

# ANNUAL SHAREHOLDERS MEETING

## A. CHAIRMAN'S INTRODUCTION

**Slide 1. Freightways – 25 October 2007, Annual Shareholders Meeting**

**Slide 2. Wayne Boyd, Chairman**

Ladies and Gentlemen welcome to Freightways' Annual Shareholders Meeting. My name is Wayne Boyd. I am the Chairman of Freightways' Board of Directors.

**Slide 3. Agenda**

- **Chairman's introduction**
- **Managing Director's review and trading update**
- **Resolutions**

Before we get underway I will run through the structure of the meeting.

- I will begin with procedural matters, introduce the Freightways Board and senior executive team to you and then summarise some of the Company's 2007 highlights. I will then ask Dean Bracewell, Freightways' Managing Director, to provide a review of the Company and an update on current trading performance.
- I ask that you hold all questions about the performance of the Company until the close of the Managing Director's presentation and direct them through the Chair. Any questions related to resolutions should be asked when we consider those resolutions.
- Following the Managing Director's presentation, we will attend to the resolutions as outlined in the notice of meeting.
- The notice of meeting, which includes the explanatory notes, has been circulated to all shareholders, and I intend to take it as read.

The Company's constitution prescribes a quorum requirement of 5 shareholders. As you can see this requirement is met. As a quorum is therefore present, the meeting is duly constituted and I declare it open.

Proxies have been appointed for the purpose of this meeting in respect of approximately 45 million ordinary shares. As was indicated on the proxy form, where proxy discretion has been given, the Directors and myself, as Chairman, intend to vote those proxies we have received in favour of the resolutions before the meeting.

I would now like to introduce those at the table with me:

- Mark Royle, Freightways' Chief Financial Officer and Company Secretary. Mark has over 20 years accounting and commercial experience of which 13 years were with a major international chartered accounting firm. Mark was appointed Chief Financial Officer and Company Secretary of Freightways 7 years ago, having spent a number of years prior to that with Freightways' then Australian owner. Mark is based in Freightways recently-established corporate office in Melbourne where, in addition to his current role, he is supporting the management of our Australian businesses.

Your Directors at the table are:

- Dean Bracewell, Freightways' Managing Director. Dean has spent almost his entire career with Freightways. Over a 20-plus year term Dean held a number of senior Executive and General Management roles within Freightways' subsidiary businesses prior to his appointment to Managing Director in 1999.
- Warwick Lewis. Warwick was Dean's predecessor as Managing Director of Freightways. Prior to that role he spent 18 years in the shipping industry both in New Zealand and the United Kingdom. In 1974 Warwick established Chep Handling Systems Limited and after 13 years with Chep was appointed to the role of Commercial Manager at Freightways. Warwick became Managing Director in 1994 where he remained until his retirement in 1999.

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- Sir William Birch. 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 six 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, including 6 years as Minister of Finance between 1993 and 1999. Sir William retired from Parliament in 1999 and commenced a private consultancy. Currently he is a member of the ABN AMRO Australia and New Zealand Advisory Council in an advisory capacity on business transactions and is a Director of ABN AMRO Australia Holdings Pty Limited. He is also a director of a number of other public and private companies including Viking Capital and is a trustee of the MFL and SIL Superannuation funds. Sir William was knighted by the Queen for public services in 1999.
- Sue Sheldon is a Chartered Accountant and professional director. She is Chairman of the National Provident Fund Board of Trustees and Wool Industry Network Limited, Deputy Chairman of Christchurch International Airport and a director of Smiths City Group and Electronic Transaction Services Limited. Sue is a former president of the New Zealand Institute of Chartered Accountants and is a Board member of Guides New Zealand. In June 2007, Sue was appointed a Companion of the New Zealand Order of Merit for services to business.
- I 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, I established a specialist advisory business and a career as a professional director. I am also Chairman of Telecom NZ, Meridian Energy and Vulcan Steel, and am a director of Landco.

**Also present today are several members of the Freightways team. I shall introduce the members of Freightways' senior executive team to you:**

- Steve Wells, General Manager of New Zealand Couriers. Steve has been with Freightways for 23 years.

