ANNUAL REPORT | 2005

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
Sue Sheldon

REGISTERED OFFICE

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

AUDITORS

PricewaterhouseCoopers
188 Quay Street
Auckland
DX CP24073

SHARE 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).

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

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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 representation in every major town and city throughout the country.

Express package

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

Freightways employs a multi-brand strategy within the network courier segment of the Express Package market, via 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. While accounting for only a relatively small proportion of Freightways' current revenue, OSS has grown organically and by acquisition and represents an emerging 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.

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

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 core express package brands and expand its emerging information management and business mail operations. In addition, the Company will consider acquisition and alliance opportunities in areas that will enable it to leverage off its existing capabilities.



SUB60


NEW ZEALAND
COURIERS


POST HASTE

FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2005

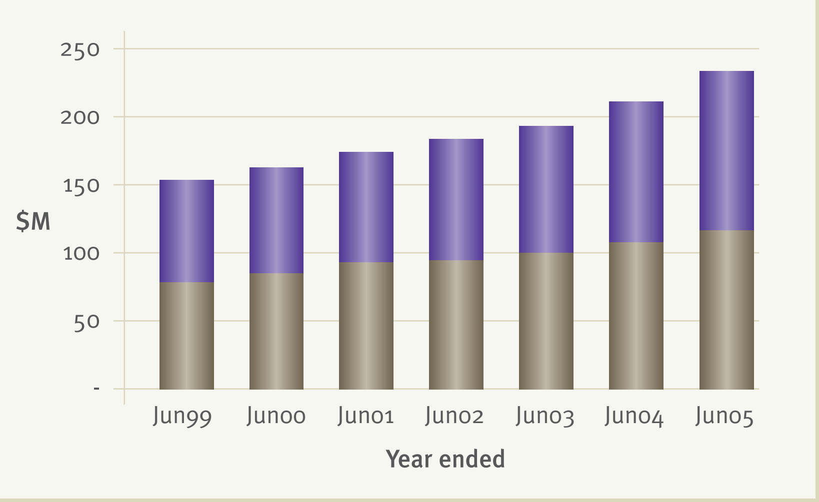
	NOTE	2005 $000	2004 $000	PERCENTAGE VARIANCE
Sales revenue		233,725	214,498	9%
EBITA	(i)	50,539	40,714	24%
Net surplus after income tax (NPAT)	(ii)	21,991	16,137	36%
Depreciation		4,457	4,904	(9%)
Goodwill amortisation		4,957	4,944	-
Interest expense and finance charges (net)		9,893	8,477	17%
Net operating cash flows before interest and tax		54,914	48,183	14%
Interest cover	(iii)	5.6 times	5.7 times	
Dividends to ordinary shareholders		18,000	15,800	14%

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

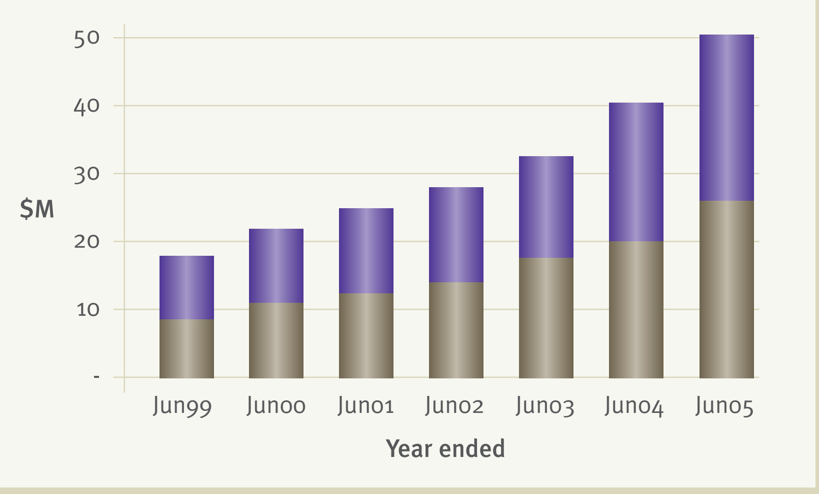
FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2005

FREIGHTWAYS SALES REVENUE



FREIGHTWAYS EBITA



1st half   2nd half

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

REPORT FROM CHAIRMAN AND MANAGING DIRECTOR

The Directors are pleased to present the financial results for Freightways Limited (Freightways) for the year ended 30 June 2005. 2005 has again been a very successful year for Freightways with the company delivering another record result.

Operating performance

Consolidated operating revenue for the year of $234 million was 9% higher than the prior corresponding period.

Earnings before interest, tax and amortisation (EBITA) were $50.5 million, 24% higher than the prior corresponding period.

Consolidated net profit after tax and before amortisation (NPATA) was $27 million, 28% higher than the prior corresponding period.

Cash generated from operations before interest and tax was $54.9 million.

Dividend

The Directors have declared a final dividend of $10.7 million, delivering a full year payout in line with the dividend policy. The final dividend translates to 8.5 cents per share (fully imputed), which will be paid on 30 September 2005. The record date for determination of entitlements to the dividend is 16 September 2005. This brings the total payout in respect of the year to $20.2 million or 16 cents per share (fully imputed), 26% higher than the previous corresponding period.

REVIEW OF OPERATIONS

All Freightways subsidiaries have performed well, with demand for Freightways' services continuing to grow across its range of services.

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, growth in express package volumes from existing customers and smaller pricing and market share gains were the primary drivers of revenue growth.

The strength of Freightways' business model has again been proven with the efficient management of significantly increased volumes of packages through all brands. Ongoing focus on the fundamental disciplines of business mix, margin integrity and cost management has contributed to strong performance in all brands. Freightways' culture of operational excellence has pleasingly delivered improved levels of customer service in key areas of the business at this time of significant growth.

Incremental investment in Freightways' network capacity to accommodate future growth has resulted in branch relocations to larger facilities in Christchurch, Auckland's North Harbour and a number of other smaller regional locations.

