 2009 at 8.5 cents per share (2008: 9.25 cents)	12,700	11,900

Subsequent to balance date the above unrecognised dividend was approved by a directors' resolution dated 17 August 2009. This amount has not been recognised as a liability at the reporting date, but will be brought to account when paid.

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
NOTE 6. CASH AND CASH EQUIVALENTS				
Comprises:				
- Cash at bank	2,746	1,996	3	2
- Overnight deposit	14,224	300	-	-
Cash and cash equivalents in statement of cash flows	<u>16,970</u>	<u>2,296</u>	<u>3</u>	<u>2</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
NOTE 7. TRADE AND OTHER RECEIVABLES				
Current:				
Trade receivables	40,140	41,146	-	-
Provision for doubtful receivables	(1,304)	(686)	-	-
	38,836	40,460	-	-
Other debtors and prepayments	4,264	4,249	47	8
Due from associates	3,875	-	-	-
Income tax receivable	-	385	1,083	2,183
	46,975	45,094	1,130	2,191
Non-current:				
Share Plan loans receivable from employees	232	90	-	-
Due from subsidiary	-	-	143,517	91,674
Due from associates	-	1,291	-	-
	232	1,381	143,517	91,674

Trade receivables are non-interest bearing and are generally on 7-30 day terms. An allowance for impairment loss is recognised when there is objective evidence that a trade receivable is impaired.

The Company has no provision for doubtful receivables. The movements in the provision for doubtful receivables for the Group were as follows:

	GROUP	
	2009 \$000	2008 \$000
Opening balance	686	529
Provision for doubtful receivables	606	155
Receivables written off	(97)	(172)
Provisions added from acquired businesses	114	148
Exchange rate movement	(5)	26
Closing balance (note 26(b))	1,304	686

	GROUP	
	2009 \$000	2008 \$000
NOTE 8. INVENTORIES		
The Company has no inventory. The amounts below are for the Group.		
Finished goods	5,393	4,793
Ticket stocks, uniforms and consumables	1,372	1,495
	6,765	6,288

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	GROUP	
	2009 \$000	2008 \$000
	Asset (Liability)	Asset (Liability)
NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS		
The Company has no derivative financial instruments. The amounts below are for the Group.		
Current:		
Interest rate swaps	(49)	165
Interest rate caps	-	-
Forward exchange contracts	-	32
	(49)	197
Non-current:		
Interest rate swaps	(8,202)	1,770
Interest rate caps	-	55
Interest rate collars	(476)	134
	(8,678)	1,959

The notional or principal contract amounts of derivative financial instruments outstanding at balance date are:

	INTEREST RATE DERIVATIVES				FORWARD EXCHANGE CONTRACTS	
	NZD		AUD		GBP	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Interest rate swaps	97,000	60,000	74,000	20,000	-	-
Interest rate caps	-	5,000	4,000	4,000	-	-
Interest rate collars	5,000	12,000	5,000	17,000	-	-
Forward exchange contracts	-	-	-	-	-	335
	102,000	77,000	83,000	41,000	-	335

The interest rate derivatives are 97% effective as cash flow hedges against the future interest payments of the Group (2008: 95%).

The forward exchange contracts in the prior year were 100% effective as cash flow hedges against forecast foreign exchange receipts.

The ineffective portion of the derivative financial instruments recognised in the income statement during the year was \$682,000 (2008: \$516,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 10. INVESTMENTS IN SUBSIDIARIES

The Company's investment in its only directly-owned subsidiary, Freightways Express Limited (FEL), comprises shares at cost. Listed below are all the significant subsidiaries wholly-owned directly or indirectly by FEL. All subsidiaries have a balance date of 30 June.

Name of entity	Principal activities	Country of incorporation
Air Freight NZ Limited*	Express package linehaul	New Zealand
Castle Parcels Limited	Express package services	New Zealand
Databank Technologies Pty Limited	Information management	Australia
Fieldair Engineering Limited*	General & aviation engineering services	New Zealand
Freightways Finance Limited	Group treasury management	New Zealand
Fieldair Holdings Limited*	Holding company (refer * below)	New Zealand
Freightways Information Services Limited	IT infrastructure support services	New Zealand
Freightways Properties Limited	Property management	New Zealand
Freightways Trustee Company Limited	Trustee of Freightways Employee Share Plan	New Zealand
Info Management Services Australia LP	Australian treasury services	Australia
Messenger Services Limited	Express package services	New Zealand
New Zealand Couriers Limited	Express package services	New Zealand
New Zealand Document Exchange Limited	Business mail	New Zealand
NOW Couriers Limited	Express package services	New Zealand
Online Security Services Limited	Information management	New Zealand
Parceline Express Limited	Express package linehaul	New Zealand
Post Haste Limited	Express package services	New Zealand
Shred-X Pty Limited	Information management	Australia

* Fieldair Holdings Limited is a subsidiary of New Zealand Couriers Limited. Fieldair Engineering Limited and Air Freight NZ Limited are subsidiaries of Fieldair Holdings Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 11. PROPERTY, PLANT & EQUIPMENT

The Company has no property, plant and equipment. The amounts below are for the Group.

	LAND	BUILDINGS	LEASEHOLD ALTERATIONS	MOTOR VEHICLES	EQUIPMENT	TOTAL
2009 (\$000)						
Opening net book value	12,727	23,447	2,488	4,130	24,979	67,771
Additions	1,414	6,999	824	1,062	9,967	20,266
Acquisitions through business combinations	-	-	-	-	558	558
Disposals	(1,129)	(3,031)	(4)	(71)	(112)	(4,347)
Depreciation expense	-	(1,013)	(504)	(1,049)	(6,233)	(8,799)
Exchange rate movement	13	(7)	(17)	(55)	6	(60)
Closing net book value	13,025	26,395	2,787	4,017	29,165	75,389
As at end of year						
Cost	13,025	30,942	4,836	6,730	58,467	114,000
Accumulated depreciation	-	(4,547)	(2,049)	(2,713)	(29,302)	(38,611)
Net book value	13,025	26,395	2,787	4,017	29,165	75,389
2008 (\$000)						
Opening net book value	12,707	19,644	1,755	1,565	21,323	56,994
Additions	-	4,696	1,019	1,797	7,222	14,734
Acquisitions through business combinations	-	-	-	1,109	1,661	2,770
Disposals	-	-	(7)	(34)	(174)	(215)
Depreciation expense	-	(975)	(425)	(663)	(5,442)	(7,505)
Exchange rate movement	20	82	146	356	389	993
Closing net book value	12,727	23,447	2,488	4,130	24,979	67,771
As at end of year						
Cost	12,727	28,169	4,077	5,930	48,200	99,103
Accumulated depreciation	-	(4,722)	(1,589)	(1,800)	(23,221)	(31,332)
Net book value	12,727	23,447	2,488	4,130	24,979	67,771

Included in the cost of buildings is an amount of \$8.9 million (2008: \$4.5 million) in respect of assets under construction for which depreciation has not commenced. This amount also includes capitalised borrowing costs of \$0.6 million (2008: \$0.1 million).

