ANNUAL REPORT | 2004

Freightways

Freightways

New Zealand Couriers www.nzcouriers.co.nz	Post Haste Couriers www.posthaste.co.nz
Castle Parcels www.castleparcels.co.nz	SUB60 www.sub60.co.nz
Security Express www.securityexpress.co.nz	DX Mail www.dxmail.co.nz
Parceline Express	Air Freight NZ
Fieldair Engineering www.fieldair.co.nz	Online Security Services www.onlinesec.co.nz
Data Security Services www.datasecurity.co.nz	Archive Security www.onlinerecords.co.nz
Document Destruction Service www.destruction.co.nz	Freightways Information Services

COMPANY PARTICULARS

BOARD OF DIRECTORS

Wayne Boyd (Chairman)
Dean Bracewell (Managing Director)
Sir William Birch
Warwick Lewis
Susan Sheldon
Michael Taranto

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

BANKERS

Bank of New Zealand
125 Queen Street
Auckland
DX CR50012

SHARE REGISTER

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).

We trace our origins to 1964. Today we deliver around 200,000 items throughout New Zealand every working day.

TABLE OF CONTENTS

GROUP PROFILE

Overview

Freightways is a leading provider of express package services throughout New Zealand, with complementary businesses servicing the information management and business mail sectors. The Group's origins date back to 1964 through New Zealand Couriers – a pioneer in the express package industry in New Zealand. Since commencing operations in Auckland, Freightways has grown organically and by acquisition to become a leading New Zealand service provider, with 16 branches in major towns and cities throughout the country. There has been no significant change to the Group's activities during the year.

Express package

Freightways delivers approximately 200,000 items each business day and approximately 50 million items each year for more than 25,000 active customers. In addition to its extensive domestic network of 930 contractors, Freightways offers an integrated worldwide delivery service through agreements with international express package operators.

Freightways employs a highly effective multi-brand strategy within the network courier segment, via its established New Zealand Couriers, Post Haste Couriers and Castle Parcels brands. 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 brand, and provides secure express package services through Security Express.

Information management

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. The OSS brands are positioned at the premium service end of their respective markets. While accounting for only a small proportion of Freightways' current revenue, OSS has grown organically and by acquisition and represents an important growth opportunity for Freightways.

OSS operates throughout New Zealand and 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.

Business mail

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.

GROUP PROFILE

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. There are currently more than 8,000 New Zealand businesses on the DX Mail exchange network.

DX Mail's business mail services typically originate with a mail pick-up either direct from a business customer or from a DX Mail exchange, of which there are over 280 throughout New Zealand. Mail is then delivered by one of four methods: delivery via DX Mail's established box-to-box delivery network, street delivery via DX Mail (where sufficient delivery density exists), outsourcing to regional operators, or interconnection into New Zealand Post where a small discount is earned in exchange for pre-sorting mail.

DX Mail has selectively developed its operational capability and entered into alliances with international express package operators and postal operators in order to broaden its service range and customer base.

Internal service providers

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

FREIGHTWAYS' STRATEGY

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

FINANCIAL SUMMARY

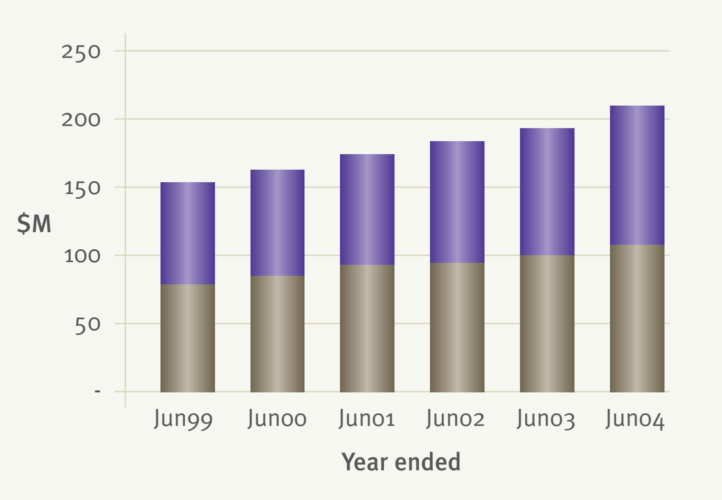
	NOTE	YEAR ENDED 30 JUNE 2004 ACTUAL $000	IPO FORECAST* $000	PERCENTAGE VARIANCE
Sales revenue		214,498	207,297	3%
EBITA	(i)	40,714	36,118	13%
Net surplus after income tax (NPAT)	(ii)	16,137	13,533	19%
Depreciation		4,904	5,695	(14%)
Goodwill amortisation		4,944	4,819	3%
Interest expense and finance charges (net)		8,477	8,390	1%
Net operating cash flows before interest and tax		48,183	39,074	23%
Interest cover	(iii)	5.7 times	4.7 times	
Dividends to ordinary shareholders		15,800	14,000	13%

*As per Freightways Investment Statement & Prospectus August 2003

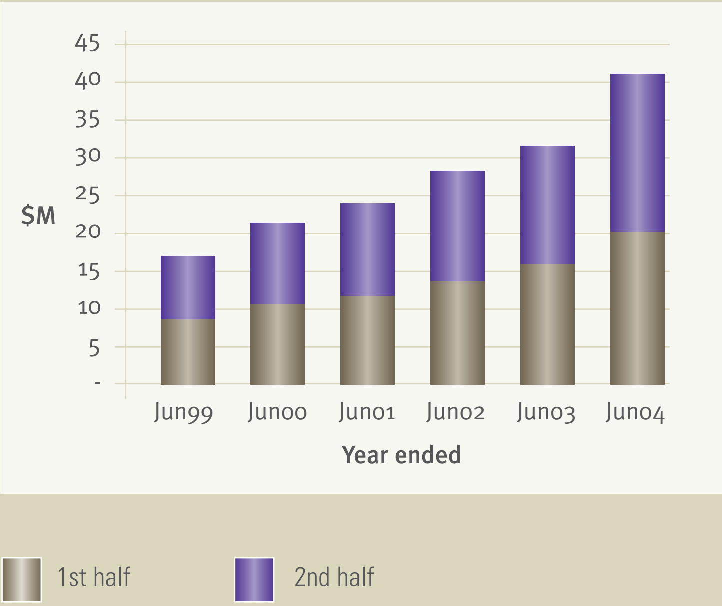
Notes:
(i) Earnings before interest, tax and goodwill amortisation
(ii) NPAT is before minority interests
(iii) Net operating cash flows before interest and tax, divided by net interest expense and finance charges

FINANCIAL SUMMARY

FREIGHTWAYS SALES REVENUE



FREIGHTWAYS EBITA



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.



SUB60


NEW ZEALAND
COURIERS


POST HASTE

REPORT FROM CHAIRMAN AND MANAGING DIRECTOR

Your Directors are pleased to present the financial results for Freightways Limited (Freightways) for the year ended 30 June 2004. 2004 has been a significant and successful year for Freightways, with its group of businesses being returned to New Zealand public ownership through Freightways' listing on the NZX in September 2003. Freightways has delivered a record result in excess of IPO forecasts and it has continued to forge positive growth in all the markets it operates in.

Operating performance

To enable operating performance to be compared to the prior corresponding period, pro-forma amounts for the prior year have been used to reflect consolidated results had the parent entity existed at that time. These pro-forma adjustments enable a like-for-like comparison and take into account marginally lower compliance costs and higher depreciation as a result of Freightways' change of ownership and subsequent public listing.

Consolidated operating revenue for the year of $214.5 million was 10% higher than the prior corresponding period. Earnings before interest, tax and amortisation (EBITA) were $40.7 million, 27% higher than the prior corresponding period. Consolidated net profit after tax (NPAT) before minority interest was $16.1 million. Cash generated from operations before interest and tax was $48.2 million.

Performance compared to IPO

As signalled in Freightways' half year announcement the Company has exceeded its IPO forecasts.
This has occurred on all fronts. Key comparatives are:

	2004 ACTUAL $000	2004 IPO FORECAST $000
Revenue	214,498	207,297
EBITDA	45,618	41,813
EBITA	40,714	36,118
NPAT	16,137	13,533
NPATA	21,081	18,352
Dividend	15,800	14,000

Dividend

Freightways' strong result has enabled the Board of Directors to declare a final dividend of $8.55 million, delivering a full year pay-out in line with the dividend policy outlined in Freightways' investment statement and prospectus, and exceeding the IPO final dividend forecast of $7.25 million. The final dividend translates to 6.9 cents per share (fully imputed) and will be paid on 30 September 2004. The record date for determination of entitlements to the dividend is 17 September 2004. This brings the total payout in respect of the year to $15.8 million or 12.75 cents per share (fully imputed), compared with the IPO forecast dividend of $14 million.

REPORT FROM CHAIRMAN AND MANAGING DIRECTOR

REVIEW OF OPERATIONS

Express Package

Freightways' core express package business contributes the majority of Freightways' revenue and earnings. The brands of New Zealand Couriers, Post Haste Couriers, Castle Parcels, SUB60 and Security Express all achieved strong growth over the prior year. A favourable domestic economy, continuing growth in demand for the time sensitive delivery of packages and modest pricing and market share gains were the primary drivers of revenue growth.