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- Mark Troughear, General Manager of Post Haste. Mark has been with Freightways for 11 years.
- Richard Mitchell-Lowe, General Manager of Freightways Information Services. Richard has been with Freightways for 19 years.
- Stewart Maclaren, General Manager of Online Security Services. Stewart has been with Freightways for 17 years.
- Mark Brightwell, General Manager of DX Mail. Mark has been with Freightways for 13 years.
- Charles Gilliam, General Manager Fieldair Holdings. Charles was promoted from his previous role of Financial Controller to that of General Manager during 2007. Charles has been with Freightways for 3 years.
- Neil Wilson, General Manager, Messenger Services and Parceline Express. Neil has been with Freightways for 10 years.
- Devon Buckingham, General Manager of Castle Parcels Limited. Devon has been with Freightways for 11 years.
- Colin Shotter, Auckland Regional Manager of New Zealand Couriers. Colin has been with Freightways for 27 years.

The senior executive team of Freightways has considerable experience. It is a particular strength of Freightways that it is able to identify and promote talent from within, not only in these senior roles but across many occupations within the greater company.

The Company's Auditors PricewaterhouseCoopers are represented here today by John Harvey & Vicki Lawson and the Company's legal advisors Lee Salmon Long are represented here today by Matthew Pasley.

The Financial Statements for the year ended 30 June 2007 are set out in the Company's Annual Report that was released to shareholders earlier this month.

I would now like to speak briefly to some of the general and financial highlights of Freightways' 2007 year. I will then ask Dean Bracewell to address you.

#### **Slide 4. General Highlights**

The domestic marketplace has been challenging for Freightways. A combination of low organic growth and a generally higher cost operating environment has combined to test the resilience of Freightways' operating model and market strategies. Freightways' core express package businesses have done well in these conditions to deliver an on-par result compared to the prior year.

The emerging growth businesses, operating in the information management and business mail segments of the market, have on the other hand again delivered strong growth. This has been achieved by increasing their share in each of their respective markets. Demand for the services offered by Freightways in these markets continues to be very strong.

In July 2006, Freightways extended its geographical reach to Australia with the acquisition of DataBank. DataBank operates in the data storage niche of the information management market and has established branches in the states of NSW and Victoria. With Freightways' support it started up its third branch in January 2007 in Queensland. This Queensland branch has also introduced a document storage service through the brand of Archive Security.

Freightways' strategy, which focuses on the continuing development of its existing businesses while also seeking complementary growth opportunities, has been executed in a manner that has enabled the delivery of another record result to shareholders.

#### **Slide 5. Financial Highlights**

The financial performance of Freightways has been sound on all fronts.

Very good revenue growth has to some degree been offset by a higher cost operating environment, although the operating earnings lines of EBITDA and EBITA still show good growth compared to the previous year.

The higher interest rate environment that Freightways is currently operating in when compared to the previous year has had some dilutive effect on NPAT.

The achievement of 5% Earnings Per Share growth is a good sound result.

### **Slide 6. Dividends**

The performance of the company has again enabled your Directors to increase the annual dividend payout to shareholders compared with the previous year. This is consistent with the approach taken each year since the IPO of Freightways in 2003.

In a challenging environment, your company has successfully executed its strategies to again deliver a record result. The Board acknowledges the outstanding work and dedication of the Freightways team throughout New Zealand.

I'll now call on Dean Bracewell to address the meeting.

### **Slide 7. Freightways – Dean Bracewell, Managing Director**

## **B. MANAGING DIRECTOR'S REVIEW AND TRADING UPDATE**

Thank-you Wayne and thank-you ladies and gentlemen for coming along today.

### **Slide 8. Managing Director's presentation**

My presentation will provide an update of the industries that Freightways works in along with a brief description of its businesses. I will then touch on Freightways' over-arching strategy, before finishing with an update on recent trading performance and the outlook for the foreseeable future.

### **Slide 9. Express package - industry overview and business description**

### **Slide 10. Express package – Industry overview**

The express package industry provides services to deliver items up to 25kgs that can be comfortably handled by one person. We estimate the industry to have over \$500m in annual sales. Within the industry a range of delivery options are offered that are distinguished primarily by speed of service and price. New Zealand Couriers was a pioneer of the express package industry in 1964.

Services provided by the express package industry are embedded in the supply chains of its customers. These customers span all industries in New Zealand. Most, if not all, NZ businesses will have a relationship with an express package operator. As customer activity fluctuates depending on what is occurring in their respective markets so too will the volumes of packages that are required to be delivered by the express package industry.