The latest independent valuations of land and buildings (performed in June 2008) assess these assets to have a total value of \$53.9 million. These valuations did not include any buildings under construction, which are included at cost. These valuations included \$8.5 million for a property which was sold during the current year.

Finance leases: Motor vehicles includes items capitalised under finance leases with a cost of \$0.2 million (2008: \$2.5 million), together with accumulated depreciation of \$0.1 million (2008: \$0.2 million). Equipment includes items capitalised under finance leases with a cost of \$0.5 million (2008: \$0.8 million), together with accumulated depreciation of \$0.1 million (2008: \$0.1 million). These specific assets are pledged as security for the related finance lease liabilities. Refer Note 1(h)(i).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 12. INTANGIBLE ASSETS

The Company has no intangible assets. The amounts below are for the Group.

	GOODWILL	BRAND NAMES	SOFTWARE	TOTAL
2009 (\$000)				
Opening net book value	121,592	109,176	4,626	235,394
Additions	1,050	-	1,186	2,236
Acquisitions through business combinations	10,214	-	-	10,214
Amortisation expense	-	-	(778)	(778)
Exchange rate movement	(504)	(293)	(1)	(798)
Closing net book value	132,352	108,883	5,033	246,268
As at end of year				
Cost	132,352	108,883	6,914	248,149
Accumulated amortisation	-	-	(1,881)	(1,881)
Net book value	132,352	108,883	5,033	246,268
2008 (\$000)				
Opening net book value	90,246	100,116	4,199	194,561
Additions	-	-	891	891
Acquisitions through business combinations	26,225	6,894	-	33,119
Amortisation expense	-	-	(480)	(480)
Exchange rate movement	5,121	2,166	16	7,303
Closing net book value	121,592	109,176	4,626	235,394
As at end of year				
Cost	121,592	109,176	5,729	236,497
Accumulated amortisation	-	-	(1,103)	(1,103)
Net book value	121,592	109,176	4,626	235,394

Included in the cost of software is work in progress of \$1.6 million (2008: \$2.8 million) for which amortisation had not commenced. This amount also includes capitalised borrowing costs of \$0.2 million (2008: \$0.4 million).

An independent valuation of the brand names was conducted by Deloitte in July 2009. This independent report assessed the fair market value of the brand names as at 30 June 2009 to be between \$157 million and \$177 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

Impairment tests for indefinite life intangible assets

Goodwill and brand names are allocated to the Group's cash-generating units (CGUs) identified according to subsidiary.

The carrying amount of intangible assets allocated by CGU is outlined below:

	GOODWILL		BRAND NAMES	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Messenger Services	7,338	7,338	5,100	5,100
New Zealand Couriers	31,372	31,372	58,500	58,500
New Zealand Document Exchange	6,323	6,323	5,900	5,900
Post Haste and Castle Parcels	14,730	14,730	14,900	14,900
NOW Couriers	7,540	6,490	3,495	3,495
Online Security Services	10,338	10,338	4,400	4,400
Databank Technologies	32,193	27,742	12,753	12,979
Shred-X	22,518	17,259	3,835	3,902
	132,352	121,592	108,883	109,176

On an annual basis, the recoverable amount of goodwill and brand names is determined based on value-in-use calculations specific to the CGU associated with both goodwill and brand names.

These calculations use pre-tax cash flow projections based on financial budgets prepared by management for the year ended 30 June 2010. Cash flows beyond June 2010 have been extrapolated using a steady growth rate which does not exceed the long-term historical average growth rate for each respective CGU. Historical average earnings growth in the Express Package & Business Mail segment and the Information Management segment has been on average approximately 8% and 10%, respectively. A consistent pre-tax discount rate of 10.3% has been applied to all CGUs.

The assessment indicates that recoverable amount exceeds the carrying value and therefore there is no impairment in the value of goodwill and brand names.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 13. DEFERRED TAX ASSET (LIABILITY)

The Company has no deferred tax balances. The amounts below are for the Group.

	ASSET		LIABILITY	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Deferred tax	1,109	832	-	(3,728)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	PROPERTY, PLANT & EQUIPMENT	EMPLOYEE ENTITLEMENTS	ACCRUALS & PROVISIONS	DERIVATIVE FINANCIAL INSTRUMENTS	TOTAL
2009 (\$000)					
Balance at beginning of year	(4,294)	1,397	647	(646)	(2,896)
Transfer to Income statement	237	201	293	144	875
Amounts relating to business combinations	-	21	11	-	32
Transferred to cash flow hedge reserve	-	-	-	3,121	3,121
Exchange rate movement	7	(18)	(12)	-	(23)
Balance at end of year	(4,050)	1,601	939	2,619	1,109

	PROPERTY, PLANT & EQUIPMENT	EMPLOYEE ENTITLEMENTS	ACCRUALS & PROVISIONS	DERIVATIVE FINANCIAL INSTRUMENTS	TOTAL
2008 (\$000)					
Balance at beginning of year	(4,284)	955	547	(1,185)	(3,967)
Transfer to Income statement	(490)	277	126	252	165
Amounts relating to business combinations	-	204	10	-	214
Transferred to cash flow hedge reserve	-	-	-	222	222
Exchange rate movement	29	52	16	-	97
Reduction in New Zealand tax rate					
- transfer to cash flow hedge reserve	-	-	-	80	80
- transfer to Income statement	451	(91)	(52)	(15)	293
Balance at end of year	(4,294)	1,397	647	(646)	(2,896)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
NOTE 14. TRADE AND OTHER PAYABLES				
Current:				
Trade creditors	20,557	20,937	15	4
Employee entitlements	7,856	6,633	-	-
Acquisition earn-out payments	947	8,257	-	-
Other creditors and accruals	6,974	6,485	-	-
Income tax payable	3,782	967	-	-
	40,116	43,279	15	4
Non-current:				
Acquisition earn-out payments	1,862	1,405	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 15. LEASES

The Company has no lease commitments. The amounts below are for the Group:

(a) Finance lease commitments

The Group leases certain motor vehicles and plant & equipment, and as a result has the following finance lease commitments:

	2009 \$000	2008 \$000
Within one year	289	477
After one year but not more than five years	193	488
After five years	-	-
Minimum lease payments	482	965
Less: future finance charges	(29)	(85)
	453	880
Classified in the balance sheet:		
Current	262	422
Non-current	191	458
	453	880

(b) Operating lease commitments (non-cancellable)

The Group leases certain premises, motor vehicles and plant & equipment, and as a result has the following operating lease commitments:

	2009 \$000	2008 \$000
Within one year	12,368	9,806
After one year but not more than five years	23,488	20,524
After five years	17,367	14,334
	53,223	44,664

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 16. PROVISIONS

The Company has no provisions. The amounts below are for the Group.