Although acquisition opportunities are few and far between in the express package market, a small, Wellington-based, point-to-point courier business was acquired and successfully merged with SUB60 in March 2005. In addition, a number of alliance opportunities have been progressed. A relationship has been established with Mainfreight that enables a total supply chain solution, encompassing both companies' unique range of services to be offered to both Freightways' and Mainfreight's respective customers.

REPORT FROM CHAIRMAN AND MANAGING DIRECTOR

Business Mail

DX Mail again increased its contribution as it gained further sales traction in the business mail niche of the Postal Services market. DX Mail is a nationwide business mail competitor to NZ Post and is seen as an emerging growth opportunity within Freightways' portfolio of businesses. 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. Strategically DX Mail is integrated with New Zealand Couriers which picks up and delivers mail bags for DX Mail's growing customer base.

Information Management

Freightways also defines its information management business of Online Security Services (OSS) as an emerging growth opportunity. Continued penetration in the document destruction, computer media storage and records management markets has contributed to strong growth in this smaller business. The acquisition of Archive Security in 2004 has also been highly successful and has contributed, as expected, in its first full year of ownership, to a greatly improved result from OSS. Freightways operates the front line brands of Document Destruction Service, Data Security Services and Archive Security in the information management market.

The OSS Christchurch operation was relocated in December 2004 and the Auckland operation relocated in July 2005. Both businesses are now operating from new, purpose-built, high-stud facilities and have expansion land available at each location. It is expected that the growth we are experiencing in this business will result in extensions to both these facilities occurring within the next 12-18 months. In addition, these new facilities will enable OSS to further extend its range of services to offer customers a total disaster recovery service including the hosting and management of disaster recovery computer servers and access to fully-equipped business recovery office suites.

A small competitor to Data Security Services in Christchurch was acquired in December 2004.

Internal service providers

Fieldair Holdings Limited provides airfreight linehaul services to the express package brands through the ownership and operation of our fleet of Convair 580 aircraft by its subsidiary Air Freight NZ Limited. During 2005 a larger Convair 5800 was leased in addition to our existing fleet of aircraft. This Convair 5800 provides additional capacity and reduced flying times on the main trunk route between Auckland and Christchurch. The benefits derived from directly controlling our airfreight linehaul continue to be evidenced, particularly through this period of strong growth. Fieldair Engineering Limited, the aviation engineering subsidiary of Fieldair Holdings Limited, has continued to extend and develop its presence in the aviation engineering market. Increased workload is evidenced by staffing levels increasing by approximately 40% in our primary engineering location of Palmerston North.

Parceline Express Limited provides road linehaul services throughout New Zealand and has continued to accommodate the growth from our front line brands while providing them with a premium service.

Freightways Information Services Limited, our in-house IT services provider, has successfully completed the first stages of the three-year planned migration to a next-generation information systems operating environment. Capital expenditure associated with this project is running to expectation.

REPORT FROM CHAIRMAN AND MANAGING DIRECTOR

Corporate costs continue to be managed within expectations. A refinancing was completed in December 2004 to replace relatively expensive subordinated debt with normal commercial bank facilities on more favourable terms. The annualised benefit of $0.5 million arising from this refinancing will flow from 1 July 2005. At the same time, additional headroom of $22 million was negotiated to enable Freightways to continue to explore and develop stepped growth opportunities.

OUTLOOK

Freightways is a strong successful business that is well positioned to deliver continuing earnings growth. Freightways will continue to take consistent, well developed strategies to the market in areas where we have proven capability.

Capital investment expected to total approximately $7 million will be spent during the next financial year in areas that support the growth of our core and emerging businesses. Investment will also continue to be made in the development of our people and to enable the achievement of our positioning and performance objectives.

Freightways has completed an exceptional year with several factors combining to enable the delivery of this record result. These factors included a strong domestic New Zealand economy and a competitive environment that delivered no surprises. As at 30 June 2005, Freightways had not experienced any significant downturn in volume. It is however anticipated that the economy will not be as strong in 2006 as it was in 2005, as had been evidenced by lower levels of activity at some customers in early July.

It is expected that Freightways will continue to enjoy positive growth in 2006 although its growth will not be at the same rate as 2005. At this early stage of the new financial year, Freightways remains comfortable with the market analysts' 2006 NPATA range of between $26.2 million and $31.2 million. Subject to economic and business factors beyond our control, the outlook for Freightways, its shareholders and all other stakeholders remains positive.

CONCLUSION

Freightways has again delivered outstanding performance during a year of significant growth. This has been achieved by a continuing focus on fundamental business disciplines by a highly-motivated Freightways team. The Directors acknowledge this outstanding teamwork and dedication.

Wayne Boyd
Chairman
8 August 2005

Dean Bracewell
Managing Director


POST HASTE


SUB60
MESSENGER

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 2005 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, Meridian Energy Limited and Vulcan Steel Limited, a director of Telecom Corporation of New Zealand Limited and Forsyth Barr Group Limited, and is a member of the Advisory Board of Fairfax NZ 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) 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.

Sue Sheldon B.COM, FCA, M INST D

Sue is a professional director and a partner in the Christchurch chartered accountancy practice, Sue Sheldon Advisory. She is Deputy Chairman of Christchurch International Airport Limited, Chairman of the Board of Trustees of the National Provident Fund and a director of CanWest Media Works NZ Limited, Smiths City Group Limited, Asure New Zealand Limited, Ngai Tahu Holdings Corporation Limited, Fibre Tech NZ Limited and Nimbus Bedware 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

The Board has determined for the purposes of the NZX Listing Rules that, as at 30 June 2005, Wayne Boyd, Warwick Lewis and Sue Sheldon are independent Directors and Dean Bracewell as Managing Director and Sir William Birch are not independent Directors.

PRINCIPAL ACTIVITIES

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

The principal activities of the Group during the year ended 30 June 2005 continued to be the operation of express package services, information management services and business mail services.

