# ANNUAL REPORT | 2007

Freightways

Freightways

# Freightways

| | | | |
|---|---|---|---|
| | | New Zealand Couriers<br>www.nzcouriers.co.nz | Post Haste Couriers<br>www.posthaste.co.nz |
| | Castle Parcels<br>www.castleparcels.co.nz | SUB60<br>www.sub60.co.nz | Kiwi Express Couriers<br>www.kiwiexpress.co.nz |
| Security Express | DX Mail<br>www.dxmail.co.nz | Parceline Express | Online Security Services<br>www.onlinesec.co.nz |
| Document Destruction Service<br>www.destruction.co.nz | Data Security Services<br>www.datasecurity.co.nz | Archive Security<br>www.onlinerecords.co.nz | Databank<br>www.databanktech.com |
| Shred-X<br>www.shred-x.com.au | Air Freight NZ | Fieldair Engineering<br>www.fieldair.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 operates in the express package, business mail and information management markets. 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. In 2006 Freightways extended its reach to Australia with the initial acquisition of DataBank, a niche information management business.

**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 and Kiwi Express brands, 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. 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.

Freightways acquired DataBank in Australia in 2006. DataBank provides offsite data storage services in Sydney, Melbourne and in a newly opened branch in Queensland. The Archive Security (document storage) brand has also been introduced in Queensland and has been followed by the acquisition of Shred-X (document destruction) that operates in both Queensland and Victoria.

**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.

The development of DX Mail was accelerated by the acquisition of the franchisor rights of the Pete's Post mail delivery business that operates in Taranaki, Manawatu, Wanganui, Hawkes Bay and the Bay of Plenty.

**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 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

# FINANCIAL SUMMARY

***FOR THE YEAR ENDED 30 JUNE 2007***

| | NOTE | 2007 $000 | 2006 $000 | PERCENTAGE VARIANCE |
|---|---|---|---|---|
| Sales revenue | | 283,447 | 256,689 | 10% |
| EBITA | (i) | 56,531 | 53,360 | 6% |
| Net surplus after income tax (NPAT) | | 25,091 | 24,306 | 3% |
| Depreciation | | 6,398 | 4,958 | 29% |
| Goodwill amortisation | | 5,810 | 4,970 | 17% |
| Interest expense and finance charges (net) | | 10,617 | 9,347 | 14% |
| Net operating cash flows before interest and tax | | 62,295 | 53,300 | 17% |
| Interest cover | (ii) | 5.9 times | 5.7 times | |
| Dividends to ordinary shareholders | | 22,799 | 21,637 | 5% |

Notes:

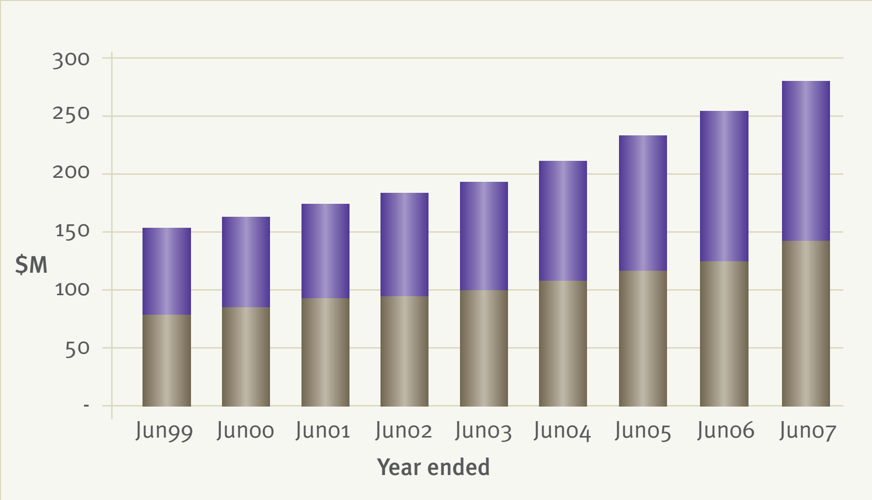
(i) Earnings before interest, tax and goodwill amortisation

(ii) Net operating cash flows before interest and tax, divided by net interest expense and finance charges