	CUSTOMER CLAIMS	LONG SERVICE LEAVE	LEASE OBLIGATIONS	TOTAL
2009 (\$000)				
Balance at beginning of year	240	221	251	712
Acquisition through business combinations	-	33	60	93
Current year provision	29	94	58	181
Expenses incurred	(25)	-	(43)	(68)
Movement in exchange rate	-	(3)	-	(3)
Balance at end of year	244	345	326	915
2008 (\$000)				
Balance at beginning of year	208	43	206	457
Acquisition through business combinations	-	127	38	165
Current year provision	32	25	76	133
Expenses incurred	-	-	(92)	(92)
Movement in exchange rate	-	26	23	49
Balance at end of year	240	221	251	712

Explanation of provisions

Provision for customer claims relates to actual claims received from customers that are being considered for payment as at reporting date and are expected to be resolved within the next two months.

Provision for long service leave relates to the potential leave obligation for employees who reach continuous employment milestones required under Australian regulations.

Provision for lease obligations relates to estimated payments to reinstate leased buildings used to an appropriate condition upon the expiry of the lease term.

NOTE 17. UNEARNED INCOME

The Company has no unearned income. The amounts below are for the Group.

	GROUP	
	2009 \$000	2008 \$000
Income received in advance	15,539	18,457

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
NOTE 18. BORROWINGS				
Non-current:				
Bank borrowings	180,078	201,219	-	-
Loans from subsidiaries (note 25)	-	-	132,134	132,134
	180,078	201,219	132,134	132,134

(a) Security for borrowings

The bank borrowings are secured by a charge over the assets of the majority of the Company's New Zealand subsidiaries in favour of its primary lenders and guarantees from the Company's primary Australian subsidiaries.

(b) Finance facilities

The following finance facilities existed at the reporting date:

	NEW ZEALAND DOLLARS		AUSTRALIAN DOLLARS	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
BNZ				
- total bank overdraft facility available	8,000	8,000	-	-
- amount of credit unused	8,000	8,000	-	-
Westpac				
- total loan facilities available	77,500	77,500	60,000	60,000
- amount of facilities used	51,000	71,000	53,550	37,263
- amount of facilities unused	26,500	6,500	6,450	22,737
ANZ				
- total loan facilities available	77,500	77,500	15,000	15,000
- amount of facilities used	45,000	69,000	14,200	11,210
- amount of facilities unused	32,500	8,500	800	3,790
NAB (Australia)				
- total bank overdraft facility	-	-	200	200
- amount of credit unused	-	-	200	200
Effective interest rate at 30 June 2009 as amended for interest rate hedges	7.12%	8.27%	6.69%	7.72%

The finance facilities summarised above are available until November 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 19. EQUITY

GROUP	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
2009 (\$000)					
Balance at beginning of year	58,352	31,244	1,870	258	91,724
Profit for the year	-	34,593	-	-	34,593
Dividend payments	-	(22,222)	-	-	(22,222)
Shares issued	49,272	-	-	-	49,272
Cash flow hedges taken directly to equity, net of tax	-	-	(7,282)	-	(7,282)
Foreign currency translation reserve	-	-	-	(30)	(30)
Balance at end of year	107,624	43,615	(5,412)	228	146,055
2008 (\$000)					
Balance at beginning of year	58,117	22,791	2,240	(8)	83,140
Profit for the year	-	32,250	-	-	32,250
Dividend payments	-	(23,797)	-	-	(23,797)
Shares issued	235	-	-	-	235
Cash flow hedges taken directly to equity, net of tax	-	-	(370)	-	(370)
Foreign currency translation reserve	-	-	-	266	266
Balance at end of year	58,352	31,244	1,870	258	91,724

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

PARENT	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
2009 (\$000)					
Balance at beginning of year	58,358	24,384	-	-	82,742
Profit for the year	-	23,701	-	-	23,701
Dividend payment	-	(22,222)	-	-	(22,222)
Shares issued	49,293	-	-	-	49,293
Balance at end of year	107,651	25,863	-	-	133,514
2008 (\$000)					
Balance at beginning of year	58,119	21,448	-	-	79,567
Profit for the year	-	26,733	-	-	26,733
Dividend payment	-	(23,797)	-	-	(23,797)
Shares issued	239	-	-	-	239
Balance at end of year	58,358	24,384	-	-	82,742

Contributed equity

(i) Fully paid ordinary shares

As at 30 June 2009 there were 149,319,275 shares issued and fully paid (2008: 128,621,935). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

During the year \$50 million of new capital was raised through the placement of new shares and the offer of shares to existing shareholders under the terms of a Share Purchase Plan (SPP), as follows:

Share Placement – An underwritten placement of 18,450,000 new ordinary shares at \$2.44 per share was completed in April 2009. The placement shares rank equally with existing fully paid ordinary shares.

SPP – 2,047,340 new ordinary shares were allotted in June 2009 at \$2.44 per share in respect of the SPP. The shares issued under the SPP rank equally with existing fully paid ordinary shares.

In total, approximately \$1m of transaction costs were incurred in raising the equity under the Placement and SPP. These costs were deducted from the gross proceeds when recording the equity contributed.

(ii) Partly paid ordinary shares

On 1 January 2009, 64,784 partly paid ordinary shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan. The issue price per share is \$3.01 and the issued shares have been paid up by the relevant participants to one cent per share. The balance of the issue price per share may only be paid up upon the participants meeting agreed performance hurdles and upon the expiry of the relevant vesting period in accordance with the Plan rules (refer note 20).