CONSOLIDATED RESULT FOR THE YEAR

	2005 $000	2004 $000
Sales revenue	233,725	214,498
Net surplus before income tax	35,689	27,293
Income tax	(13,698)	(11,156)
Net surplus after income tax	21,991	16,137
Net surplus attributable to minority interest	-	(786)
Net surplus attributable to parent shareholders	21,991	15,351

DIRECTORS' REPORT

DIRECTORS HOLDING OFFICE DURING THE YEAR WERE:

Parent:

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

Resigned 28 October 2004:

Michael Taranto

Subsidiaries:

Dean Bracewell
Mark Royle

REMUNERATION OF DIRECTORS

	GROUP		PARENT	
	2005 $	2004 $	2005 $	2004 $
Wayne Boyd	100,000	114,750*	100,000	114,750*
Dean Bracewell	557,680	453,430	-	-
Sir William Birch	40,000	40,000	40,000	40,000
Warwick Lewis	40,000	40,000	40,000	40,000
Sue Sheldon	45,000	45,000	45,000	45,000
Michael Taranto (resigned 28 October 2004)	10,000	40,000	10,000	40,000
Mark Royle	307,081	287,071	-	-
	1,099,761	1,020,251	235,000	279,750

* includes Due Diligence Committee fees of $14,750 included in IPO share issue costs during 2004.

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2005 in respect of the two previous six-month performance periods (1 January to 30 June 2004 and 1 July to 31 December 2004). No amount was paid, or included above, in respect of incentive payments for the period 1 January to 30 June 2005. Incentive payments for the six months ended 30 June 2005 were paid in August 2005.

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	
	2005 $	2004 $	2005 $	2004 $
$100,000 – $109,999	5	6	-	-
$110,000 – $119,999	7	7	-	-
$120,000 – $129,999	2	1	-	-
$130,000 – $139,999	2	2	-	-
$140,000 – $149,999	2	-	-	-
$150,000 – $159,999	1	1	-	-
$160,000 – $169,999	2	1	-	-
$170,000 – $179,999	2	2	-	-
$180,000 – $189,999	3	3	-	-
$190,000 – $199,999	-	1	-	-
$200,000 – $209,999	2	-	-	-
$210,000 – $219,999	1	-	-	-
$220,000 – $229,999	1	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	-	77,295	-	154,590
Dean Bracewell	-	2,502,896	877,392	-
Sir William Birch	-	49,273	77,296	-
Warwick Lewis	-	175,880	-	77,296
Sue Sheldon	-	38,648	-	77,296
Mark Royle	-	500,000	175,000	-

DIRECTORS' REPORT

The following table shows transactions recorded in respect of those securities during the year ended 30 June 2005:

	NUMBER ACQUIRED / (DISPOSED)	$ COST / (SALE)
Wayne Boyd		
Unpaid shares fully paid up 1 March 2005	77,295	132,367
Non-beneficial ownership in shares sold 1 March 2005	(77,295)	(132,367)
Non-beneficial ownership in shares acquired 1 March 2005	77,295	132,367
Dean Bracewell		
Beneficial ownership in shares sold 30 September 2004	(1,125,504)	(2,993,841)
Non-beneficial ownership in shares acquired 30 September 2004	1,125,504	2,993,841
Unpaid shares fully paid 4 February 2005	877,392	292,464
Beneficial ownership in shares sold 14 February 2005	(500,000)	(1,610,000)
Non-beneficial ownership in shares acquired 14 February 2005	500,000	1,610,000
Beneficial ownership in shares sold 14 February 2005	(377,392)	(1,215,202)
Sir William Birch		
Unpaid shares fully paid 1 March 2005	38,648	66,185
Warwick Lewis		
Unpaid shares fully paid 1 March 2005	38,648	66,185
Sue Sheldon		
Unpaid shares fully paid 1 March 2005	38,648	66,185
Mark Royle		
Beneficial ownership in shares sold 30 September 2004	(130,000)	(345,800)
Beneficial ownership in shares sold 30 September 2004	(103,437)	(275,142)
Non-beneficial ownership in shares acquired 30 September 2004	103,437	275,142
Unpaid shares fully paid 1 March 2005	175,000	58,333
Beneficial ownership in shares sold 1 March 2005	(31,250)	(100,269)
Beneficial ownership in shares sold 1 March 2005	(143,750)	(460,000)
Non-beneficial ownership in shares acquired 1 March 2005	143,750	460,000

DIRECTORS' REPORT

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	
	2005 $000	2004 $000	2005 $000	2004 $000
Audit services	152	150	-	-
Other assurance services*	10	10	-	-
	162	160	-	-

* Not included in the 2004 amount above is a further payment of $178,000 made to PricewaterhouseCoopers Sydney in relation to due diligence for the 2003 debt re-financing ($139,000) and the IPO ($39,000). The $139,000 was included in prepaid borrowing costs which are amortised over the term to maturity of the relevant finance facilities. The IPO share issue costs of $499,000 that were deducted from the equity raised in 2004 included the $39,000.

DONATIONS

During the year donations totalling $16,943 (2004: $21,699) were made by companies in the Group, of which none were made by the Parent.

For and on behalf of the Board this 8th day of August 2005.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the shareholders of Freightways Limited.

We have audited the financial statements on pages 20 to 47. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2005 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 24 to 27.

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 2005 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 20 to 47:

(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 2005 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 8 August 2005 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers.

Chartered Accountants, Auckland

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

		GROUP		PARENT	
	NOTE	2005 $000	2004 $000	2005 $000	2004 $000
Operating revenue	1	234,169	215,087	24,037	21,100
Net surplus before income tax	2	35,689	27,293	19,095	12,102
Income tax	3	(13,698)	(11,156)	1,573	3,024
Net surplus after income tax		21,991	16,137	20,668	15,126
Net surplus attributable to minority interest		-	(786)	-	-
Net surplus after income tax attributable to parent shareholders		21,991	15,351	20,668	15,126

NB: All revenue and earnings are from continuing operations.