There are two major players in the express package industry – a NZ Post/DHL JV company and Freightways. As such the industry is relatively consolidated, although there does remain a number of other smaller niche operators.

Growth of the express package industry will continue to be underwritten by the increasing demand for goods and services to be supplied faster today than they were in years gone by. It is this demand for urgent Just-in-Time delivery that will continue to drive increasing volumes to the industry.

### **Slide 11. Business description**

Freightways operates a number of brands in the express package market that are positioned to cater for the different service demands of their respective customers.

This multi-brand strategy provides customers with the choice of various options so that if they decide to choose a different level of service for a different price they can do so without leaving the Freightways group. It also provides each brand with the opportunity to focus directly on enhancing its leadership position in its respective niche of the express package market. Importantly, major costs such as linehaul, IT and occupancy are shared across these brands to ensure costs are not unnecessarily duplicated.

This strategy ensures Freightways' brands are well positioned to capture growth across the entire express package market.

### **Slide 12. Business Mail**

### **Slide 13. Business Mail – Industry overview**

The NZ postal services market was deregulated in 1998 enabling the opportunity to offer competitive postal services.

As you will be aware the dominant mail operator in New Zealand is the government-owned NZ Post which is Freightways' major competitor.

The postal services market can be divided into a number of different niches. Freightways' focus is on working in the business mail niche.

## **Slide 14. Business mail – Business description**

DX Mail has grown successfully to be the only nationwide competitor to NZ Post. Its growth was accelerated with the acquisition of the franchisor rights of the Pete's Post mail delivery business in December 2006 which operates in Taranaki, Manawatu, Wanganui, Hawkes Bay and Bay of Plenty. DX Mail operates complementary delivery services in other centres around New Zealand. DX Mail is continually developing new opportunities in the postal services market some of which are of significant volume.

The full potential of the DX Mail business will be realised over a number of years. DX Mail continues to experience significant demand for its services. Freightways' strategy is to develop this business in a manner that ensures profitable growth.

Strategically, DX Mail is integrated with New Zealand Couriers which picks up and delivers mail bags for DX Mail's growing customer base. Hence, as DX Mail grows New Zealand Couriers also receives the benefit of this growth.

## **Slide 15. Information Management**

### **Slide 16. Information management – Industry overview**

There are three niches in the information management industry; document storage, data storage and document destruction.

The document storage niche of the information management industry provides services to archive, store and retrieve paper-based information. Document storage is the largest niche in the information management industry. Documents are stored in archive boxes in warehouses.

The data storage niche provides the same services for computer back-up tapes as document storage does for documents. The back-up tapes are stored in purpose-built vaults.

The document destruction niche provides the secure collection and physical destruction of paper-based business records. Business records are collected, shredded to a fine gauge and then baled and sold to paper recyclers.

The information management market is underdeveloped. Key drivers of growth are compliance requirements and the increasing demand for the secure management of business information.

The market is relatively consolidated with a small number of operators servicing both the New Zealand and Australian markets.

### **Slide 17. Information Management – Business description**

In 1999 Freightways aggressively stepped into the information management niche in New Zealand. Today it is the number two operator by market share. Freightways operates out of purpose-built facilities in AKL, HLZ, PMR, WLG and CHC. Its brands are Archive Security, Data Security and Document Destruction Services.

In July 2006, Freightways moved into the Australian market with the acquisition of DataBank, a data storage business with operations in NSW and VIC. Since then a new DataBank branch has been established in Queensland. In addition to data storage, this branch will also offer Queensland customers document storage services through the Archive Security brand.

In July 2007, Freightways announced the acquisition of the Queensland document destruction businesses of Shred-X and Document Destruction & Paper Recycling. These acquisitions have enabled Freightways to offer its Queensland customers a full suite of information management services. A new Shred-X branch has also recently been established in Victoria.

As you can see from this slide, Freightways presence in Australia is in its infancy - but it is growing.

## **Slide 18. Business strategy**

## **Slide 19. Business Strategy**

Freightways' strategy is well developed and straightforward. Firstly, and most importantly it centres on enhancing capability within the core business, to ensure the retention of existing customers and to grow market share. Secondly Freightways' strategy is to leverage this capability by extending its presence into complementary areas of growth.