Incremental investment in the capacity of Freightways' well established network has resulted in branch relocations to larger facilities in Invercargill, Dunedin and Rotorua. These upgraded facilities will enable the efficient handling of our increased volumes and also create capacity for future growth.

Growing volumes, a disciplined focus on business mix, margin integrity and cost management have contributed to efficiencies and productivity gains being realised in a number of operational areas of the express package businesses. Particularly pleasing are the service quality measurements in all our businesses showing our service standards have been further improved as we continue to grow. The operating leverage gained from overlaying our established national network with additional revenue is also well reflected in Freightways' result.

Business Mail

DX Mail again increased its contribution as it gained further sales traction with its suite of business mail services. DX Mail is a nationwide business mail competitor to NZ Post and is seen as an emerging growth opportunity within Freightways' portfolio of businesses. Ready demand for DX Mail's services has seen the faster than anticipated development of DX Mail's independent mail delivery network. Low revenue per mail item and the high cost components associated with mail delivery will in the near term result in DX Mail's contribution being relatively modest in the perspective of Freightways' total earnings. DX Mail's growth strategy will be implemented over a number of years.

Information Management

Freightways also defines Online Security Services as an emerging growth opportunity. Continued penetration in the document destruction, computer media storage and retrieval and records management markets has contributed to continued strong growth in this smaller business. The acquisition of Archive Security, a primarily Wellington-based business, has been successfully implemented to expectation. This acquisition has contributed to the positioning of Freightways as New Zealand's third largest supplier in this market.

The Auckland operation will be restructured and relocated to a purpose-built facility adjacent to Freightways' main operating site in Penrose during the 2005 year. This purpose-built leased facility will create much needed capacity for our increasing records management volumes and will also secure development land for future growth.

REPORT FROM CHAIRMAN AND MANAGING DIRECTOR

Internal service providers

Fieldair Holdings Limited provides air linehaul to the express package brands through the ownership and operation of our fleet of Convair 580 aircraft by its subsidiary Air Freight NZ Limited. A lease has been negotiated that will see the introduction of a later model aircraft of the same type as the existing fleet during the first half of the 2005 financial year. This larger aircraft will replace an external charter and will be achieved with no increased cost to the business. Fieldair Engineering Limited, the aviation engineering subsidiary of Fieldair Holdings Limited, has made positive progress in developing new external revenue streams to complement its existing capabilities that have contributed positively to Freightways' performance.

Freightways Information Services Limited, our in-house IT services provider, has embarked on the first stage of a three-year planned migration to a next-generation information systems operating environment. Investment will occur over the three years of the project.

Freightways' corporate office performed within cost expectations.

OUTLOOK

Freightways' well-known brands are strongly positioned in markets with continuing growth opportunities. Our people are experienced and focused on delivering our customers a premium service. Our established business model and market strategies will continue to be implemented in a consistent and disciplined manner.

Investment will occur in infrastructure, IT and the ongoing development of our people to further underpin Freightways' positioning and performance objectives. Capital expenditure in 2005 is expected to be approximately $2 million above Freightways' five-year average historical expenditure of $6 million due to the timing of major projects. It is expected that 2006 expenditure will return to average historical levels.

The Company currently has a project running to consider the impact of adopting International Financial Reporting Standards (IFRS). Upon completion of the project, the Board will determine the timing and implications of IFRS adoption.

From Freightways' viewpoint the domestic economy remains favourable and we are unaware of any material changes to our operating environment that may negatively impact on our performance. Subject to economic and business factors beyond our control, the outlook for Freightways, its shareholders and all other stakeholders remains positive.

CONCLUSION

Freightways has delivered outstanding performance during a year of significant change. The Directors congratulate the Freightways team on their performance and thank them for the contribution to another record Freightways result.

Wayne Boyd
Chairman
9 August 2004

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 2004 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), M INST D MAICD

Wayne was appointed a Director and elected Chairman of Freightways in June 2003. After practising law for 18 years and spending five years in investment banking, he established a specialist advisory business and a career as a professional director. Wayne is Chairman of Auckland International Airport Limited and Ngai Tahu Holdings Corporation Limited, and a director of Telecom Corporation of New Zealand Limited, Forsyth Barr Group Limited and Tru-Test Corporation 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 five-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 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. His portfolios included Energy, Labour, State Services, Health, Employment and six 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. As a member of the ABN AMRO Australia and New Zealand Advisory Council he is involved with the ABN AMRO group of companies in an advisory capacity on business transactions. He is currently a director of a number of public and private companies including St George (NZ), Dorchester Pacific and is a trustee of the MFL and SIL Superannuation funds. Sir William was knighted by the Queen for public services in 1999.

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.

Susan Sheldon B.COM, FCA, M INST D

Sue is a chartered accountant and consults from her Christchurch practice, Sue Sheldon Advisory. She is Deputy Chairman of Meridian Energy Limited and Christchurch International Airport Limited, Chairman of the Board of Trustees of the National Provident Fund and a director of CanWest MediaWorks (NZ) Limited, Ngai Tahu Holdings Corporation Limited and Asure New Zealand Limited. Sue is a former President of the Institute of Chartered Accountants of New Zealand, and is a Board member of Guides New Zealand.

DIRECTORS' REPORT

Michael Taranto B.COM (HONS), MBA

Michael has been an executive with ABN AMRO Capital (the trading name of the group of companies which operates the private equity business of ABN AMRO Holding N.V.), since 2001. He has over ten years' experience directing private equity investments, including six years with Macquarie Bank Limited. He was a strategic consultant with Bain & Company for three years, and before that operated in the IT sector. Michael is also a director of ABN AMRO Capital Advisory (Australia) Pty. Limited, and is a board member of a number of other companies in which the ABN AMRO Capital group has an investment.

The Board has determined for the purposes of the NZX Listing Rules that, as at 30 June 2004, Wayne Boyd, Warwick Lewis and Susan Sheldon are independent Directors and Dean Bracewell as Managing Director, Sir William Birch and Michael Taranto are not independent Directors.

PRINCIPAL ACTIVITIES

The Company acquired all the ordinary shares of Freightways Express Limited (FEL) on 13 December 2002. As well as holding the investment in FEL, the Company provides FEL and its subsidiaries with finance facilities. Through an Initial Public Offering (IPO) in September 2003, Freightways Limited became a listed company on the New Zealand Stock Exchange (NZX).

The principal activities of the Group during the year ended 30 June 2004 were the operation of express package services, information management services and business mail services.

CONSOLIDATED RESULT FOR THE YEAR

	2004 $000	2003* $000
Sales revenue	214,498	104,260
Net surplus before income tax	27,293	9,694
Income tax	(11,156)	(4,205)
Net surplus after income tax	16,137	5,489
Net surplus attributable to minority interest	(786)	(2,216)
Net surplus attributable to parent shareholders	15,351	3,273

* relates to the period from 13 December 2002 to 30 June 2003

DIRECTORS' REPORT

DIRECTORS HOLDING OFFICE DURING THE YEAR WERE:

Parent:

Wayne Boyd (Chairman)
Dean Bracewell (Managing Director)
Sir William Birch
Warwick Lewis
Susan Sheldon
Michael Taranto

Subsidiaries:

Dean Bracewell
Mark Royle

Resigned 3 November 2003:

JP Kaumeyer
Michael Taranto
Marcus Staal
Gerben Kuijper

REMUNERATION OF DIRECTORS

	GROUP		PARENT	
	2004 $	2003 $	2004 $	2003 $
Wayne Boyd	114,750*	-	114,750*	-
Dean Bracewell	453,430	240,000	-	-
Sir William Birch	40,000	-	40,000	-
Warwick Lewis	40,000	-	40,000	-
Susan Sheldon	45,000	-	45,000	-
Michael Taranto	40,000	-	40,000	-
Mark Royle	287,071	146,069	-	-
	1,020,251	386,069	279,750	-

* includes Due Diligence Committee fees of $14,750 included in IPO share issue costs.

Remuneration set out in the table above for 2003 is for the period commencing from the Company's acquisition of Freightways Express Limited on 13 December 2002 and ending on 30 June 2003.

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2004 in respect of the two previous six-month performance periods (1 January to 30 June 2003 and 1 July to 31 December 2003). No amount was paid, or included above, in respect of incentive payments for the period 1 January to 30 June 2004. Incentive payments for the six months ended 30 June 2004 were paid in August 2004.

No remuneration was paid directly to any of the past or present non-executive Directors of the Company or Group during the period ending on 30 June 2003.