STATEMENTS OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2005

		GROUP		PARENT	
	NOTE	2005 $000	2004 $000	2005 $000	2004 $000
Equity at beginning 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
Net surplus for the year, comprising:					
– Parent shareholders' interest		21,991	15,351	20,668	15,126
– Minority interest		-	786	-	-
Total recognised revenues and expenses		21,991	16,137	20,668	15,126
Dividends to ordinary shareholders	4	(18,000)	(7,251)	(18,000)	(7,251)
Dividends to minority interest		-	(786)	-	-
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	-	17,499
Issue costs arising on issue of ordinary shares	15	-	(499)	-	(499)
Proceeds from unpaid shares fully paid	15	940	626	940	626
Movement in equity for the year		4,931	(34,751)	3,608	25,501
Equity at end of year, comprising:					
– Parent shareholders' interest		70,498	65,567	70,988	67,380
– Minority interest		-	-	-	-
		70,498	65,567	70,988	67,380

STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2005

		GROUP		PARENT	
	NOTE	2005 $000	2004 $000	2005 $000	2004 $000
Current assets					
Cash and bank balances	23	2,237	761	-	-
Accounts receivable	5	30,312	29,274	12	890
Inventories	6	3,524	2,672	-	-
Total current assets		36,073	32,707	12	890
Non-current assets					
Investments in subsidiaries	7	-	-	121,013	121,013
Accounts receivable	5	-	-	82,000	77,246
Fixed assets	8	46,744	43,027	-	-
Intangible assets	9	157,012	161,579	-	-
Deferred tax asset	10	1,032	791	146	(73)
Total non-current assets		204,788	205,397	203,159	198,186
Total assets		240,861	238,104	203,171	199,076
Current liabilities					
Payables and accruals	11	24,461	23,758	49	696
Provisions	13	958	947	-	-
Unearned income	14	17,944	16,832	-	-
Total current liabilities		43,363	41,537	49	696
Non-current liabilities					
Borrowings	12	127,000	131,000	132,134	131,000
Total non-current liabilities		127,000	131,000	132,134	131,000
Total liabilities		170,363	172,537	132,183	131,696
Net assets		70,498	65,567	70,988	67,380
Equity					
Share capital	15	55,611	54,671	55,611	54,671
Retained earnings	21	14,887	10,896	15,377	12,709
Parent shareholders' equity		70,498	65,567	70,988	67,380
Minority interests	22	-	-	-	-
Total equity		70,498	65,567	70,988	67,380

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 8th day of August 2005.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	GROUP 2005 $000 INFLOWS (OUTFLOWS)	GROUP 2004 $000 INFLOWS (OUTFLOWS)	PARENT 2005 $000 INFLOWS (OUTFLOWS)	PARENT 2004 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities					
Receipts from customers		233,371	213,700	-	-
Payments to suppliers and employees		(178,457)	(165,517)	-	-
Interest received		444	255	-	-
Interest and other costs of finance paid		(9,506)	(10,045)	-	-
Income taxes paid		(14,313)	(10,754)	(580)	(195)
Net cash inflows from operating activities	23	31,539	27,639	(580)	(195)
Cash flows from investing activities					
Payments for fixed assets		(8,613)	(4,475)	-	-
Payments for businesses acquired	23	(390)	(7,500)	-	-
Proceeds from sales of fixed assets		-	10	-	-
Insurance proceeds arising on loss of aircraft		-	2,381	-	-
Proceeds from sale of business		-	685	-	-
Net cash outflows from investing activities		(9,003)	(8,899)	-	-
Cash flows from financing activities					
Dividends to ordinary shareholders		(18,000)	(7,251)	(18,000)	(7,251)
New bank borrowings		135,000	135,000	-	135,000
Repayment of bank borrowings		(139,000)	(109,955)	-	(109,955)
Costs of share issue		-	(499)	-	-
Dividends to minority interest		-	(1,466)	-	-
Distributions to minority interest on redemption of preference shares		-	(42,978)	-	-
Proceeds from unpaid shares fully paid	15	940	626	940	626
Loans advanced from (to) subsidiaries		-	-	17,640	(18,225)
Net cash outflows from financing activities		(21,060)	(26,523)	580	195
Net increase (decrease) in cash held		1,476	(7,783)	-	-
Cash at beginning of year		761	8,544	-	-
Cash at end of year	23	2,237	761	-	-

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2005

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 on a basis consistent with prior periods:

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 2005

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

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 2005

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 2005

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $000
NOTE 1. OPERATING REVENUE				
Sales revenue	233,725	214,498	-	-
Other revenue				
Dividends received from subsidiaries	-	-	24,000	21,100
Interest received from banks	444	255	37	-
Gain arising on loss of aircraft	-	334	-	-
	234,169	215,087	24,037	21,100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $000
NOTE 2. NET SURPLUS BEFORE INCOME TAX				
Net surplus before income tax has been determined after charging as expenses:				
Amortisation of goodwill	4,957	4,944	-	-
Auditors' remuneration				
– for audit services	152	150	-	-
– for other assurance services*	10	10	-	-
Bad debts written off	111	168	-	-
Depreciation of:				
– buildings	765	761	-	-
– leasehold improvements	156	178	-	-
– motor vehicles	56	40	-	-
– equipment	3,480	3,925	-	-
Total depreciation	4,457	4,904	-	-
Transfers to (from) provision for:				
– doubtful debts	75	96	-	-
Interest and borrowing costs paid:				
– banks	10,183	8,732	4,509	8,575
– other	154	-	-	-
Directors' fees	235	265	235	265
Donations	17	22	-	-
Loss on sale of fixed assets	30	29	-	-
Foreign exchange losses	11	-	-	-
Operating lease expenses	7,509	6,162	-	-

*Not included in the 2004 amount above is a further payment of $178,000 made to PricewaterhouseCoopers Sydney in relation to due diligence for the 2003 debt re-financing ($139,000) and the IPO ($39,000). The $139,000 was included in prepaid borrowing costs which are amortised over the term to maturity of the relevant finance facilities. The IPO share issue costs of $499,000 that were deducted from the equity raised in 2004 included the $39,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $000
NOTE 3. INCOME TAX				
Net surplus before income tax	35,689	27,293	19,095	12,102
Prima facie income tax at 33%	11,777	9,007	6,301	3,994
Tax effect of permanent differences:				
Amortisation of goodwill	1,636	1,632	-	-
Dividends	-	-	(7,920)	(6,964)
Other	285	517	46	(54)
Income tax expense (benefit)	13,698	11,156	(1,573)	(3,024)
The taxation charge is represented by:				
Current	13,939	11,415	(1,354)	(3,097)
Deferred	(241)	(259)	(219)	73
	13,698	11,156	(1,573)	(3,024)

There are no income tax losses or unrecognised timing differences carried forward by the Parent or Group.