(iii) Employee Share Plan

On 29 August 2008, the Company issued 200,000 fully paid ordinary shares at \$2.84 to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan. In total, participating employees were provided with interest-free loans of \$0.6 million to fund their purchase of the shares in the Share Plan. The loans are repayable over three years and repayment commenced in September 2008.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

At 30 June 2009 the Trustee held 437,124 (2008: 314,871) fully paid ordinary shares (representing 0.3% (2008: 0.2%) of all issued ordinary shares) of which 12,607 (2008: 1,608) were unallocated. These shares are held for allocation in the future.

The Employee Share Plan operates in accordance with section DC12 of the New Zealand Income Tax Act 2004 and the Trustees are appointed by the Freightways Limited Board.

NOTE 20. SHARE-BASED PAYMENTS

Freightways Senior Executive Performance Share Plan (the 'Plan')

In September 2008, the Board approved the introduction of a long-term incentive scheme for certain Freightways senior executives using a performance share plan. The Plan aligns senior executives' long-term objectives with the interests of Freightways Limited shareholders.

Payment of any benefit is dependent upon the achievement of agreed performance targets. Partly-paid shares (paid up to one cent per share) were issued, subject to a three-year escrow period. At the end of each escrow period the Group will pay a bonus to the senior executives to the extent the performance targets have been achieved, sufficient for the shares to be fully paid-up. In the event that the performance targets have not been achieved at the expiry of the escrow period, the partly-paid shares may be redeemed by the Company.

An initial allocation of 64,784 partly-paid ordinary shares was made on 1 January 2009 in accordance with the rules of the Plan. Further allocations are expected to be made annually in July each year. The terms for these allocations, including the relevant performance hurdles, will be determined by the Board of Directors at the time of each allocation.

Details of the initial allocation are as follows:

Share allocation date	1 January 2009
Number of partly-paid shares allocated	64,784
Market price per share at date of allocation	\$3.01
Amount paid-up per share upon allocation	\$0.01
Total amount paid up during the year	\$648
Escrow periods:	30 June 2009 (20%)
	30 June 2010 (30%)
	30 June 2011 (50%)
Number of partly-paid shares on issue:	
Balance at beginning of the year	-
Issued during the year	64,784
Cancelled during the year	-
Fully paid-up during the year	-
Balance at end of the year	64,784
Partly-paid shares eligible to be paid-up at the end of the year	12,440

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	GROUP	
	2009 \$000	2008 \$000
Total amount expensed during the year for the senior executive performance share plan	87	-
Liability recognised at year end for bonuses payable to facilitate the paying-up of vested partly-paid shares	69	-

The fair value of the Plan was estimated as at the date of the initial allocation using both the binomial option pricing model and monte carlo simulation and taking into account the terms and conditions upon which the partly-paid shares were issued.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
NOTE 21. RECONCILIATION OF PROFIT FOR THE YEAR WITH CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year	34,593	32,250	23,701	26,733
Depreciation and software amortisation	9,577	7,985	-	-
Movement in provision for doubtful debts	600	157	-	-
Movement in deferred income tax	(658)	(458)	-	-
Net loss (gain) on disposal of fixed assets	(4,016)	(8)	-	-
Net foreign exchange loss (gain)	(35)	(2)	-	-
Movement in derivative fair value	682	516	-	-
Transactions settled through loans from subsidiary	-	-	(25,732)	(26,359)
Movement in working capital, net of effects of acquisitions of businesses:				
Decrease (increase) in trade and other receivables	363	(4,016)	(39)	(248)
Decrease (increase) in inventories	(477)	(479)	-	-
Increase (decrease) in trade and other payables	(1,778)	4,940	11	-
Increase (decrease) in income taxes payable	3,199	(22)	1,100	(1,324)
Net cash inflows (outflows) from operating activities	42,050	40,863	(959)	(1,198)

NOTE 22. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had contractual obligations to purchase or construct buildings and equipment for NZ\$1.0 million and A\$0.1 million at the reporting date (2008: NZ\$10.3 million and A\$2.0 million, respectively) principally relating to the completion of operating facilities throughout the Group.

The Company had no commitments for property, plant and equipment at 30 June 2009 (2008: nil).

The Group and Company had no contingent liabilities at 30 June 2009 (2008: nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 23. EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year:

	GROUP	
	2009	2008
Profit for the year (\$'000)	34,593	32,250
Weighted average number of ordinary shares ('000)	132,777	128,611
Basic earnings per share (cents)	26.1	25.1

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding during the year to assume conversion of all dilutive potential ordinary shares had occurred at the beginning of the year.

	GROUP	
	2009	2008
Profit for the year (\$'000)	34,593	32,250
Weighted average number of ordinary shares ('000)	132,777	128,611
Effect of dilution	65	-
Diluted weighted average number of ordinary shares ('000)	132,842	128,611
Diluted earnings per share (cents)	26.0	25.1

NOTE 24. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 30 June 2009 was (\$0.64) (2008: (\$1.08)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 25. TRANSACTIONS WITH RELATED PARTIES

Loan to subsidiary: During the year net advances of \$30 million were made by the Company to FEL (2008: \$26 million from FEL to the Company), which together with \$24 million (2008: \$27 million) of dividends receivable from FEL, resulted in a loan to subsidiary balance as at year end of \$144 million (2008: \$90 million). The receivable balance is set out in Note 7. There is no interest payable on this loan.

Loan from subsidiary: The Company has a loan agreement with its wholly-owned subsidiary Freightways Finance Limited. The payable balance is set out in Note 18. There is no interest payable on this loan.

Intra-group transactions: During the year the Company received \$24 million (2008: \$27 million) of dividends from its directly-owned subsidiary (FEL).

Trading with related parties: The Group trades with certain companies in which there are common directorships, including Christchurch International Airport Limited, Telecom Corporation of New Zealand Limited, Contact Energy Limited and Meridian Energy Limited. In addition, from time to time a subsidiary purchases steel racking from Capital Racking Limited. Capital Racking Limited purchases steel from Vulcan Steel Limited, of which Wayne Boyd is the Chairman.

All trading with related parties is at arm's length and on a commercial basis.

Due from associates: The Group has entered into a property development joint venture (JV) in respect of a new operating facility for one of its Australian subsidiaries. As part of this JV arrangement the Group made progress payments to the developer on behalf of the JV. The other JV partners' share of these payments at balance date of \$3.9 million (2008: \$1.3 million) has been disclosed as 'Due from associates' in note 7.