DIRECTORS' REPORT

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	
	2004 $	2003 $	2004 $	2003 $
$100,000 – $109,999	6	4	-	-
$110,000 – $119,999	7	1	-	-
$120,000 – $129,999	1	-	-	-
$130,000 – $139,999	2	1	-	-
$140,000 – $149,999	-	1	-	-
$150,000 – $159,999	1	-	-	-
$160,000 – $169,999	1	2	-	-
$170,000 – $179,999	2	5	-	-
$180,000 – $189,999	3	1	-	-
$190,000 – $199,999	1	1	-	-
$200,000 – $209,999	-	1	-	-
$210,000 – $219,999	-	2	-	-
$220,000 – $229,999	1	-	-	-
$230,000 – $239,999	1	-	-	-
$330,000 – $339,999	1	-	-	-
$350,000 – $359,999	-	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:

	CLASS OF EQUITY SECURITY			
	FULLY PAID ORDINARY SHARES		UNPAID ORDINARY SHARES	
DIRECTOR	BENEFICIALLY	NON-BENEFICIALLY	BENEFICIALLY	NON-BENEFICIALLY
Wayne Boyd	-	-	-	231,885
Dean Bracewell	1,125,504	877,392	1,754,784	-
Sir William Birch	10,625	-	115,944	-
Warwick Lewis	-	137,232	-	115,944
Susan Sheldon	-	-	-	115,944
Michael Taranto	-	-	-	-
Mark Royle	233,437	252,813	350,000	-

DIRECTORS' REPORT

The following table shows transactions recorded in respect of those securities during the year ended 30 June 2004:

	NUMBER ACQUIRED / (DISPOSED)	$ COST / (SALE)
Wayne Boyd		
Unpaid shares issued under the Directors' Share Ownership Plan (DSOP) on 26 August 2003	231,885	-
Dean Bracewell		
Shares acquired 29 September 2003 – IPO exchange offer	504	807
Shares sold 17 November 2003	(375,000)	(712,500)
Unpaid shares fully paid up 27 February 2004	877,392	292,464
Beneficial ownership in shares sold 18 March 2004	(877,392)	(1,868,845)
Non-beneficial ownership in shares acquired 18 March 2004	877,392	1,868,845
Sir William Birch		
Shares acquired 29 September 2003 – IPO	10,625	17,000
Unpaid shares issued under DSOP on 26 August 2003	115,944	-
Warwick Lewis		
Shares acquired 29 September 2003 – IPO exchange offer	112,232	179,572
Shares acquired 29 September 2003 – IPO	25,000	40,000
Unpaid shares issued under DSOP on 26 August 2003	115,944	-
Susan Sheldon		
Unpaid shares issued under DSOP on 26 August 2003	115,944	-
Mark Royle		
Unpaid shares fully paid up 27 February 2004	175,000	58,333
Beneficial ownership in shares sold 10 March 2004	(252,813)	(538,492)
Non-beneficial ownership in shares acquired 10 March 2004	252,813	538,492

DIRECTORS' REPORT

FREIGHTWAYS EXPRESS LIMITED (FEL) PREFERENCE SHARES

On 29 September 2003, Dean Bracewell and Warwick Lewis exchanged respectively 785 and 174,663 FEL preference shares at $1.02811 per FEL share for 504 and 112,232 shares of the Company at a price of $1.60 through the IPO Exchange Offer. Subsequently, on 31 October 2003 the balance of their preference share holdings of 1,215 and 325,337 were redeemed by FEL for $1.034 (being $1 per share plus the six month fully imputed dividend of $0.034). Other than these transactions, no Director traded FEL preference shares during the year and there are no longer any FEL preference shares on issue.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Deeds of indemnity, dated 8 August 2003, were 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.

AUDITORS

The remuneration for services provided to the Company and Group by the auditors for the current financial year was:

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
Audit services	150	70	-	-
Other assurance services*	10	38	-	6
	160	108	-	6

* Not included in the amount above is a further payment of $178,000 (2003: Nil) made during the year to PricewaterhouseCoopers Sydney in relation to due diligence for the debt re-financing ($139,000) and the IPO ($39,000). Prepaid borrowing costs include the $139,000 and it is being amortised over the term to maturity of the finance facilities. The IPO share issue costs of $499,000 that were deducted from the equity raised during the year included the $39,000.

DONATIONS

During the year donations totalling $21,699 (2003: $2,284) were made by companies in the Group, of which none were made by the Parent.

For and on behalf of the Board this 9th day of August 2004.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

PRICEWATERHOUSECOOPERS

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

AUDITORS' REPORT

To the shareholders of Freightways Limited.

We have audited the financial statements on pages 21 to 50. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2004 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 25 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 2004 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:

- The significant estimates and judgements made by the Directors in the preparation of the financial statements.
- 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 under the Companies Act 1993 and providers of other assurance 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.

(b) The financial statements on pages 21 to 50:

(i) Comply with generally accepted accounting practice in New Zealand; and

(ii) Give a true and fair view of the financial position of the Company and Group as at 30 June 2004 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 9 August 2004 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers.

Chartered Accountants, Auckland

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

(Prior period less than a year, refer accounting policy note (u))

		GROUP		PARENT	
	NOTE	2004 $000	2003 $000	2004 $000	2003 $000
Operating revenue	1	215,087	105,739	21,100	9,213
Net surplus before income tax	2	27,293	9,694	12,102	3,898
Income tax	3	(11,156)	(4,205)	3,024	936
Net surplus after income tax		16,137	5,489	15,126	4,834
Net surplus attributable to minority interest		(786)	(2,216)	-	-
Net surplus after income tax attributable to parent shareholders		15,351	3,273	15,126	4,834

NB: All revenue and earnings are from continuing operations.

STATEMENTS OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

		GROUP		PARENT	
	NOTE	2004 $000	2003 $000	2004 $000	2003 $000
Equity at beginning of year, comprising:					
– Parent shareholders' interest		40,318	-	41,879	-
– Minority interest		60,000	-	-	-
		100,318	-	41,879	-
Net surplus for the year, comprising:					
– Parent shareholders' interest		15,351	3,273	15,126	4,834
– Minority interest		786	2,216	-	-
Total recognised revenues and expenses		16,137	5,489	15,126	4,834
Minority interest arising upon acquisition		-	60,000	-	-
Dividends to ordinary shareholders	4	(7,251)	-	(7,251)	-
Dividends to minority interest		(786)	(2,216)	-	-
Distributions to minority interest on redemption of preference shares		(42,978)	-	-	-
Reduction in minority interest upon issue of ordinary shares		(17,499)	-	-	-
Issue of ordinary shares	15	17,499	38,035	17,499	38,035
Issue costs arising on issue of ordinary shares		(499)	-	(499)	-
Proceeds from unpaid shares fully paid	15	626	-	626	-
Buy-back of ordinary shares	15	-	(990)	-	(990)
Movement in equity for the year		(34,751)	100,318	25,501	41,879
Equity at end of year, comprising:					
– Parent shareholders' interest		65,567	40,318	67,380	41,879
– Minority interest		-	60,000	-	-
		65,567	100,318	67,380	41,879

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2004

		GROUP		PARENT	
	NOTE	2004 $000	2003 $000	2004 $000	2003 $000
Current assets					
Cash and bank balances	23	761	8,544	-	-
Accounts receivable	5	29,274	26,015	890	647
Inventories	6	2,672	2,467	-	-
Total current assets		32,707	37,026	890	647
Non-current assets					
Investments in subsidiaries	7	-	-	121,013	121,013
Accounts receivable	5	-	-	77,246	30,372
Fixed assets	8	43,027	43,729	-	-
Intangible assets	9	161,579	159,648	-	-
Deferred tax asset	10	791	532	(73)	-
Total non-current assets		205,397	203,909	198,186	151,385
Total assets		238,104	240,935	199,076	152,032
Current liabilities					
Payables and accruals	11	23,758	20,219	696	1,875
Borrowings	12	-	-	-	2,323
Provisions	13	947	378	-	-
Unearned income	14	16,832	14,065	-	-
Total current liabilities		41,537	34,662	696	4,198
Non-current liabilities					
Borrowings	12	131,000	105,955	131,000	105,955
Total non-current liabilities		131,000	105,955	131,000	105,955
Total liabilities		172,537	140,617	131,696	110,153
Net assets		65,567	100,318	67,380	41,879
Equity					
Share capital	15	54,671	37,045	54,671	37,045
Retained earnings	21	10,896	3,273	12,709	4,834
Parent shareholders' equity		65,567	40,318	67,380	41,879
Minority interests	22	-	60,000	-	-
Total equity		65,567	100,318	67,380	41,879

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 9th day of August 2004.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	NOTE	GROUP 2004 $000 INFLOWS (OUTFLOWS)	GROUP 2003 $000 INFLOWS (OUTFLOWS)	PARENT 2004 $000 INFLOWS (OUTFLOWS)	PARENT 2003 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities					
Receipts from customers		213,700	108,149	-	-
Payments to suppliers and employees		(165,517)	(87,753)	-	-
Interest received		255	224	-	-
Interest and other costs of finance paid		(10,045)	(3,855)	-	-
Income taxes paid		(10,754)	(6,628)	(195)	-
Net cash inflows from operating activities	23	27,639	10,137	(195)	-
Cash flows from investing activities					
Payments for fixed assets		(4,475)	(4,203)	-	-
Payments for business acquired	23	(7,500)	-	-	-
Proceeds from sales of fixed assets		10	12	-	-
Insurance proceeds arising on loss of aircraft		2,381	-	-	-
Proceeds from sale of business		685	500	-	-
Net cash outflows from investing activities		(8,899)	(3,691)	-	-
Cash flows from financing activities					
Dividends to ordinary shareholders		(7,251)	-	(7,251)	-
New bank borrowings		135,000	-	135,000	-
Repayment of bank borrowings		(109,955)	(2,717)	(109,955)	-
Costs of share issue		(499)	-	-	-
Dividends to minority interest		(1,466)	(2,046)	-	-
Distributions to minority interest on redemption of preference shares		(42,978)	-	-	-
Proceeds from unpaid shares fully paid		626	-	626	-
Loans advanced to subsidiaries		-	-	(18,225)	-
Buy-back of issued shares	15	-	(990)	-	(990)
Proceeds from share issue	15	-	990	-	990
Net cash outflows from financing activities		(26,523)	(4,763)	195	-
Net increase (decrease) in cash held		(7,783)	1,683	-	-
Cash at beginning of year		8,544	-	-	-
Cash acquired through acquisition of subsidiary	23	-	6,861	-	-
Cash at end of year	23	761	8,544	-	-

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2004

REPORTING ENTITY

The financial statements for the 'Parent' are for Freightways Limited as a separate legal entity. The consolidated financial statements for the 'Group' are for the economic entity comprising Freightways Limited and its subsidiaries.