	GROUP	
	2005 $000	2004 $000
Imputation credit account		
Balance at beginning of year	6,382	-
Income tax payments made during the year	13,745	10,476
Imputation credits attaching to dividends paid during the year	(8,800)	(4,094)
Balance at end of year	11,327	6,382
At balance date the imputation credits available to shareholders through direct shareholding in the parent company were	11,327	6,382

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	PARENT			
	2005 $000	2004 $000	2005 CENTS PER SHARE	2004 CENTS PER SHARE
NOTE 4. DIVIDENDS				
Current year interim dividend	9,450	7,251	7.5	5.85
Prior year final dividend	8,550	-	6.9	-
Supplementary dividends	579	195		
Foreign investor tax credit	(579)	(195)		
Total dividends recognised in the financial statements	18,000	7,251		
Current year final dividend, declared subsequent to balance date	10,734	8,550	8.5	6.9

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $000
NOTE 5. ACCOUNTS RECEIVABLE				
Current:				
Trade debtors	28,407	26,582	-	-
Provision for doubtful debts	(621)	(546)	-	-
	27,786	26,036	-	-
Other debtors and prepaid expenses	2,526	3,238	12	890
	30,312	29,274	12	890
Non-current:				
Loan to subsidiary	-	-	82,000	77,246
NOTE 6. INVENTORIES				
Finished goods	2,557	1,835	-	-
Ticket stocks, uniforms and consumables	967	837	-	-
	3,524	2,672	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

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
Castle Parcels Limited	Express package services
Fieldair Engineering Limited*	General & aviation engineering services
Freightways Finance Limited	Group treasury management
Fieldair Holdings Limited*	Parent company (refer * below)
Freightways Information Services Limited	IT infrastructure support services
Freightways Properties Limited	Property management
Freightways Trustee Company Limited	Trustee of Freightways Employee Share Plan
Messenger Services Limited	Express package services
New Zealand Couriers Limited	Express package services
New Zealand Document Exchange Limited	Business mail
Online Security Services Limited	Information management
Parceline Express Limited	Express package linehaul
Post Haste Limited	Express package services

* 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 2005

NOTE 8. FIXED ASSETS

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

	GROUP 2005 $000	GROUP 2004 $000
Land		
At cost	8,275	8,275
Buildings		
At cost	18,402	18,402
Accumulated depreciation	(2,113)	(1,348)
Book value	16,289	17,054
Leasehold alterations		
At cost	1,124	647
Accumulated depreciation	(422)	(284)
Book value	702	363
Motor vehicles		
At cost	291	245
Accumulated depreciation	(97)	(41)
Book value	194	204
Equipment		
At cost*	30,459	23,091
Accumulated depreciation	(9,175)	(5,960)
Book value	21,284	17,131
Total		
At cost	58,551	50,660
Accumulated depreciation	(11,807)	(7,633)
Book value	46,744	43,027

*Included in this amount for 2005 is equipment work in progress of $4.2 million (2004: $1.4 million) for which depreciation had not commenced; and capitalised borrowing costs of $172,802 (2004: nil).

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 2005

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $000
NOTE 9. INTANGIBLE ASSETS				
Goodwill acquired	82,129	81,739	-	-
Accumulated amortisation	(12,517)	(7,560)	-	-
	69,612	74,179	-	-
Brand names acquired	87,400	87,400	-	-
	157,012	161,579	-	-

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 in July 2005. This independent report assessed the fair market value of the brand names as at 30 June 2005 to be between $165.1 million and $183.8 million. The Directors are of the opinion that there has been no impairment in the value of brand names and goodwill acquired, as disclosed.

	GROUP 2005	GROUP 2004	PARENT 2005	PARENT 2004
NOTE 10. DEFERRED TAX ASSET				
Balance at beginning of year	791	532	(73)	-
Transfer to statement of financial performance (Note 3)	241	259	219	(73)
Balance at end of year	1,032	791	146	(73)

	GROUP 2005	GROUP 2004	PARENT 2005	PARENT 2004
NOTE 11. PAYABLES AND ACCRUALS				
Trade creditors	14,642	13,056	15	62
Employee entitlements	3,866	2,576	-	-
Other creditors and accruals	5,790	7,588	18	673
Income tax	163	538	16	(39)
	24,461	23,758	49	696

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
NOTE 12. BORROWINGS				
Non-current:				
Bank borrowings	127,000	131,000	-	131,000
Loans from subsidiaries (Note 25)	-	-	132,134	-
	127,000	131,000	132,134	131,000

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 at balance date:

	GROUP 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
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	77,500	-	-	-
– amount of facilities used	62,000	-	-	-
– amount of facilities unused	15,500	-	-	-
Loan facilities provided by **Westpac**:				
– total loan facilities available	77,500	-	-	-
– amount of facilities used	65,000	-	-	-
– amount of facilities unused	12,500	-	-	-
Loans drawn are repayable as follows:				
– cash advance facilities (1-2 years)	-	120,000	-	120,000
– cash advance facilities (2-5 years)	155,000	16,000	-	16,000
Effective interest rates (as amended by interest rate hedges)	7.10%	6.97%	-	6.97%

On 26 November 2004, a refinancing was completed to replace the subordinated debt (**AMP**) with normal commercial bank facilities on more favourable terms. Bank borrowings from the Bank of New Zealand were also repaid.

The new finance facilities summarised above are available until 26 November 2007.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
NOTE 13. PROVISIONS				
Restructuring provision				
Balance at beginning of year	500	-	-	-
Current year provision	50	500	-	-
Restructuring expenses incurred	(70)	-	-	-
Balance at end of year	480	500	-	-

Provision for restructuring relates to expenses of reorganising the business activities of a subsidiary. This expenditure is expected to be completed by the end of August 2005.