Key management compensation:

Compensation paid during the year (or payable as at year end in respect of the year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Short-term employee benefits	4,077	3,997	292	264
Long-term employee benefits	-	-	-	-
Post-employment benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments (note 20)	69	-	69	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 26. FINANCIAL RISK MANAGEMENT

26.1 Financial risk factors

The Group's activities expose it to various financial risks, including liquidity risk, credit risk and market risk (which includes currency risk and cash flow interest rate risk). The Group's overall risk management programme focuses on the uncertainty of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Treasury activities are performed centrally by the Group's corporate team, supplemented by external financial advice and the use of derivative financial instruments is governed by a Group Treasury Policy approved by the Company's Board of Directors.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to liquidity risk management includes maintaining sufficient cash reserves and ensuring adequate committed finance facilities are available. In assessing its exposure to liquidity risk, the Group regularly monitors rolling 3, 6 and 12-month cash requirement forecasts.

The table below analyses the Groups' financial liabilities into relevant maturity groupings, based on the remaining period from the reporting date to the contractual maturity date.

The amounts disclosed below are contractual, undiscounted cash flows.

GROUP	LESS THAN 6 MONTHS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	TOTAL	CARRYING VALUE
2009 (\$000)						
Bank borrowings	6,093	6,093	192,262	36,559	241,007	180,078
Trade & other payables	32,406	7,710	1,862	-	41,978	41,978
Finance lease liabilities	131	131	191	-	453	453
2008 (\$000)						
Bank borrowings	7,495	7,495	14,989	246,186	276,165	201,219
Trade & other payables	38,995	4,284	1,405	-	44,684	44,684
Finance lease liabilities	279	144	266	191	880	880

The Company has no liquidity risk itself as its requirements for cash are met by subsidiaries in the Group, as and when necessary. Its only liabilities are loans owing to subsidiaries, for which there are no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

(b) Credit risk

Credit risk refers to the risk of a counterparty failing to discharge its obligation. Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, accounts receivable and derivative financial instruments.

The Group has credit policies that are used to manage the exposure to credit risk. As part of these policies, exposures with counterparties are monitored on a regular basis. The Group performs credit evaluations on all customers requiring credit and generally does not require collateral.

The Group's Treasury Policy ensures due consideration is given to the financial standing of the counterparty banks with which the Group holds cash reserves and transacts derivative financial instruments. The quantum of transactions entered into with the Group's various financial lenders is also balanced to mitigate exposure to concentrated counterparty credit risk with any one financial provider.

The Group does not have any significant concentrations of credit risk.

The Group considers its maximum exposure to credit risk to be as follows:

	GROUP	
	2009 \$000	2008 \$000
Cash and cash equivalents	16,970	2,423
Trade and other receivables	40,661	45,064
Derivative financial instruments	-	2,156
	57,631	49,643

Trade receivables analysis

The Company has no trade receivables. The amounts below are for the Group.

At 30 June 2009 aging analysis of trade receivables is as follows:

	2009 \$000	2008 \$000
Current	32,376	31,621
31 - 60 days over standard terms	5,074	7,933
61 - 90 days over standard terms	1,249	1,038
91 + days over standard terms	1,441	554
	40,140	41,146

The Group has \$6.5 million (2008: \$8.8 million) of financial assets that are overdue and not impaired.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

(c) Market risk

Foreign exchange risk:

Exposure to foreign exchange risk arises when (i) a transaction is denominated in a foreign currency and any movement in foreign exchange rates will affect the value of that transaction when translated into the functional currency of the Company or a subsidiary; and (ii) the value of assets and liabilities of overseas subsidiaries are required to be translated into the Group's reporting currency.

The Group's Treasury Policy is used to assist in managing foreign exchange risk. In accordance with Treasury Policy guidelines, foreign exchange hedging is used as soon as a defined exposure to foreign exchange risk arises and exceeds certain thresholds.

The table below details the Group's sensitivity to the increase and decrease in the New Zealand dollar (NZD) against relevant foreign currencies. The sensitivity analysis only includes outstanding foreign currency denominated monetary items at the reporting date and adjusts their translation as at that date for the change in foreign currency rates. A positive number indicates an increase in profit and equity where the NZD strengthens against the relevant currency.

Interest rate risk:

Exposure to cash flow interest rate risk arises in borrowings of the Group that are at the prevailing market interest rate current at the time of drawdown and are repriced at intervals not exceeding 180 days.

Interest rate risk is identified by forecasting short and long-term cash flow requirements.

The Group's Treasury Policy is used to assist in managing interest rate risk. Treasury Policy requires between 40% and 90% of outstanding borrowings to be effectively hedged against adverse fluctuations in market interest rates.

The Company only lends to and borrows from subsidiaries. No interest is charged on these intercompany loans.

The following table demonstrates the sensitivity of the Group's profit before tax to a potential change in interest rates by an estimated number of basis points, with all other variables held constant and in relation only to that portion of the Group's borrowings that are subject to floating interest rates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

Sensitivity Analysis

	CARRYING AMOUNTS \$000	INTEREST RATE MOVEMENT + OR - 100 BASIS POINTS	NZD/GBP MOVEMENT + OR - 10%
2009 (\$000)			
Financial assets			
Cash and cash equivalents	16,970	134	-
Trade & other receivables	47,207	-	-
Financial liabilities			
Borrowings	180,078	443	-
Derivative financial instruments	8,727	203	-
2008 (\$000)			
Financial assets			
Cash and cash equivalents	2,296	-	-
Trade & other receivables	46,475	-	221
Derivative financial instruments	2,156	656	-
Financial liabilities			
Borrowings	201,219	818	-

26.2 Capital Risk Management

Group capital consists of share capital, other reserves and retained earnings. To maintain or alter the capital structure, the Group has the ability to vary the level of dividends paid to shareholders, return capital to shareholders or issue new shares, reduce or increase bank borrowings or sell assets.

The Group's long term debt facilities impose a number of banking covenants. These covenants are calculated monthly and are reported to the banks quarterly on a rolling 12-month basis. The most significant covenant relating to capital management is a requirement for the Group to ensure Total equity is maintained above a minimum level.