STATUTORY BASE

Freightways Limited is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

MEASUREMENT BASE

The financial statements have been prepared using the accounting principles recognised as appropriate for the measurement and reporting of financial performance, financial position and cash flows on an historical cost basis.

ACCOUNTING POLICIES

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The following accounting policies that materially affect the measurement of financial performance, financial position and cash flows have been applied:

a) Basis of consolidation

The consolidated financial statements include the Parent, and its subsidiaries accounted for using the purchase method. All material transactions between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation. The results of subsidiaries acquired or disposed of during the year are included in the consolidated Statement of Financial Performance 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.

b) Revenue

Goods and services – Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business. Income received and invoiced in advance, for express package and document exchange services is recognised in the Statement of Financial Performance only when earned. Accordingly, unearned income received and invoiced is shown in the Statement of Financial Position liabilities as 'Unearned income'. This income is brought to account in the year in which the service is provided.

Investment income – Dividend income is recognised in the year the dividend is declared. Interest and rental income is accounted for as earned.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2004

c) Income tax

The income tax expense charged to the Statement of Financial Performance is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method. A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences, or losses, will be utilised.

d) Foreign currencies

Transactions denominated in foreign currency are converted to New Zealand dollars at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities arising from trading transactions are translated at closing rates. Gains and losses due to fluctuations on these items are included in the Statement of Financial Performance.

e) Equity

Preference shares issued by the Company's subsidiary, FEL, are accounted for as share capital by FEL and as minority interest by the Group on the basis that the shares have no fixed term to maturity, are redeemable at the option of FEL only and the non-payment of dividends would not constitute a default by FEL. Entitlement to dividends is cumulative and any dividends not paid will be compounded from the date for payment of the dividend. As at 30 June 2004 there are no FEL preference shares on issue. Costs associated with raising equity are recognised as a reduction in the amount of proceeds arising from the issue of shares.

f) Fixed assets

The cost of fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service. The cost of self-constructed assets includes the cost of materials used in construction, direct labour on the project, finance costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use. 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. The Group does not have a policy to regularly revalue assets.

g) Depreciation

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. 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 10 years

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2004

h) Brand names

Certain brand names considered to be identifiable assets with a realisable value have been included in the Statement of Financial Position. No amortisation of these brand names is provided for in these financial statements as the Directors believe the useful lives of the brand names are of such duration that any amortisation would be immaterial. Brand names are carried at an amount considered to represent fair value, as determined at the time of their acquisition. Periodic independent valuations are carried out in order to determine that the value of each brand name has been maintained.

i) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets acquired at the time of acquisition of a business or an equity interest in a controlled entity. Goodwill is amortised against operating income on a systematic basis over a period of time, not exceeding 20 years, during which benefits are expected to arise.

j) Receivables

Receivables are stated at their estimated realisable value.

k) Inventories

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

l) Impairment of assets

Annually, the Directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the Statement of Financial Performance.

m) Leases

The Group has operating leases for certain plant and equipment, land and buildings and motor vehicles used in the business. Lease payments in respect of operating leases, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating surplus in equal instalments over the lease term.

n) Investments

Investments in subsidiaries and associates are stated at cost in the Statement of Financial Position of the Parent. Other investments are stated at the lower of cost and net realisable value.

o) Provisions

Provisions are made in respect of actual or specific risks and commitments existing at balance sheet date, of which the amount is uncertain but can be estimated using a reliable method.

p) Borrowing costs

Costs incurred in establishing finance facilities are amortised to the Statement of Financial Performance over the term of the respective facilities.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2004

q) Derivative financial instruments

Derivative financial instruments, such as interest rate floors, cap and collar contracts and fixed rate agreements are entered into from time to time to manage interest rate exposures on borrowings. Where such instruments are entered into and the hedge is effective, recognition occurs only on the occurrence of the underlying transaction. Payments and receipts under these interest arrangements are recognised in the Statement of Financial Performance upon fluctuations in the interest payments on floating rate financial liabilities and over the contract period of the instrument. Other derivative financial instruments entered into include forward exchange contracts used from time to time to manage foreign currency exposures on substantial foreign currency denominated commitments.

Financial instruments carried on the Statement of Financial Position include cash and bank balances, receivables, investments, related company loans, trade creditors and borrowings. The recognition methods associated with these items are set out within the Statement of Accounting Policies.

r) Cash flows

For the purpose of the Statement of Cash Flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

s) Goods and Services Tax (GST)

The Statement of Financial Performance and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced.

t) Rounding

All figures in these financial statements are rounded to the nearest thousand dollars, as denoted by ($000), unless otherwise indicated.

u) Comparative figures

The comparative period, denoted as ‘2003’ throughout these financial statements is for the period from the date of the Company’s incorporation on 4 December 2002 to 30 June 2003. The Company acquired 100% of the ordinary shares of Freightways Express Limited (FEL) on 13 December 2002 and the comparatives for the Group reflect the interest in subsidiaries from that date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

(Prior period less than a year, refer accounting policy note (u))

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
NOTE 1. OPERATING REVENUE				
Sales revenue	214,498	104,260	-	-
Other revenue				
Dividends received from subsidiaries	-	-	21,100	7,000
Interest received:				
– banks	255	224	-	-
– related companies	-	-	-	958
Gain arising on loss of aircraft	334	-	-	-
Realised foreign exchange gain	-	1,255	-	1,255
	215,087	105,739	21,100	9,213

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
NOTE 2. NET SURPLUS BEFORE INCOME TAX				
Net surplus before income tax has been determined after charging as expenses:				
Amortisation of goodwill	4,944	2,616	-	-
Auditors' remuneration:				
– for audit services	150	70	-	-
– for other assurance services*	10	38	-	6
Bad debts written off	168	(7)	-	-
Depreciation of:				
– buildings	761	407	-	-
– leasehold improvements	178	118	-	-
– motor vehicles	40	23	-	-
– equipment	3,925	2,647	-	-
Total depreciation	4,904	3,195	-	-
Transfers to (from) provision for:				
– doubtful debts	96	30	-	-
Interest and borrowing costs paid:				
– banks	8,732	5,181	8,575	4,846
– related companies	-	-	-	202
Management fees paid to related companies	-	130	-	-
Directors' fees	265	-	265	-
Donations	22	2	-	-
Loss on sale of fixed assets	29	7	-	-
Operating lease expenses	6,162	3,417	-	-

*Not included in the amount above is a further payment of $178,000 (2003: Nil) made during the year to PricewaterhouseCoopers Sydney in relation to due diligence for the debt re-financing ($139,000) and the IPO ($39,000). Prepaid borrowing costs include the $139,000 and it is being amortised over the term to maturity of the finance facilities. The IPO issue costs of $499,000 that were deducted from the equity raised during the year included the $39,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

(Prior period less than a year, refer accounting policy note (u))

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
NOTE 3. INCOME TAX				
Net surplus before income tax	27,293	9,694	12,102	3,898
Prima facie income tax at 33%	9,007	3,199	3,994	1,286
Tax effect of permanent differences:				
Amortisation of goodwill	1,632	863	-	-
Dividends	-	-	(6,964)	(2,310)
Other	517	143	(54)	88
Income tax expense (benefit)	11,156	4,205	(3,024)	(936)
The taxation charge is represented by:				
Current	11,415	4,101	(3,097)	(936)
Deferred	(259)	104	73	-
	11,156	4,205	(3,024)	(936)

There are no income tax losses or unrecognised timing differences carried forward by the Parent or Group. During the period ended 30 June 2003, the Company sold the benefit of tax losses totalling $936,000 to a subsidiary company for consideration of $936,000.