	GROUP 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
Customer claims provision				
Balance at beginning of year	219	150	-	-
Current year provision	31	69	-	-
Balance at end of year	250	219	-	-

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 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
Supplier contracts provision				
Balance at beginning of year	228	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 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
Total provisions	958	947	-	-

	GROUP 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
NOTE 14. UNEARNED INCOME				
Income received in advance	17,944	16,832	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $000
NOTE 15. SHARE CAPITAL				
Issued and Paid Up Capital:				
Ordinary shares				
Balance at beginning of year	54,671	37,045	54,671	37,045
Shares issued during the year	-	17,499	-	17,499
Issue costs arising on issue of shares	-	(499)	-	(499)
Unpaid shares fully paid	940	626	940	626
Balance at end of year	55,611	54,671	55,611	54,671

Fully paid ordinary shares

As at 30 June 2005 there were 125,971,065 shares issued and fully paid (2004: 123,950,434). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

During the year, issued and paid up capital increased as a result of 2,020,631 unpaid shares, in total, being fully paid-up in February and March for $940,052.

During the prior 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.

Unpaid ordinary shares

As at 30 June 2005 there were 2,163,870 unpaid shares on issue (2004: 4,350,445). Unpaid shares have no voting or dividend rights and would not participate in any surplus on winding up. During the year, 165,944 unpaid shares were redeemed and cancelled.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP 2005	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 parent shareholders ($000)	21,991	15,351
Weighted average number of ordinary shares ('000):		
Ordinary shares on issue at beginning of year	123,950	37,046
Shares split – August 2003	-	66,313
Shares issued – September 2003	-	8,278
Unpaid shares fully paid – February 2004	-	643
Unpaid shares fully paid – February and March 2005	672	-
	124,622	112,280
Basic earnings per share (cents)	17.6	13.7
Diluted Earnings Per Share		
The calculation of diluted earnings per share is based on:		
Diluted net surplus attributable to parent shareholders ($000)	21,991	15,351
Diluted weighted average number of ordinary shares ('000):		
Weighted average number of ordinary shares	124,622	112,280
Unpaid shares fully paid	2,164	4,350
	126,786	116,630
Diluted earnings per share (cents)	17.3	13.2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $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	6,697	5,584	-	-
– Payable between one and two years	5,364	4,578	-	-
– Payable between two and five years	7,967	7,781	-	-
– Payable later than five years	9,764	9,863	-	-
	29,792	27,806	-	-

In the prior year, the Group committed to the migration of its Information Systems to a next generation platform. As at 30 June 2005 a contractual commitment of $440,000 existed in relation to this continuing project. A further capital commitment of $50,000 existed in relation to equipment for an operating subsidiary.

The Group had no other capital commitments at 30 June 2005 (2004: nil).

The Company had no capital commitments at 30 June 2005 (2004: nil).

NOTE 18. CONTINGENT LIABILITIES

The Group had no contingent liabilities at 30 June 2005 (2004: nil).

NOTE 19. STATEMENT OF OPERATIONS BY SEGMENTS

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

NOTE 20. TRANSACTIONS WITH RELATED PARTIES

Loan to subsidiary: During the year net advances of $28.8 million were made by the Company to FEL, which together with $24 million of dividends receivable from FEL, resulted in a loan to subsidiary balance as at year end of $82 million (2004: $77.2 million). The receivable balance is set out in Note 5. There is no interest payable on this loan.

Loan from subsidiary: During the year the Company entered into a loan agreement with its directly-owned subsidiary Freightways Finance Limited. The payable balance is set out in Note 12. There is no interest payable on this loan.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

Unpaid shares: At balance date, 386,478 (2004: 695,661) unpaid shares were on issue to the Company's non-executive directors (or their nominees) and 1,777,392 (2004: 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 1.7% (2004: 3.5%) of all issued ordinary shares.

During the year, the Company's non-executive directors (or their nominees) fully paid up one third of their respective shareholdings (Tranche 1). In respect of their remaining shareholdings, they (or their nominees) have the ability to fully pay up the second third of their shares on 31 December 2005 (Tranche 2) and a final third on 31 December 2006 (Tranche 3) based on 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, which was $1.7125 per share);

(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. One director resigned from the Board during the year and his 115,944 unpaid shares were redeemed and cancelled. There is no impact on the Statement of Financial Performance as a result of these share transactions.

The unpaid shares on issue to the Group's executive directors and employees represent the final third of the unpaid shares issued to these individuals. The first two thirds have previously been paid up in accordance with the terms of issue. The final third may be fully paid up on 13 December 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. One shareholder left the employment of the Group during the year and his remaining 50,000 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 2005

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $000
NOTE 21. RETAINED EARNINGS				
Balance at beginning of year	10,896	3,273	12,709	4,834
Net surplus for the year	21,991	16,137	20,668	15,126
Dividends to parent shareholders (Note 4)	(18,000)	(7,251)	(18,000)	(7,251)
Dividends to minority interest	-	(786)	-	-
Accrued minority interest dividends exchanged for ordinary capital in IPO	-	(477)	-	-
Balance at end of year	14,887	10,896	15,377	12,709
NOTE 22. MINORITY INTERESTS				
Balance at beginning of year	-	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	-	-	-	-

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 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $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	978	761	-	-
– Overnight deposit	1,259	-	-	-
	2,237	761	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	GROUP 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
Reconciliation of net surplus after income tax to net cash provided by operating activities				
Net surplus after income tax	21,991	16,137	20,668	15,126
Depreciation	4,457	4,904	-	-
Amortisation of goodwill	4,957	4,944	-	-
Movement in provision for doubtful debts	75	93	-	-
Movement in deferred income tax	241	259	219	(73)
Net loss on sales and write off of fixed assets	30	29	-	-
Transactions settled through loans from subsidiary	-	-	(20,668)	(15,126)
Movement in working capital, net of effects of acquisition (disposal) of businesses and subsidiaries:				
(Increase) decrease in receivables	(1,113)	(3,355)	878	(243)
(Increase) decrease in inventories	(851)	(205)	-	-
Increase (decrease) in trade and other creditors	2,127	4,118	(1,622)	160
Increase (decrease) in income taxes payable	(375)	715	(55)	(39)
Net cash provided by operating activities	31,539	27,639	(580)	(195)

Acquisition of Businesses

During the year Group subsidiaries acquired two complementary businesses for cash. In the prior year a subsidiary of the Company, Online Security Services Limited, acquired the business of Archive Security.
Details of the acquisitions are as follows:

	BUSINESSES ACQUIRED 2005 $000	BUSINESSES ACQUIRED 2004 $000
Fair value of assets and liabilities acquired:		
Fixed assets	-	601
Goodwill (to be amortised over 20 years)	390	5,475
Brand names	-	1,400
Other assets	-	24
	390	7,500
Consideration:		
Cash consideration	390	7,500

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

Prior Year Non-cash Financing Activities – Loan to Subsidiary

During 2004, 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 that 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 30 June 2004 is set out in Note 5.