There have been no breaches of banking covenants or events of review during the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 27. FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets, as per balance sheet

	LOANS AND RECEIVABLES		DERIVATIVES USED FOR HEDGING		TOTAL	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Group:						
Derivative financial instruments	-	-	-	2,156	-	2,156
Trade and other receivables (excluding prepayments)	45,001	45,089	-	-	45,001	45,089
Cash and cash equivalents	16,970	2,296	-	-	16,970	2,296
Total	61,971	47,385	-	2,156	61,971	49,541
Parent:						
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables (excluding prepayments)	143,517	91,674	-	-	143,517	91,674
Cash and cash equivalents	3	2	-	-	3	2
Total	143,520	91,676	-	-	143,520	91,676

(b) Liabilities, as per balance sheet

	DERIVATIVES USED FOR HEDGING		OTHER FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Group:						
Borrowings (excluding finance lease liabilities)	-	-	180,078	201,219	180,078	201,219
Finance lease liabilities	-	-	453	880	453	880
Derivative financial instruments	8,727	-	-	-	8,727	-
Trade and other payables	-	-	38,195	43,717	38,195	43,717
Total	8,727	-	218,726	245,816	227,453	245,816
Parent:						
Borrowings (excluding finance lease liabilities)	-	-	132,134	132,134	132,134	132,134
Finance lease liabilities	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Trade and other payables	-	-	15	4	15	4
Total	-	-	132,149	132,138	132,149	132,138

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 28. BUSINESS COMBINATIONS

AccessIM

In November 2008, the Group acquired the business and assets of the Australian business, Access Information Management (AccessIM), which operates a document and data storage business in Perth. The purchase price for AccessIM was approximately \$4 million. The total cost of the acquisition, including transaction costs, is set out below. The contribution of AccessIM to the Group results for the year was revenue of \$1.7 million and operating profit before interest and income tax of \$0.3 million.

If AccessIM had been acquired at the beginning of the year, the contribution to revenue and operating profit for the year before interest and income tax is estimated at \$2.5 million and \$0.7 million (inclusive of recently realised synergies), respectively.

Details of net assets acquired and goodwill for AccessIM are as follows:

	\$000
Purchase consideration	
Cash paid during the year	3,781
Cash payable to complete settlement	74
Direct costs relating to the acquisition, paid during the year	491
Total purchase consideration	4,346
Fair value of net identifiable assets acquired (refer below)	401
Goodwill	3,945
	4,346

The goodwill is attributable to AccessIM having strong profitability and a strong trading position in the Perth information management market.

The assets and liabilities arising from the acquisition are as follows:

	FAIR VALUE \$000
Plant & equipment	541
Net deferred tax assets	14
Trade and other payables	(46)
Unearned income	(108)
	401

The acquiree's carrying amounts were deemed to be an accurate reflection of their fair value at the date of the acquisition.

The New Zealand dollar amounts are shown as at acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

Databank Technologies Pty Limited

In July 2006, the Group acquired 100% of the Australian information management company, Databank Technologies Pty Limited (Databank). Payment of the purchase price was staged over two years, with initial payments of \$23.7 million being made in the year ended 30 June 2007. Two additional payments were payable upon achievement of agreed annual earnings performance for the years ended 30 June 2007 and 2008, respectively. The first of these payments of \$9 million was made in the year ended 30 June 2008. The final payment of \$7.3 million was paid to the vendors in August 2008 and was treated as an increase in intangible assets.

Shred-X

In July 2007, the Group acquired the business and assets of Shred-X, which operates in the document destruction and paper recycling sector in Australia. The purchase price comprises initial payments totalling \$11.3 million, which were paid during the year ended 30 June 2008, and a further amount that may be payable to the Shred-X vendors based on the earnings achieved in the 2011 financial year. As at 30 June 2009 an amount of \$1.9 million has been recorded in the balance sheet as intangibles assets and in trade and other payables in respect of this potential future obligation.

NOW Couriers

In April 2008, the Group acquired the business and assets of NOW Couriers, which operates in the express package sector in New Zealand. Payment of the purchase price is staged over three years, with initial payments in total of \$8.9 million being made in the year ended 30 June 2008, as disclosed in the 30 June 2008 Annual Report. Two additional payments were payable upon achievement of agreed annual earnings performance for the years ended 31 March 2009 and 2010, respectively. The first of these payments, being an amount of \$2.7 million, was made to the vendors in the year ended 30 June 2009. The final estimated payment of \$0.6 million is expected to be paid to the vendors in May 2010, upon finalisation of the results for the year ended 31 March 2010, and has been recorded in the balance sheet as at 30 June 2009 as intangible assets and included in trade and other payables.

Other Acquisitions

During the year, the Group also acquired a number of small Australian businesses which operate in the information management sector in Australia for a total of approximately \$4 million, including transaction costs, as set out below.

The contribution of these acquisitions to the Group results for the year was revenue of \$1.2 million and operating profit before interest and income tax of \$0.5 million.

If these acquisitions had been acquired at the beginning of the year, the contribution to revenue and operating profit for the year before interest and income tax is estimated at \$1.8 million and \$1.0 million, respectively.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

Details of net assets acquired and goodwill are as follows:

	\$000
Purchase consideration	
Cash paid during the year	3,062
Direct costs relating to these acquisitions, paid during the year	663
Estimated future earn-out payments	310
Total purchase consideration	4,035
Fair value of assets and liabilities arising from acquisition	
Trade receivables	373
Plant & equipment	17
Deferred tax asset	18
Trade and other payables	(290)
Unearned income	(490)
Goodwill	4,407
	4,035

The acquirees' carrying amounts were deemed to be an accurate reflection of their fair value at the date of the acquisitions.

The New Zealand dollar amounts are shown as at acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

NOTE 29. SIGNIFICANT EVENTS AFTER BALANCE DATE

Dividend declared

On 17 August 2009, the Directors declared a final dividend of 8.5 cents per share (\$12.7 million) in respect of the year ended 30 June 2009. The dividend will be paid on 30 September 2009. The record date for determination of entitlements to the dividend is 18 September 2009. In conjunction with the dividend declaration, the Directors have approved the establishment of a Dividend Reinvestment Plan (DRP) that will be operational for this final dividend.

Advances repaid to Group

On 4 August 2009, an advance made to associates of \$3.75 million, included within current trade and other receivables at 30 June 2009, was repaid in full.

The financial effects of the above events have not been recognised in these financial statements.

At the date of this report, there have been no other significant events subsequent to the reporting date.