	GROUP	
	2004 $000	2003 $000
Imputation credit account		
Balance at beginning of year	-	-
Imputation credits arising from income tax payments made during the year	10,476	-
Imputation credits attaching to dividends paid during the year	(4,094)	-
Imputation credits attached to dividends received during the year	-	3,448
Imputation credits attaching to taxable bonus issue received during the year	-	1,589
Imputation credits attached to taxable bonus issue made during the year	-	(4,724)
Imputation credits attaching to share buy-back made during the year	-	(313)
Balance at end of year	6,382	-
At balance date the imputation credits available to the shareholders were:		
Through direct shareholding in the parent company	6,382	-
Through indirect interests in subsidiaries	-	3
	6,382	3

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	PARENT 2004 $000	PARENT 2003 $000	PARENT 2004 CENTS PER SHARE	PARENT 2003 CENTS PER SHARE
NOTE 4. DIVIDENDS				
Dividends paid on ordinary shares:				
Current year interim dividend	7,251	-	5.85	-
Supplementary dividends	195	-		
Foreign investor tax credit	(195)	-		
Total dividends recognised in the financial statements	7,251	-		
Current year final dividend, declared subsequent to balance date	8,550	-	6.90	-

In 2003, a taxable bonus issue was made by the issue of a single share with imputation credits attached. Refer Notes 3 and 15.

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
NOTE 5. ACCOUNTS RECEIVABLE				
Current:				
Trade debtors	26,582	23,305	-	-
Provision for doubtful debts	(546)	(450)	-	-
	26,036	22,855	-	-
Other debtors and prepaid expenses	3,238	3,160	890	647
	29,274	26,015	890	647
Non-current:				
Loan to subsidiary	-	-	77,246	30,372
NOTE 6. INVENTORIES				
Finished goods	1,835	1,234	-	-
Ticket stocks, uniforms and consumables	837	1,233	-	-
	2,672	2,467	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

(Prior period less than a year, refer accounting policy note (u))

NOTE 7. INVESTMENT IN SUBSIDIARY

The Parent'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
Air Freight NZ Limited*	Express package linehaul
Fieldair Engineering Limited*	General & aviation engineering services
Fieldair Holdings Limited*	Parent company of above two subsidiaries
Castle Parcels Limited	Express package services
Freightways Information Services Limited	IT infrastructure support services
Freightways Properties Limited	Property management
Messenger Services Limited	Express package services
New Zealand Couriers Limited	Express package services
New Zealand Document Exchange Limited	Business mail
Parceline Express Limited	Express package linehaul
Post Haste Limited	Express package services
Online Security Services Limited	Information management

* 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 2004
(Prior period less than a year, refer accounting policy note (u))

	GROUP 2004 $000	GROUP 2003 $000
NOTE 8. FIXED ASSETS		
The Company has no fixed assets. The amounts below are for the Group.		
Land		
At cost	8,275	8,275
Buildings		
At cost	18,402	18,400
Accumulated depreciation	(1,348)	(407)
Book value	17,054	17,993
Leasehold alterations		
At cost	647	600
Accumulated depreciation	(284)	(118)
Book value	363	482
Motor vehicles		
At cost	245	131
Accumulated depreciation	(41)	(23)
Book value	204	108
Equipment		
At cost*	23,091	19,518
Accumulated depreciation	(5,960)	(2,647)
Book value	17,131	16,871
Total		
At cost	50,660	46,924
Accumulated depreciation	(7,633)	(3,195)
Book value	43,027	43,729

*Included in this amount for 2004 is equipment work in progress of $1.4 million (2003: $0.2 million) for which depreciation has not commenced.

The Directors consider the value of freehold land and buildings to be $26,325,000 based on independent valuations performed in July 2003 and subsequent additions at cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
NOTE 9. INTANGIBLE ASSETS				
Goodwill acquired	81,739	76,264	-	-
Accumulated amortisation	(7,560)	(2,616)	-	-
	74,179	73,648	-	-
Brand names acquired	87,400	86,000	-	-
	161,579	159,648	-	-

During the year the Group acquired goodwill of $5,475,000 and a brand name of $1,400,000 as part of the acquisition of Archive Security. In the prior year it acquired goodwill of $76,264,000 and brand names of $86,000,000 as part of the acquisition of FEL. Refer Note 23.

The value of brand names has been reviewed as described in Statement of Accounting Policies Note (h). An independent valuation of these brand names was conducted by Deloitte Touche Tohmatsu (**DTT**) in August 2002. This independent report valued the brand names between $73.3 million and $83.2 million. Further assessment by DTT as at December 2002 indicated a value range between $80.2 million and $91.1 million as at that date. The Directors are of the opinion that there has been no permanent diminution in the value of brand names as disclosed.

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
NOTE 10. DEFERRED TAX ASSET				
Balance at beginning of year	532	-	-	-
Balance acquired on acquisition	-	636	-	-
Transfer to statement of financial performance (Note 3)	259	(104)	(73)	-
Balance at end of year	791	532	(73)	-

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
NOTE 11. PAYABLES AND ACCRUALS				
Trade creditors	13,056	10,712	62	-
Employee entitlements	2,576	1,625	-	-
Other creditors and accruals	7,588	7,379	673	1,875
Distribution to minority interest payable	-	680	-	-
Income tax	538	(177)	(39)	-
	23,758	20,219	696	1,875

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
NOTE 12. BORROWINGS				
Current:				
Loans from subsidiaries	-	-	-	2,323
Non-current:				
Bank borrowings	131,000	105,955	131,000	105,955

Security for borrowings

The bank borrowings are secured by a charge over the assets of the Company's subsidiaries in favour of its primary lenders.

Finance facilities

The following finance facilities existed as at balance date:

Credit standby arrangements with **BNZ**:				
– total bank overdraft facility available	2,000	2,000	-	-
– amount of credit unused	2,000	2,000	-	-
Loan facilities provided by **BNZ**:				
– total loan facilities available	120,000	-	120,000	-
– amount of facilities used	115,000	-	115,000	-
– amount of facilities unused	5,000	-	5,000	-
Loan facilities provided by **AMP**:				
– total loan facilities available	16,000	-	16,000	-
– amount of facilities used	16,000	-	16,000	-
– amount of facilities unused	-	-	-	-
Loan facilities provided by **ANZ**:				
– total loan facilities available	-	105,955	-	105,955
– amount of facilities used	-	105,955	-	105,955
– amount of facilities unused	-	-	-	-
Loans drawn are repayable as follows:				
– cash advance facilities (1-2 years)	120,000	105,955	105,955	105,955
– cash advance facilities (2-5 years)	16,000	-	-	-
Interest rates	6.85%	8.05%	6.85%	8.05%
Interest rates as amended by interest swaps	6.97%	8.03%	6.97%	n/a

On 3 July 2003, bank borrowings from ANZ Banking Group (NZ) Limited (**ANZ**) were repaid in full utilising new banking facilities provided by Bank of New Zealand (**BNZ**) and AMP Capital Investors (**AMP**). The new finance facilities summarised above are available, in respect of BNZ until 30 June 2006, and in respect of AMP until 31 March 2007.

The Company, BNZ and AMP entered into a Security Trust Deed which provides BNZ, as the senior creditor, with priority over AMP in respect of the security given by the Company over Group assets for total bank borrowings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
NOTE 13. PROVISIONS				
Restructuring provision				
Balance at beginning of year	-	-	-	-
Balance acquired on acquisition	-	270	-	-
Current year provision	500	-	-	-
Restructuring expenses incurred	-	(270)	-	-
Balance at end of year	500	-	-	-

Provision for restructuring relates to expenses of reorganising the business activities of a subsidiary. This expenditure is planned to commence during the second half of the 2005 financial year.

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Customer claims provision				
Balance at beginning of year	150	-	-	-
Balance acquired on acquisition	-	132	-	-
Current year provision	69	18	-	-
Balance at end of year	219	150	-	-

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

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Supplier contracts provision				
Balance at beginning of year	228	-	-	-
Balance acquired on acquisition	-	228	-	-
Current year provision	-	-	-	-
Contract expenses incurred	-	-	-	-
Balance at end of year	228	228	-	-

Provision for supplier contracts relates to estimated payments to suppliers resulting from contract amendments, the timing of which has yet to be determined.

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Total provisions	947	378	-	-

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
NOTE 14. UNEARNED INCOME				
Income received in advance	16,832	14,065	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
NOTE 15. SHARE CAPITAL				
Issued and Paid Up Capital:				
Ordinary shares				
Balance at beginning of year	37,045	-	37,045	-
Shares issued during the year	17,499	38,035	17,499	38,035
Shares bought back and cancelled	-	(990)	-	(990)
Issue costs arising on issue of shares	(499)	-	(499)	-
Unpaid shares fully paid	626	-	626	-
Balance at end of year	54,671	37,045	54,671	37,045

Fully paid ordinary shares

As at 30 June 2004 there were 123,950,434 shares issued and fully paid (2003: 37,045,458). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

During the year the following transactions affected issued and paid-up capital:

i) In August 2003, 74,090,916 fully paid ordinary shares were issued in satisfaction of a 3-for-1 share split for no consideration.

ii) In September 2003, 10,936,668 fully paid ordinary shares were issued in satisfaction of the exchange offer to FEL preference shareholders for $17,499,000 as part of the Company's initial public offering. Issue costs of $499,000 were incurred in relation to this issue.

iii) In February 2004, 1,877,392 unpaid shares were fully paid-up for $626,000.