NOTE 24. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 3 August 2005, the Company issued 320,000 fully paid ordinary shares at $2.70 to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan. In total, participating employees were provided with interest-free loans of $0.8 million to fund their purchase of shares in the Share Plan. The loans are repayable over three years commencing September 2005.

On 8 August 2005, the Directors declared a final dividend of 8.5 cents per share ($10.7 million) in respect of the year ended 30 June 2005. The dividend will be paid on 30 September 2005. The record date for determination of entitlements to the dividend is 16 September 2005.

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

NOTE 25. FINANCIAL INSTRUMENTS

The Group is subject to certain financial risks, which primarily arise as a result of its 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	
	2005 $000	2004 $000	2005 $000	2004 $000
Bank balances	978	761	-	-
Overnight deposits	1,259	-	-	-
Receivables	28,997	27,460	-	46
Loan to subsidiary	-	-	82,000	77,246

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

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:

The notional or principal contract amounts of foreign exchange instruments outstanding at balance date are:

	GROUP		PARENT	
	2005 $000	2004 $000	2005 $000	2004 $000
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 nil (2004: $42,071).

Interest rate risk

Borrowings of the 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 66% of borrowings are effectively hedged.

– Unrecognised balances:

  The interest rate hedging instruments below have maturity dates ranging from August 2005 to August 2015.

  The notional or principal contract amounts of interest rate contracts outstanding at balance date are:

	GROUP 2005 $000	GROUP 2004 $000	PARENT 2005 $000	PARENT 2004 $000
Interest rate swaps	67,000	52,000	-	52,000
Interest rate caps	15,000	15,000	-	15,000
Interest rate collars (cap & floor)	17,000	17,000	-	17,000

The cash settlement requirement for interest rate swaps is the current market value, which is $145,927 payable (2004: $746,864 receivable). The current market value of the interest rate caps and collars is $166,359 receivable (2004: $238,350 receivable).

– Loans:

  Group

  As stated in Note 12, new borrowing facilities were put in place from 26 November 2004 and mature on 26 November 2007. Interest rates are based on the New Zealand 90-day bank bill rate at the time of drawdown plus a commercial margin.

  Parent

  The Company has loans to and from subsidiaries. No interest is charged on intercompany loans.

– Assets:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

Credit facilities

The Group has total bank overdraft facilities of $2,000,000. 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.

NOTE 26. TRANSITION TO NEW ZEALAND EQUIVALENTS OF IFRS

It will be mandatory for the Group to comply with the New Zealand equivalents of International Financial Reporting Standards (IFRS) for its first reporting period commencing after 1 January 2007. For the Group this period will be the half year ended 31 December 2007.

Managing the transition to IFRS

In September 2004, a project was commenced to plan for the transition to IFRS. This project involved an initial assessment of the impact of IFRS on the Group's consolidated financial statements. The key differences between NZ GAAP and IFRS were identified and considered. The likely impact of implementing IFRS was determined and quantified where possible. Developments in IFRS will continue to be monitored and evaluated during the period leading up to implementation and this may identify further key differences.

Adoption of IFRS

The Group intends to adopt IFRS for the first time when reporting its interim results for the half year ended 31 December 2007. The first annual financial statements prepared under IFRS will be for the year ended 30 June 2008. In adopting IFRS, the Group will need to restate the comparatives presented in these reports. Adjustments required to restate comparatives upon adoption of IFRS will be made retrospectively against opening retained earnings.

Key differences to accounting policies

Based on the Group's current analysis of the implications of adopting IFRS, the key differences expected to arise in accounting policies are set out on page 46, together with an estimate of the effect these changes would have on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

KEY DIFFERENCE IDENTIFIED	POTENTIAL IMPACT
Goodwill	
The current accounting policy is to systematically amortise goodwill over the period of time, not exceeding 20 years, during which the benefits are expected to arise and to subject the carrying amount of goodwill to an annual impairment test. Under IFRS, goodwill will no longer be systematically amortised, but will remain subject to an annual impairment test.	Goodwill amortisation will not be charged to the Statement of Financial Performance and therefore net surplus before and after tax will increase. For the year ended 30 June 2005, the amount of that increase would have been $5 million. As at 30 June 2005, there had been no impairment of the carrying amount of goodwill on the Statement of Financial Position. Accordingly, the recorded intangible asset of goodwill under IFRS would have been $5 million higher, as there would have been no amortisation and there was no impairment loss applicable.
Financial instruments	
Under current accounting policy, the Group's derivative financial instruments, which are all interest rate hedging instruments, are not carried on the Statement of Financial Position. Their current market value is disclosed by way of note only. IFRS requires all financial instruments, including derivatives, to be recognised in the Statement of Financial Position.	Under IFRS, recording the fair value of the interest rate hedging instruments on the Statement of Financial Position as at 30 June 2005 would result in both Total Assets and Equity increasing by $20,432. As the Group's interest rate hedging instruments are all considered effective hedges as at 30 June 2005, there would be no impact on the Statement of Financial Performance for the year ending on that date.
Income tax	
Currently the accounting policy for income tax is to calculate income tax expense in the Statement of Financial Performance 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 on the Statement of Financial Position. IFRS requires the comparison of the Statement of Financial Position carrying values with the tax base values to determine the deferred tax liability or asset to be recorded on the Statement of Financial Position. The movement in the deferred tax balances for the period will be recorded as the tax expense in the Statement of Financial Performance.	A comparison of the Statement of Financial Position carrying values with the tax base values as at 30 June 2005 indicated that if IFRS had been applied as at balance date there would be no additional deferred tax balances to be recognised. As the current movement in the deferred tax balances for the year would be unchanged under IFRS, the tax expense would also be unchanged and therefore there would be no impact on the Statement of Financial Performance.