NOTE 30. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

New standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) and the Accounting Standards Review Board in New Zealand (ASRB) that are mandatory for future periods and which the Group will adopt when they become mandatory. These new standards, amendments and interpretations include:

- NZ IFRS8: Operating Segments (mandatory for annual periods beginning on or after 1 January 2009). NZ IFRS8 replaces IAS 14 "Segment Reporting", and requires a 'management approach'. This means the segments need to be presented on the same basis as that used for internal reporting purposes. The Group early-adopted this standard in 2008 (refer note 2).
- NZ IFRS3, Business Combinations (Revised) and NZ IAS27, Consolidated and Separate Financial Statements (Revised) (mandatory for annual periods beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations but with some significant changes to the treatment of transaction costs and contingent consideration. The Group will adopt the changes to NZ IFRS3 (Revised) and NZ IAS 27 (Revised) for the year ended 30 June 2010.
- NZ IAS1 (Amendments): Presentation of financial statements (mandatory for annual periods beginning on or after 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the Statement of Changes in Equity. All 'non-owner changes in equity' will be required to be shown separately from 'owner changes in equity' in a performance statement. Entities can choose whether to present one performance statement (the Statement of Comprehensive Income) or two statements (the Income Statement and the Statement of Comprehensive Income). It is expected that when the Group applies this standard there will be some changes to the presentation of the financial statements.
- NZ IFRS2 Share-Based Payments (effective for annual periods beginning on or after 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. It is not expected to have a material impact on the Group's financial statements when the standard is applied.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2009

- NZ IFRS5 (Amendment), Non-current assets held-for-sale and discontinued operations (effective for annual periods beginning on or after 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The Group will apply the IFRS5 (Amendment) prospectively to any partial disposals of subsidiaries from 1 July 2009.

- NZ IAS36 (Amendment), Impairment of assets (effective for annual periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 July 2009. As the Group currently uses value-in-use calculations for impairment testing, no changes in disclosures are anticipated.

- NZ IAS19 (Amendment), Employee benefits (mandatory for annual periods beginning on or after 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. The Group will apply the IAS19 (Amendment) from 1 July 2009.

There are a number of minor amendments to NZ IFRS7, "Financial instruments: Disclosures"; NZ IAS8, "Accounting policies, changes in accounting estimates and errors"; NZ IAS10, "Events after the reporting period"; NZ IAS18, "Revenue" and NZ IAS34, "Interim financial reporting", which are part of the IASB's annual improvements project published in May 2008. These amendments are unlikely to have a material impact on the Group's financial statements and have therefore not been analysed in detail in this note.

SHAREHOLDER INFORMATION

Stock exchange listing

The Company's fully paid ordinary shares are listed on NZSX (the New Zealand Stock Exchange).

Distribution of shareholders and shareholdings as at 31 July 2009

	NUMBER OF HOLDERS	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
Size of shareholding			
1 to 1,999	1,868	2,106,841	1.41
2,000 to 4,999	2,281	7,144,187	4.78
5,000 to 9,999	1,473	9,741,317	6.52
10,000 to 49,999	1,064	17,745,597	11.89
50,000 to 99,999	41	2,650,804	1.78
100,000 to 499,999	35	7,136,623	4.78
500,000 to 999,999	8	5,464,027	3.66
1,000,000 and over	9	97,329,879	65.18
Total shareholders	6,779	149,319,275	100.00
Geographic distribution			
New Zealand	6,685	148,219,566	99.26
Australia	53	925,321	0.62
Other	41	174,388	0.12
	6,779	149,319,275	100.00

Substantial security holders as at 31 July 2009

Based upon notices received, the following persons are deemed to be substantial security holders in accordance with Section 26 of the Securities Amendment Act 1988:

	VOTING SECURITIES NUMBER	%
AMP Capital Investors (New Zealand) Limited	10,240,002	6.86
Harris Associates LP	10,219,200	6.84
Accident Compensation Corporation	8,430,014	5.65
ING (NZ) Limited	7,483,046	5.01

The total number of issued voting securities of the Company as at 31 July 2009 was 149,319,275.

SHAREHOLDER INFORMATION

Top twenty registered shareholders of listed shares as at 31 July 2009

	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
HSBC Nominees (New Zealand) Limited *	14,852,975	9.95
National Nominees New Zealand Limited <NNLZ90> *	11,279,535	7.55
Accident Compensation Corporation <ACCI40> *	7,636,062	5.11
New Zealand Superannuation Fund Nominees Limited <Supr40> *	7,044,307	4.72
TEA Custodians Limited <Teac40> *	6,622,960	4.44
FNZC Custodians Limited	5,504,224	3.69
AMP Investments Strategic Equity Growth Fund *	5,145,046	3.45
Citibank Nominees (New Zealand) Limited <Cnom90> *	4,340,090	2.91
ANZ Nominees Limited <Anom40> *	3,909,941	2.62
Premier Nominees Ltd – ING Wholesale Australasian Share Fund *	3,532,934	2.37
Private Nominees Limited <Residents A/C>	3,172,154	2.12
Investment Custodial Services Limited <A/C C>	2,979,383	2.00
Premier Nominees Limited – ING Wholesale Equity Select *	2,873,865	1.92
NZGT Nominees Limited – AIF Equity Fund – A/C *	2,860,429	1.92
Custodial Services Limited <A/C 3>	2,427,460	1.63
Lucerne Road Investments Limited	2,002,896	1.34
FNZ Custodians Limited <DTA Non Resident A/C>	1,717,535	1.15
Investment Custodial Services Limited <A/C R>	1,589,795	1.06
Forsyth Barr Custodians Limited <Account 1 M>	1,467,894	0.98
Westpac NZ Shares 2002 Wholesale Trust *	1,420,666	0.95
	92,380,151	61.88

* Held through NZ Central Securities Depository Limited

CORPORATE GOVERNANCE STATEMENT

This statement is an overview of the Group's main corporate governance policies, practices and processes adopted or followed by the Board. The Group's corporate governance processes do not materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

THE ROLE OF THE BOARD OF DIRECTORS

The Board of Freightways Limited is committed to the highest standards of corporate governance and ethical behaviour, both in form and substance, amongst its Directors and the people of the Company and its subsidiaries (Freightways).

BOARD RESPONSIBILITIES

The Board of Directors' corporate governance responsibilities include overseeing the management of Freightways to ensure proper direction and control of Freightways' activities.

In particular, the Board will establish corporate objectives and monitor management's implementation of strategies to achieve those objectives. It will approve budgets and monitor performance against budget. The Board will ensure adequate risk management strategies are in place and monitor the integrity of management information and the timeliness of reporting to shareholders and other stakeholder groups.

The Board will follow the corporate governance rules established by the New Zealand Stock Exchange and Directors will act in accordance with their fiduciary duties in the best interests of the Company.

A formal charter has been adopted by the Board that elaborates on Directors' responsibilities. The Board will internally evaluate its performance annually. Any recommendations flowing from this review will be implemented promptly. The Board will review its Corporate Governance practice against current best practice and continue to develop company policies and procedures, as deemed necessary.