During the prior period the following transactions affected issued and paid-up capital:

i) Upon incorporation on 4 December 2002, a single $1 ordinary share was issued.

ii) On 13 December 2002, a further 37,045,456 $1 ordinary shares were issued to ABN AMRO Capital (Belgium) NV to assist the funding of the Company's acquisition of FEL on that date.

iii) In June 2003, a taxable bonus issue was made to the immediate holding company at the time as a means of utilising available imputation credits. A single $1 ordinary share, with the available imputation credits attached, was issued. Refer to Note 3 for movements in imputation credits.

iv) On 13 June 2003 the Company bought back and cancelled 990,000 ordinary shares from its immediate parent company at $1 each. Immediately following the buy back, the Company issued 990,000 ordinary shares at $1 each for cash to the executive Directors and certain employees of FEL and its subsidiaries, including DJ Bracewell who is also a Director of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

(Prior period less than a year, refer accounting policy note (u))

Unpaid ordinary shares

As at 30 June 2004 there were 4,350,445 unpaid shares on issue (2003: 1,877,392). Unpaid shares have no voting or dividend rights and would not participate in any surplus on winding up.

In August 2003, 695,661 unpaid shares were issued to non-executive Directors of the Company. Refer further to Note 20.

In June 2003, 1,877,392 unpaid shares were issued to the executive Directors and certain employees of FEL and its subsidiaries, including Dean Bracewell who is also a Director of the Company. Subsequently, in August 2003, a 3-for-1 share split occurred resulting in a further 3,754,784 unpaid shares being issued. Refer further to Note 20.

	GROUP 2004
NOTE 16. EARNINGS PER SHARE	
Basic Earnings Per Share	
The calculation of basic earnings per share is based on:	
Net surplus attributable to ordinary shareholders ($000)	15,351
Weighted average number of ordinary shares (‘000):	
Ordinary shares on issue at beginning of year	37,046
Shares split – August 2003	66,313
Shares issued – September 2003	8,278
Unpaid shares fully paid – February 2004	643
	112,280
Basic earnings per share (cents)	13.7
Diluted Earnings Per Share	
The calculation of diluted earnings per share is based on:	
Diluted net surplus attributable to ordinary shareholders ($000)	15,351
Diluted weighted average number of ordinary shares (‘000):	
Weighted average number of ordinary shares	112,280
Unpaid shares fully paid at beginning of year	4,350
	116,630
Diluted earnings per share (cents)	13.2

NB. No meaningful comparative is available for 2003, as it was a part-year only.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
NOTE 17. CAPITAL AND LEASING COMMITMENTS				
The Group leases certain premises and plant & equipment and as a result has the following operating lease commitments:				
– Payable not later than one year	5,584	4,333	-	-
– Payable between one and two years	4,578	2,599	-	-
– Payable between two and five years	7,781	3,244	-	-
– Payable later than five years	9,863	1,248	-	-
	27,806	11,424	-	-

At 30 June 2004, the Group has committed to leasing an additional aircraft, commencing in the second quarter of the year ended 30 June 2005. This aircraft is a later model aircraft of the same type as Freightways' existing fleet and has increased capacity. There will be no increase to the Group's current airfreight linehaul cost as a result of leasing this aircraft as it replaces chartered capacity currently in use.

In addition, as at 30 June 2004, the Group has committed to capital expenditure in relation to the restructure of its Auckland Online Security Services operations and also to the migration of its Information Systems to a next generation platform. These projects will result in a step up in capital expenditure of approximately $2 million in the 2005 financial year above Freightways' five-year average historical capital expenditure spend of approximately $6 million. It is expected that capital expenditure will return to average historical levels in the 2006 financial year.

The Group had no other capital commitments at 30 June 2004 (2003: Nil).

The Company had no capital commitments at 30 June 2004 (2003: Nil).

NOTE 18. CONTINGENT LIABILITIES				
Litigation:	-	189	-	-
Warranties and guarantees:	-	-	-	-

NOTE 19. STATEMENT OF OPERATIONS BY SEGMENTS

Group companies operate predominantly in the express package industry segment and solely in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

(Prior period less than a year, refer accounting policy note (u))

NOTE 20. TRANSACTIONS WITH RELATED PARTIES

Loans from subsidiaries: During the year the Company repaid the $2.3 million advance from FEL shown in Note 12.

Loan to subsidiary: During the year net advances of $25.7 million were made by the Company to FEL, which together with $21.1 million of dividends receivable from FEL, resulted in a loan to subsidiary balance as at year end of $77.2 million (2003: $30.4 million). There is no interest payable on intercompany advances and loans. The receivable balance is set out in Note 5.

Intra-group transactions: During the year the Company received dividends as disclosed in Note 1 from its directly-owned subsidiary (FEL).

Unpaid shares: At balance date, 695,661 unpaid shares were on issue to the Company's non-executive Directors (or their nominees) and 3,654,784 unpaid shares were on issue to the executive Directors (including DJ Bracewell who is also a Director of the Company), and selected employees of the Group. These shareholdings account for all unpaid shares on issue and in total represent 3.5% of all issued ordinary shares.

The Company's non-executive Directors (or their nominees), in respect of their shareholdings, have the ability to fully pay up one third of their shares on 31 December in each of the years 2004, 2005 and 2006 at the following respective issue prices:

i) for tranche 1, the final IPO price plus 15% less any cash dividends declared during the period ended 31 December 2004 (Tranche 1 Issue Price);

ii) for tranche 2, the Tranche 1 Issue Price plus 15% less any cash dividends declared during the year ended 31 December 2005 (Tranche 2 Issue Price); and

iii) for tranche 3, the Tranche 2 Issue Price plus 15% less any cash dividends declared during the year ended 31 December 2006.

Once fully paid up, the shares will rank equally with the existing ordinary shares as to voting and dividend rights. If a Director leaves the Freightways Board while their shares remain unpaid, the Company can redeem those unpaid shares. There is no impact on the Statement of Financial Performance as a result of these share transactions.

The Group's executive Directors and employees, in respect of their shareholdings, have the ability to fully pay up one third of their shares on 13 December in each of the years 2003, 2004 and 2005 to an agreed issue price of $1 per share (before the 3-for-1 share split referred to in Note 15), being the fair market value of the shares at the time the unpaid shares were issued. Once fully paid up, the shares rank equally with the existing ordinary shares as to voting and dividend rights. If a shareholder leaves the employment of the Freightways Group while their shares remain unpaid, the Company can redeem those unpaid shares and purchase any fully paid shares at fair market value. In February 2004, these shareholders paid up the first third of their unpaid shares (1,877,392). One shareholder left the employment of the Group and his remaining 100,000 unpaid shares were redeemed and cancelled. There is no impact on the Statement of Financial Performance as a result of these share transactions.

Trading with related parties: The Group trades with certain companies in which there are common directorships, including Auckland International Airport Limited, Christchurch International Airport Limited, Telecom Corporation of New Zealand Limited and Meridian Energy Limited. All trading with related parties is at arm's length and on a commercial basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
NOTE 21. RETAINED EARNINGS				
Balance at beginning of year	3,273	-	4,834	-
Net surplus for the year	16,137	5,489	15,126	4,834
Dividends to parent shareholders (Note 4)	(7,251)	-	(7,251)	-
Dividends to minority interest	(786)	(2,216)	-	-
Accrued minority interest dividends exchanged for ordinary capital in IPO	(477)	-	-	-
Balance at end of year	10,896	3,273	12,709	4,834

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
NOTE 22. MINORITY INTERESTS				
Balance at beginning of year	60,000	60,000	-	-
Exchange of FEL preference shares for ordinary shares as part of IPO on 29 September 2003	(17,022)	-	-	-
Redemption of remaining FEL preference shares on 31 October 2003	(42,978)	-	-	-
Balance at end of year	-	60,000	-	-

As part of the IPO, the Company exchanged 10,936,668 ordinary shares for 17,021,559 FEL preference shares. The exchange value of each preference share was $1 plus the accrued dividend as at the exchange date of 29 September 2003 of $0.02811. On 31 October 2003, FEL redeemed all its preference shares at $1 each.