The actual effect of adopting IFRS may vary from the information presented, and that variation may be material.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 27. COMPARISON TO PROSPECTIVE INFORMATION

The Company issued an Investment Statement and Prospectus in August 2003 that contained a Projected Statement of Cash Flows for the six months ended 31 December 2004. The Projected Statement of Cash Flows is presented below in comparison with the actual results for that period.

	NOTE	ACTUAL $000 INFLOWS (OUTFLOWS)	PROJECTED $000 INFLOWS (OUTFLOWS)	VARIANCE $000
Cash flows from operating activities				
Receipts from customers		115,925	121,246	(5,321)
Payments to suppliers and employees		(88,088)	(98,923)	10,835
Cash generated from operations	(i)	27,837	22,323	5,514
Interest Received		68	-	68
Interest and other costs of finance paid	(ii)	(4,563)	(4,304)	(259)
Income taxes paid	(iii)	(4,151)	(3,597)	(554)
Net cash inflows from operating activities		19,191	14,422	4,769
Cash flows from investing activities				
Payments for fixed assets	(iv)	(3,941)	(3,480)	(461)
Payment for business acquired	(v)	(300)	-	(300)
Proceeds from sales of fixed assets		20	-	20
Net cash outflows from investing activities		(4,221)	(3,480)	(741)
Cash flows from financing activities				
Dividends to ordinary shareholders	(vi)	(8,553)	(7,250)	(1,303)
Repayment of bank borrowings	(vii)	(3,000)	(4,000)	1,000
Net cash outflows from financing activities		(11,553)	(11,250)	(303)
Net increase (decrease) in cash held		**3,417**	**(308)**	**3,725**
Cash at beginning of period		761	1,680	(919)
Cash at end of period		**4,178**	**1,372**	**2,806**

(i) Variance in cash flows from operations reflects a net improvement against the level projected due to stronger performance.

(ii) Actual interest expense was higher than projected due to a greater increase in interest rates than anticipated during the period.

(iii) Income taxes paid have been higher than projected due to the higher level of taxable profits achieved.

(iv) As signalled in the 2004 Annual Report, specific investment in infrastructure was expected to be made in the first half of the year ended 30 June 2005 above historic levels. The projection had been closer to historical levels.

(v) A small acquisition was made in December 2004 which had not been anticipated in preparing the projection.

(vi) As a result of profits above forecast levels during the year ended 30 June 2004, a higher dividend was paid during the half year ended 31 December 2004 than projected.

(vii) As a function of slightly higher capital expenditure and a larger dividend payout in the period, the surplus cash available for repayment of bank borrowings was $1 million lower than projected.

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 17 August 2005

	NUMBER OF HOLDERS	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
Size of shareholding			
1 to 1,999	1,617	2,138,072	1.69
2,000 to 4,999	2,431	7,415,529	5.88
5,000 to 9,999	1,574	10,206,945	8.08
10,000 to 49,999	1,160	19,238,810	15.23
50,000 to 99,999	49	3,346,771	2.65
100,000 to 499,999	43	9,007,628	7.13
500,000 to 999,999	14	9,018,810	7.14
1,000,000 and over	14	65,918,500	52.20
Total shareholders	6,902	126,291,065	100.00
Geographic distribution			
New Zealand	6,827	124,035,981	98.22
Australia	37	2,058,859	1.62
Other	38	196,225	0.16
	6,902	126,291,065	100.00

Substantial security holders as at 17 August 2005

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	15,694,912	12.43
Accident Compensation Corporation	6,698,575	5.30
ING (NZ) Limited	6,653,016	5.27

The total number of issued voting securities of the Company as at 17 August 2005 was 126,291,065.

SHAREHOLDER INFORMATION

Top twenty registered shareholders of listed shares as at 17 August 2005

	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
TEA Custodians Limited*	12,504,408	9.90
Accident Compensation Corporation*	6,650,575	5.27
Citibank Nominees (New Zealand) Limited*	6,612,710	5.24
National Nominees New Zealand Limited*	5,734,338	4.54
Port Devon Limited	5,445,681	4.31
Custody and Investment Nominees Limited*	4,843,715	3.84
Westpac Banking Corporation – Client Assets No.2*	4,594,077	3.64
NZ Superannuation Fund Nominees Limited*	4,575,407	3.62
First NZ Capital Custodians Limited	3,620,648	2.87
Premier Nominees Limited – Armstrong Jones New Zealand Share Fund*	3,492,616	2.77
TEA Custodians Ltd – No.2 Account	2,119,828	1.68
Lucerne Road Investments Limited	2,002,896	1.59
Cogent Nominees Limited*	1,960,098	1.55
Custodial Services Limited – Account 3	1,761,503	1.39
Investment Custodial Services Limited – Account C	992,991	0.79
Westpac NZ Shares 2002 Wholesale Trust*	776,895	0.62
Custodial Services Limited – Account 2	764,945	0.61
Cogent Nominees Limited*	701,519	0.56
Ross Hutcheson Pty Limited	660,000	0.52
Forbar Custodians Limited	641,161	0.51
	70,456,011	55.82

*held through NZ Central Securities Depository Limited

Waivers granted by NZX, applicable as at 30 June 2005

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 10 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 five Directors: the non-executive Chairman, Managing Director and three 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 and Sue Sheldon.

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 2005 financial year:

	FULL	BOARD COMMITTEES		
	BOARD	AUDIT & RISK	REMUNERATION	NOMINATIONS
Wayne Boyd	10	-	3	1
Dean Bracewell	10	-	-	1
Sir William Birch	10	5	3	1
Warwick Lewis	10	5	-	1
Sue Sheldon	9	5	-	1
Michael Taranto (resigned 28 October 2004)	4	-	-	-
Meetings held	10	5	3	1

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.


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DIRECTORY

For enquiries 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
33 Botha Road
Penrose
DX EX10975
AUCKLAND
Telephone: 09 580 4360
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