Your company is very well positioned in each of its markets, which all continue to provide growth opportunities.

Freightways will continue to train, develop and appropriately reward its people to ensure the future of its business is in experienced hands.

Freightways will continue to innovate and wherever possible further improve its service performance to customers. Technology plays a key role in delivering innovation, hence the recent significant investment made in a next generation technology platform.

These strategies are designed to deliver good profitability and long-term value to shareholders.

Acquisitions and alliances will continue to be explored where they complement Freightways' capability and add value. In addition, start-up opportunities will also be considered if they make commercial sense.

## **Slide 20. Trading update**

## **Slide 21. Operating revenue**

Freightways' 2007 result continued its long term revenue growth profile. Freightways has achieved 5-year compound average annual revenue growth of 9%.

## **Slide 22. EBITA**

Revenue growth has translated into EBITA or operating earnings growth at an average 15% p.a. over the same period.

### **Slide 23. Current financial performance**

This slide shows Freightways' most current 'unaudited' financial performance drawn from its management accounts for the quarter through until 30 September 2007.

These results have been stated in accordance with the New Zealand equivalents to International Financial Reporting Standards, or NZIFRS. Accordingly, EBIT and NPAT for the 2007 period include no goodwill amortisation and are therefore comparable with EBITA and NPATA for the 2006 period. There are no material differences affecting the comparability of these first quarter results arising from the transition to NZIFRS.

For the first three months of the current financial year, Freightways has delivered a positive operating earnings result compared with the corresponding period in the prior year. Net Profit After Tax (NPAT) however is only on a par with the prior year due to higher interest costs. While interest rates have been steadily increasing, Freightways has also increased its level of debt to fund recent capacity and growth related investment decisions. Freightways has a well established interest rate hedging strategy in place that is designed to provide long term protection against adverse movements in interest rates. Short term movements in interest rates will however have an impact on the cost of unhedged debt and consequently on NPAT.

The domestic market has continued to be challenging. Activity in Freightways' core express package business is similar to the prior year, albeit the cost of doing business has increased. The emerging businesses operating in the business mail and information management markets have continued to enjoy strong year-on-year growth.

Investment in property (Wellington), premises (Waikato), new operating branches (Queensland and Victoria), IT and linehaul capacity has enhanced Freightways' positioning for future growth in each of its markets. A corporate office has also been established in Melbourne to support the growth of Freightways' Australian businesses.

Given the challenging environment it is operating in, Freightways is pleased to deliver a trading update that again demonstrates the resilience of its business model, the importance of its past investment decisions and the successful execution of its growth strategies.

#### **Slide 24. Outlook**

#### **Slide 25. Outlook**

Freightways' core express package business is expected to continue to perform soundly, although growth will again be influenced by the performance of the New Zealand marketplace. Freightways' emerging growth businesses in the business mail and information management markets are expected to continue their positive growth and development.

Capital investment of approximately \$15 million will be spent during the 2008 financial year in areas that support the growth of Freightways' core and emerging businesses. This includes the initial development of its recently acquired information management site in Wellington. The subsequent utilisation of this capacity will deliver a very good return on investment within the medium term.

Management has not seen any change, nor is it aware of any change, that may alter the competitive environment that Freightways operates in.

Management will continue to take consistent strategies to each of the markets Freightways operates in, to maintain and strengthen the positioning of its brands, to retain and develop its teams of people, to deliver premium performance to its customers and to ensure the benefits of these strategies continue to be enjoyed by its shareholders. These strategies include exploring acquisitions that complement Freightways' existing capability.

Importantly all subsidiaries are well positioned with capacity to accommodate future growth.

The recent Australian acquisitions are important initiatives for Freightways as it continues on its path to diversify its activity both geographically and further into the information management market. These recent acquisitions create a broader platform from which Freightways expects to develop future growth opportunities.

Freightways' performance will in the near term be influenced by a challenging New Zealand marketplace. Medium to longer term, and subject to business factors beyond its control, Freightways is exceptionally well positioned in all aspects of its business to continue to achieve positive performance for its shareholders and all other stakeholders.

### **Slide 26. Summary**

In summary your company is strong and successful. It is well positioned to deliver continuing earnings growth and to pay a good dividend along the way.

Thank-you.

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