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
NOTE 23. CASH FLOW INFORMATION				
Reconciliation of cash				
Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:				
– Cash at bank	761	1,044	-	-
– Overnight deposit	-	7,500	-	-
	761	8,544	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

(Prior period less than a year, refer accounting policy note (u))

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
Reconciliation of net surplus after income tax to net cash provided by operating activities				
Net surplus after income tax	16,137	5,489	15,126	4,834
Depreciation	4,904	3,195	-	-
Amortisation of goodwill	4,944	2,616	-	-
Movement in employee entitlements	251	15	-	-
Movement in provision for doubtful debts	93	30	-	-
Movement in deferred income tax	259	(104)	(73)	-
Net foreign exchange gain	-	(1,255)	-	(1,255)
Net loss on sales and write off of fixed assets	29	7	-	-
Transactions settled through loans from subsidiary	-	-	(15,126)	(4,807)
Movement in working capital, net of effects of acquisition (disposal) of businesses and subsidiaries:				
(Increase) decrease in receivables	(3,355)	2,122	(243)	(647)
(Increase) decrease in inventories	(205)	(466)	-	-
Increase (decrease) in trade and other creditors	3,867	(2,962)	160	1,875
Increase (decrease) in income taxes payable	715	1,450	(39)	-
Net cash provided by operating activities	27,639	10,137	(195)	-

Acquisition of Business

On 1 March 2004 a subsidiary of the Company, Online Security Services Limited, acquired the business of Archive Security. Details of the acquisition are as follows:

	BUSINESS ACQUIRED ($000)
Fair value of assets & liabilities acquired:	
Fixed assets	601
Goodwill (to be amortised over 20 years)	5,475
Brand names	1,400
Other assets	24
	7,500
Consideration:	
Cash consideration	7,500

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

Prior Year Non-cash Investing Activities – Acquisition of Subsidiary Company

On 13 December 2002 the Company acquired all the ordinary shares in Freightways Express Limited (FEL). Details of the acquisition are as follows:

	SUBSIDIARY ACQUIRED ($000)
Fair value of assets & liabilities acquired:	
Cash	6,861
Receivables	34,281
Inventories	2,933
Fixed assets	43,254
Goodwill (to be amortised over 20 years)	76,264
Brand names	86,000
Other assets	555
Payables and accruals	(24,463)
Unearned income	(13,601)
Borrowings	(30,372)
Other liabilities	(699)
Minority interests	(60,000)
	121,013
Consideration:	
Cash consideration settled by related companies using:	
– proceeds from shares issued to parent company	37,045
– loans provided by related companies	83,968
	121,013

Current Year Non-cash Financing Activities – Loan to Subsidiary

The Company raised $17.5 million of ordinary share capital through the exchange offer included in the Freightways Limited Investment Statement and Prospectus (August 2003). Under the exchange offer $17.5 million worth of FEL preference shares were exchanged for Freightways Limited ordinary shares. The exchange of shares took place on 29 September 2003, the date on which the Company listed on the NZX.

During the year the Company's subsidiary, FEL, settled a number of transactions on behalf of the Company and the amounts were deducted from the outstanding loan receivable from FEL. In addition, $4 million of the Company's bank borrowings were repaid to AMP by FEL on behalf of the Company and also deducted from the loan to subsidiary balance. The outstanding balance as at balance date is set out in Note 12.

NOTE 24. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 9 August 2004, the Directors declared a final dividend of $8.55 million in respect of the year ended 30 June 2004. The dividend will be paid on 30 September 2004. The record date for determination of entitlements to the dividend is 17 September 2004. At the date of this report, there have been no other significant events subsequent to balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

(Prior period less than a year, refer accounting policy note (u))

NOTE 25. FINANCIAL INSTRUMENTS

The Company and Group are subject to certain financial risks, which primarily arise as a result of their debt portfolio.

Credit risk

Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, accounts receivable and investments.

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

Maximum exposures to credit risk as at balance date are:

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
Bank balances	761	1,044	-	-
Overnight deposits	-	7,500	-	-
Receivables	27,460	25,166	46	-
Loan to subsidiary	-	-	77,246	30,372

The above maximum exposures are net of any recognised provision for losses on these financial instruments. No collateral is held on the above amounts.

Concentrations of credit risk

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

Currency risk

The Group has no direct exposure to foreign exchange risk. However, hedging is obtained for any substantial foreign currency denominated commitments, as required.

– Unrecognised balances:

	GROUP 2004 $000	GROUP 2003 $000	PARENT 2004 $000	PARENT 2003 $000
The notional or principal contract amounts of foreign exchange instruments outstanding at balance date are:				
Forward foreign exchange contracts	1,786	-	1,786	-

The cash settlement requirements of the forward exchange contracts approximate the notional amounts shown above. The current market value of these contracts is $42,071 (2003: Nil).

– Prior year foreign exchange gain:

The foreign exchange gain realised during the period ended 30 June 2003, as set out in Note 1, arose from a short-term loan denominated in Australian Dollars (A$) as part of the Group restructuring in December 2002. The A$ loan was repaid upon establishing the initial New Zealand Dollar banking facilities in March 2003. This was a non-recurring event associated with the acquisition of FEL.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004
(Prior period less than a year, refer accounting policy note (u))

Interest rate risk

Borrowings of the Company and Group are at the market interest rate current at the time of drawdown.

– Policy:

The Group has a treasury policy that requires between 40% and 90% of outstanding borrowings to be effectively hedged against adverse fluctuations in market interest rates. The policy has the primary objective of ensuring interest costs are reasonably predictable from year to year. As at balance date 64% of borrowings are effectively hedged.

– Unrecognised balances:

The interest rate hedging instruments below have maturity dates ranging from August 2005 to October 2012. The notional or principal contract amounts of interest rate contracts outstanding at balance date are:

	GROUP		PARENT	
	2004 $000	2003 $000	2004 $000	2003 $000
Interest rate swaps	52,000	-	52,000	-
Interest rate caps	15,000	-	15,000	-
Interest rate collars (cap & floor)	17,000	-	17,000	-
Forward rate agreements	-	20,000	-	-

The cash settlement requirement for interest rate swaps is the current market value, which is $746,864 (2003: Nil). For the prior year forward rate agreement, the best approximation of the cash settlement was the current market value at 30 June 2003 of $146,225. The current market value of the interest caps and collars is $238,350 (2003: Nil).

– Loan to subsidiary:

There is no interest charged on the loan to subsidiary. In the prior period, interest on the loan to subsidiary, as set out in Note 5 as a comparative, was at the market interest rate current at the time of drawdown plus a commercial margin, consistent with previous banking arrangements that the subsidiary had with Bank of New Zealand. As part of the restructuring of the finance facilities by the Company, the subsidiary had attributed the $20 million interest hedge above to this loan from the Company.

– Parent and Group:

As stated in Note 12, new borrowing facilities were put in place from 3 July 2003 and mature in respect of BNZ on 30 June 2006, and in respect of AMP on 31 March 2007. Interest rates are based on the New Zealand 90-day bank bill rate at the time of drawdown plus a commercial margin. This basis is in accordance with the terms of the existing finance facilities and will be reviewed upon maturity of those facilities.

– Assets:

The interest rate on short-term deposits is the market rate for funds on 24-hour call current at the time of deposit.

Credit facilities

The Group has total bank overdraft facilities of $2 million. Of this, no amount was used by the Group as at balance date.

Fair values

The fair value of each class of financial instrument is the carrying value as stated in the financial statements, with the exception of the interest rate swaps, caps and collars and forward foreign exchange contracts described above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

NOTE 26. COMPARISON TO PROSPECTIVE INFORMATION

The Company issued an Investment Statement and Prospectus in August 2003 that contained forecast statements of financial performance, movements in equity, financial position and cash flows for the year ended 30 June 2004. These forecast statements are presented below in comparison with the actual results for the financial year.

	NOTE	ACTUAL $000	FORECAST $000	VARIANCE $000
STATEMENT OF FINANCIAL PERFORMANCE				
for the year ended 30 June 2004				
Sales revenue	(i)	214,498	207,297	7,201
Earnings before interest, tax, depreciation and amortisation (EBITDA)		45,618	41,813	3,805
Depreciation	(ii)	(4,904)	(5,695)	791
Earnings before interest, tax and amortisation (EBITA)	(i)	40,714	36,118	4,596
Amortisation of goodwill		(4,944)	(4,819)	(125)
Earnings before interest and tax (EBIT)		35,770	31,299	4,471
Interest		(8,477)	(8,390)	(87)
Net surplus before income tax		27,293	22,909	4,384
Income tax		(11,156)	(9,376)	(1,780)
Net surplus after income tax (NPAT)	(i)	16,137	13,533	2,604
Net surplus attributable to minority interest		(786)	(784)	(2)
Net surplus after income tax attributable to parent shareholders		15,351	12,749	2,602

(i) Volumes, and consequently, revenue beyond expectation was the primary contributor to over-performance when compared to prospectus forecasts.
(ii) Depreciation was below forecast due to some capital expenditure being incurred later in the financial year than planned or now falling in 2005. In addition, the loss of the Convair aircraft in October 2003 reduced the depreciation charge.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	NOTE	ACTUAL $000	FORECAST $000	VARIANCE $000
STATEMENT OF MOVEMENTS IN EQUITY				
for the year ended 30 June 2004				
Equity at beginning of year, comprising:				
– Parent shareholders' interest		40,318	40,318	-
– Minority interest		60,000	60,000	-
		100,318	100,318	-
Net surplus for the year, comprising:				
– Parent shareholders' interest	(i)	15,351	12,749	2,602
– Minority interest		786	784	2
Total recognised revenues and expenses		16,137	13,533	2,604
Dividends to ordinary shareholders	(ii)	(7,251)	(6,750)	(501)
Dividends to minority interest		(786)	(784)	(2)
Distributions to minority interest on redemption of preference shares		(42,978)	(42,977)	(1)
Reduction in minority interest upon issue of ordinary shares		(17,499)	(17,500)	1
Issue of ordinary shares		17,499	17,500	(1)
Issue costs arising on issue of ordinary shares		(499)	(500)	1
Proceeds from unpaid shares fully paid		626	626	-
Movement in equity for the year		(34,751)	(36,852)	2,101
Equity at end of year, comprising:				
– Parent shareholders' interest		65,567	63,466	2,101
– Minority interest		-	-	-
		65,567	63,466	2,101

(i) Refer to variance explanations given for the statement of financial performance on page 47.