BOARD COMPOSITION

In accordance with the Company's constitution the Board will comprise not less than three and not more than ten directors. The Board will comprise a mix of persons with complementary skills appropriate to the Company's objectives and strategies. The Board must include not less than two persons (or if there are eight or more directors, three persons or one third rounded down to the nearest whole number of directors) who are deemed to be independent.

Freightways' Board currently comprises six Directors: the non-executive Chairman, Managing Director and four non-executive directors. Key executives attend board meetings by invitation. Freightways' Board includes five independent directors.

CORPORATE GOVERNANCE STATEMENT

BOARD MEETINGS

The following table outlines the number of board meetings attended by Directors during the course of the 2009 financial year:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Wayne Boyd	12	12
Dean Bracewell	12	12
Sir William Birch	12	12
Roger Corcoran (appointed 15 May 2009)	12	1
Warwick Lewis	12	12
Sue Sheldon	12	12

BOARD COMMITTEES

Standing committees have been established to assist in the execution of the Board's responsibilities. These Committees utilise their access to management and external advisors at a suitably detailed level, as deemed necessary and report back to the full Board. Each of these Committees has a charter outlining its composition, responsibilities and objectives. The Committees are as follows:

Audit & Risk Committee: The Audit & Risk Committee is responsible for overseeing risk management, accounting and audit activities and reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the Annual and Half Year Reports and making recommendations on financial and accounting policies.

The members are Sue Sheldon (Chair), Warwick Lewis and Sir William Birch. All Members are independent non-executive Directors. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sue Sheldon	3	3
Sir William Birch	3	3
Warwick Lewis	3	3

Remuneration Committee: The Remuneration Committee is responsible for overseeing the Freightways human resource practices, reviewing the remuneration and benefits of the Managing Director and senior management, reviewing and recommending the remuneration of Board members, and making recommendations to the Board in respect of succession planning.

The members of the Remuneration Committee are Sir William Birch (Chairman) and Wayne Boyd. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sir William Birch	3	3
Wayne Boyd	3	3

CORPORATE GOVERNANCE STATEMENT

Nominations Committee: The Nominations Committee is responsible for ensuring the Board is composed of Directors who contribute to the successful management of the Company, ensuring formal review of the performance of the Board, individual Directors and the Board's committees, ensuring effective induction programmes are in place for the Directors and confirming the status of Directors' independence for external reporting purposes.

The members of the Nominations Committee are Wayne Boyd (Chairman), Sir William Birch, Warwick Lewis, Sue Sheldon, Roger Corcoran and Dean Bracewell. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Wayne Boyd	2	2
Dean Bracewell	2	2
Sir William Birch	2	2
Roger Corcoran (appointed 15 May 2009)	2	1
Warwick Lewis	2	2
Sue Sheldon	2	2

CODE OF ETHICS

Freightways expects its Directors and employees to maintain high ethical standards that are consistent with Freightways' core values, business objectives and legal and policy obligations. A formal Code of Ethics has been adopted by the Board. Freightways' people are expected to continue to lead according to this code. The code deals specifically with conflicts of interest, proper use of information, proper use of assets and property, conduct and compliance with applicable laws, regulations, rules and policies.

DELEGATION OF AUTHORITY

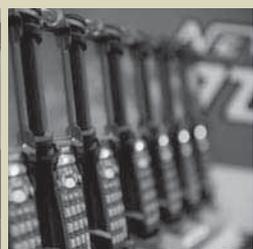
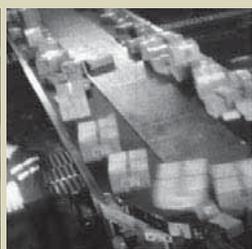
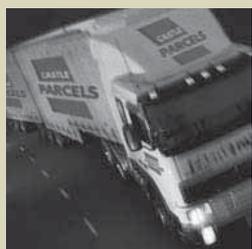
The Board delegates its authority where appropriate to the Managing Director for the day-to-day affairs of Freightways. Formal policies and procedures exist that detail the parameters that the Managing Director and in turn his direct reports are able to operate within.

SHARE TRADING BY DIRECTORS AND MANAGEMENT

The Board has adopted a policy that ensures compliance with New Zealand's insider trading laws. This policy requires prior consent by the Chief Financial Officer in relation to any trading by executive management, and in the case of Directors of the Company and its subsidiaries, prior consent by the Chairman of the Board.

TREASURY POLICY

Exposure to foreign exchange and interest rate risks is managed in accordance with the Group's Treasury Policy that sets limits of management authority. Derivative financial instruments are used by the Group to manage its business risks; they are not used for speculative purposes.



DIRECTORY

For inquiries in relation to Freightways' services and products contact the offices listed below or refer to Freightways' website at www.freightways.co.nz.

Messenger Services Limited

32 Botha Road
Penrose
DX EX10911
AUCKLAND
Telephone: 09 526 3680
www.sub60.co.nz
www.kiwiexpress.co.nz

New Zealand Document Exchange Limited

32 Botha Road
Penrose
DX CR59901
AUCKLAND
Telephone: 09 526 3150
www.dxmail.co.nz

New Zealand Couriers Limited

32 Botha Road
Penrose
DX CX10119
AUCKLAND
Telephone: 09 571 9600
www.nzcouriers.co.nz

Online Security Services Limited

33 Botha Road
Penrose
DX EX10975
AUCKLAND
Telephone: 09 580 4360
www.onlinesecurity.co.nz

Post Haste Limited

32 Botha Road
Penrose
DX EX10978
AUCKLAND
Telephone: 09 579 5650
www.posthaste.co.nz

Fieldair Holdings Limited

Palmerston North International Airport
Palmerston North
DX PX10029
PALMERSTON NORTH
Telephone: 06 357 1149
www.fieldair.co.nz

Castle Parcels Limited

161 Station Road
Penrose
DX CX10245
AUCKLAND
Telephone: 09 525 5999
www.castleparcels.co.nz

NOW Couriers Limited

36 Victoria Street
Onehunga
AUCKLAND
Telephone: 09 634 9150
www.nowcouriers.co.nz

Shred-X Pty Limited

PO Box 1184
Oxenford
Queensland 4215
AUSTRALIA
Telephone: +61 1 300 667 555
www.shred-x.com.au

Databank Technologies Pty Limited

PO Box 984
Chatswood
New South Wales 2057
AUSTRALIA
Telephone: +61 2 9882 3420
www.databank.com.au