(ii) As a result of stronger than anticipated earnings, the interim dividend was increased above the forecast level.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	NOTE	ACTUAL $000	FORECAST $000	VARIANCE $000
STATEMENT OF FINANCIAL POSITION				
as at 30 June 2004				
Current assets				
Cash and bank balances		761	1,680	(919)
Accounts receivable		29,274	28,507	767
Inventories		2,672	2,158	514
Total current assets		32,707	32,345	362
Non-current assets				
Fixed assets		43,027	42,790	237
Intangible assets	(i)	161,579	154,829	6,750
Deferred tax asset		791	878	(87)
Total non-current assets		205,397	198,497	6,900
Total assets		238,104	230,842	7,262
Current liabilities				
Payables and accruals	(ii)	23,758	19,851	3,907
Provisions		947	378	569
Unearned income	(iii)	16,832	14,147	2,685
Total current liabilities		41,537	34,376	7,161
Non-current liabilities				
Borrowings	(iv)	131,000	133,000	(2,000)
Total non-current liabilities		131,000	133,000	(2,000)
Total liabilities		172,537	167,376	5,161
Net assets		65,567	63,466	2,101
Equity				
Share capital		54,671	54,671	-
Retained earnings		10,896	8,795	2,101
Parent shareholders' equity		65,567	63,466	2,101
Minority interests		-	-	-
Total equity		65,567	63,466	2,101

(i) Variance reflects the acquisition of Archive Security (refer Note 23).
(ii) Creditor payments were higher at year-end as a result of the increased level of trading compared with forecasts.
(iii) Stronger than expected trading during the year has resulted in a greater value of prepaid product sold for which the service is yet to be provided.
(iv) Refer to variance explanation given at Note (v) for the statement of cash flows on page 50.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	NOTE	ACTUAL $000 INFLOWS (OUTFLOWS)	FORECAST $000 INFLOWS (OUTFLOWS)	VARIANCE $000
STATEMENT OF CASH FLOWS				
for the year ended 30 June 2004				
Cash flows from operating activities				
Receipts from customers	(i)	213,700	205,164	8,536
Payments to suppliers and employees		(165,517)	(166,090)	573
Interest received		255	80	175
Interest and other costs of finance paid	(ii)	(10,045)	(8,168)	(1,877)
Income taxes paid		(10,754)	(9,542)	(1,212)
Net cash inflows from operating activities		27,639	21,444	6,195
Cash flows from investing activities				
Payments for fixed assets		(4,475)	(4,988)	513
Payments for business acquired	(iii)	(7,500)	-	(7,500)
Proceeds from sales of fixed assets		10	-	10
Insurance proceeds arising on loss of aircraft	(iv)	2,381	-	2,381
Proceeds from sale of business		685	700	(15)
Net cash outflows from investing activities		(8,899)	(4,288)	(4,611)
Cash flows from financing activities				
Dividends to ordinary shareholders		(7,251)	(6,750)	(501)
New bank borrowings	(v)	135,000	140,000	(5,000)
Repayment of bank borrowings	(v)	(109,955)	(112,955)	3,000
Costs of share issue		(499)	(500)	1
Dividends to minority interest		(1,466)	(1,464)	(2)
Distributions to minority interest on redemption of preference shares		(42,978)	(42,977)	(1)
Proceeds from unpaid shares fully paid		626	626	-
Net cash outflows from financing activities		(26,523)	(24,020)	(2,503)
Net increase (decrease) in cash held		(7,783)	(6,864)	(919)
Cash at beginning of year		8,544	8,544	-
Cash at end of year		761	1,680	(919)

(i) Refer to variance explanations given for the statement of financial performance on page 47.

(ii) Interest cash flows were higher than forecast due to the timing of interest payments. Most of the variance driven by higher interest accruals at 30 June 2003 than at 30 June 2004. The statement of financial performance comparison indicates the variance between actual and forecast interest expense was insignificant.

(iii) Variance reflects the acquisition of Archive Security (refer Note 23).

(iv) The unforeseen loss of an aircraft resulted in insurance proceeds not forecast.

(v) Due to stronger than expected earnings in the year, the actual level of debt funding required by the business was less than anticipated.


POST HASTE


SUB60
MESSENGER


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 19 August 2004

	NUMBER OF HOLDERS	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
Size of shareholding			
1 to 1,999	1,546	2,139,356	1.73
2,000 to 4,999	2,370	7,268,543	5.86
5,000 to 9,999	1,665	10,752,443	8.67
10,000 to 49,999	1,235	20,588,182	16.61
50,000 to 99,999	57	3,577,341	2.89
100,000 to 499,999	26	3,922,750	3.16
500,000 to 999,999	7	5,559,424	4.49
1,000,000 and over	7	70,142,395	56.59
Total shareholders	6,913	123,950,434	100.00
Geographic distribution			
New Zealand	6,846	110,847,867	89.43
Australia	38	12,917,224	10.41
Other	29	185,343	0.16
	6,913	123,950,434	100.00

Substantial security holders as at 19 August 2004

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	%
Fisher Funds Management Limited	12,877,034	10.39
ABN AMRO Capital (Belgium) N.V.	7,827,790	6.32

The total number of issued voting securities of the Company as at 19 August 2004 was 123,950,434.

SHAREHOLDER INFORMATION

Top twenty registered shareholders of listed shares as at 19 August 2004

	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
The Trustees Executors and Agency Company of New Zealand*	11,301,407	9.12
ABNED Nominees Pty. Limited	7,827,790	6.32
Citibank Nominees (New Zealand) Limited*	6,719,010	5.42
Port Devon Limited	5,445,681	4.39
Custody and Investment Nominees Limited*	4,765,746	3.85
National Nominees New Zealand Limited*	4,734,497	3.82
First NZ Capital Custodians Limited	3,471,203	2.80
NZ Superannuation Fund Nominees Limited*	3,261,737	2.63
RBC Global Services Australia Nominees Pty. Limited	2,923,617	2.36
Westpac Banking Corporation – Client Assets No.2*	2,585,798	2.09
Accident Compensation Corporation*	2,445,875	1.97
Custodial Services Limited – Account 3	2,113,187	1.71
Cogent Nominees Limited*	1,966,198	1.59
Premier Nominees Limited – Armstrong Jones New Zealand Share Fund*	1,793,206	1.45
TEA Custodians Ltd – No.2 Account	1,217,831	0.98
DJ Bracewell	1,125,504	0.91
Forbar Custodians Limited – PPM Low Account	924,547	0.75
Forbar Custodians Limited – PPM Medium Account	923,610	0.75
Custodial Services Limited – Account 2	910,875	0.74
Lucerne Road Investments Limited	877,392	0.71
	67,334,711	54.36

*held through NZ Central Securities Depository Limited

Waivers granted by NZX, applicable as at 30 June 2004

The Company has the following waivers from NZX:

a) a waiver from the application of Listing Rule 7.6.3 to allow the Company to redeem its own shares where, under the terms of the Directors' Share Ownership Plan and the Employees' Share Ownership Plan, it is obliged or entitled to do so; and

b) a waiver from the application of Listing Rule 11.1 to allow the Company to impose transfer restrictions on shares issued under the Directors' Share Ownership Plan and the Employees' Share Ownership Plan while those shares remain unpaid.

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.

BOARD RESPONSIBILITIES

The Board of Directors' corporate governance responsibilities include overseeing the management of the Company and its subsidiaries (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 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.

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.

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 three independent Directors.

CORPORATE GOVERNANCE STATEMENT

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:

Audit and Risk Committee: members are Sue Sheldon (Chairman), Warwick Lewis and Sir William Birch. All members are non-executive Directors and the majority are independent.

Remuneration Committee: members are Sir William Birch (Chairman) and Wayne Boyd.

Nominations Committee: Wayne Boyd (Chairman), Sir William Birch, Warwick Lewis, Sue Sheldon and Michael Taranto.

In addition, the Board will establish Committees to deal with particular matters, as it considers appropriate.

BOARD MEETINGS

The following table outlines the number of Board meetings attended by Directors during the course of the 2004 financial year:

	FULL BOARD	BOARD COMMITTEES			
		AUDIT & RISK	REMUNERATION	NOMINATIONS	DUE DILIGENCE
Wayne Boyd	16	-	2	-	7
Dean Bracewell	16	-	-	-	7
Sir William Birch	16	-	2	-	-
Warwick Lewis	16	2	-	-	-
Susan Sheldon	16	2	-	-	-
Michael Taranto	15	-	-	-	7
Meetings held	16	2	2	-	7

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 instruments are used by the Group to manage its business risks; they are not used for speculative purposes.


CASTLE
PARCELS



DDS
Document
Destruction
Service
SECURITY SHREDDING
PH: 0800 SECURITY

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
161 Station Road
Penrose
DX EX10911
AUCKLAND
Telephone: 09 526 3680
www.sub60.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
11 Vestey Drive
Mt Wellington
DX EX10975
AUCKLAND
Telephone: 09 259 0800
www.onlinesec.co.nz

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

Fieldair Holdings Limited
Milson 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