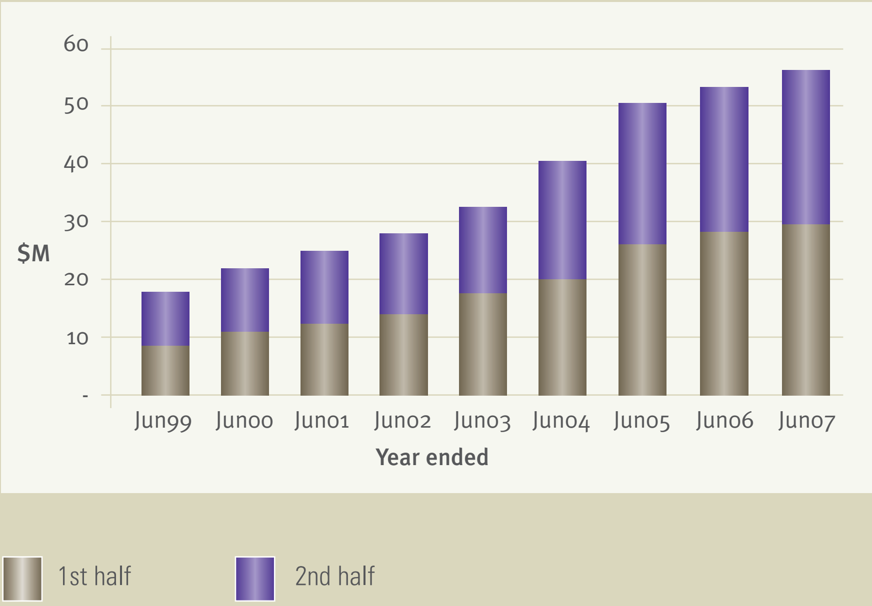
# FINANCIAL SUMMARY

***FOR THE YEAR ENDED 30 JUNE 2007***

## 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.

# 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 2007. It has been an eventful year for Freightways in which it has performed soundly in New Zealand, established its presence in Australia and delivered a record result.

**Operating performance**

Consolidated operating revenue for the year of $283 million was 10% higher than the prior corresponding period.

Earnings before interest, tax and amortisation (EBITA) were $56.5 million, 6% higher than the prior corresponding period.

Consolidated net profit after tax and before amortisation (NPATA) was $30.9 million, 6% higher than the prior corresponding period.

Cash generated from operations before interest and tax was $62.3 million.

**Dividend**

The Directors have declared a final dividend of $11.6 million, delivering a full year payout in line with the dividend policy. The final dividend translates to 9.0 cents per share (fully imputed), which will be paid on Monday, 1 October 2007. The record date for determination of entitlements to the dividend is Friday, 14 September 2007. This brings the total payout in respect of the year to $23.2 million or 18 cents per share (fully imputed), 4% higher than the prior corresponding period.

**REVIEW OF OPERATIONS**

The domestic New Zealand marketplace has been challenging for Freightways' subsidiaries. A combination of low organic growth and a generally higher cost operating environment has combined to test the resilience of Freightways' operating model and market strategies.

Freightways' core express package businesses have delivered an on-par result compared to the prior year. Its emerging growth businesses, operating in the information management and business mail segments of the market, have again delivered strong growth.

**Express package**

Freightways' core express package businesses contribute the majority of its revenue and earnings. Freightways operates the brands of New Zealand Couriers, Post Haste Couriers, Castle Parcels, SUB60, Security Express and Kiwi Express in the New Zealand domestic market.

Revenue generated in Freightways' core business has been growing relatively slowly compared to prior years. This slower growth has been occurring at a time when key costs, particularly labour and occupancy, and most other general overhead costs have continued to increase. Given this context, Freightways' express package businesses have shown their resilience by delivering a sound earnings result.

Despite the quieter operating environment, Freightways' express package businesses have continued to make considered investment in areas where additional capacity will be required to accommodate future growth and also in areas where it can further enhance its competitive advantage. This has included the relocation of all Freightways businesses operating in the Hamilton region into a purpose-built facility to service the growing Waikato and Bay of Plenty regions. Investment has also continued in Freightways' technology platform with the initial introduction of in-van scanning systems that provide customers with the real time transmission of pick-up and delivery information and through the continued progression of Freightways' core IT operating system on to a next-generation platform.

**Business mail**

DX Mail has again grown very successfully in the business mail niche of New Zealand's Postal Services market. This growth was accelerated with the acquisition of the franchisor rights of the Pete's Post mail

# REPORT FROM CHAIRMAN AND MANAGING DIRECTOR

delivery business in December 2006. This business operates in Taranaki, Manawatu, Wanganui, Hawkes Bay and Bay of Plenty. DX Mail operates the same mail delivery services in other business centres around New Zealand and also offers an extensive range of other postal services that are now on offer to Pete's Post customers.

In the context of Freightways' total earnings, DX Mail's contribution remains relatively modest and our growth strategy is one which 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. Hence, as DX Mail grows New Zealand Couriers also receives the benefit of this growth.

DX Mail is a nationwide business mail competitor to NZ Post and is seen as an emerging growth opportunity within Freightways' portfolio of businesses.

**Information management**

Within the information management market Freightways provides data storage, document storage and document destruction services to a wide range of business customers. Its more established businesses are located in main centres throughout New Zealand. In July 2006, Freightways extended its geographical reach to Australia with the acquisition of DataBank.

DataBank is a data storage business with established branches in the states of NSW and Victoria. It started up its third branch in January 2007 in Queensland. A document storage service was also introduced to the Queensland market through this branch at the same time, using Freightways' document storage brand of Archive Security.

In July 2007, Freightways announced the acquisition of the document destruction businesses of Shred-X and Document Destruction & Paper Recycling in Queensland. These acquisitions enable Freightways to now offer its Queensland customers a full suite of information management services.

During 2007, Freightways also purchased its existing information management warehouse and expansion land in Porirua, Wellington. This expansion land ensures Freightways has sufficient capacity to accommodate the future growth it expects from the Wellington region.

Increased outsourcing of the storage and management of backed-up computer data, archived documents and document destruction has contributed to the strong growth of Freightways' information management businesses. Outsourcing decisions are being driven by an increasing awareness in the market for the need to professionally and securely manage business information, and also in regard to document destruction, the growing market demand to securely destroy documents and recycle paper.

The acquisitions Freightways has completed in the information management market have strengthened Freightways' overall offer, increased the depth of talent on the Freightways team and been immediately earnings per share positive.

**Internal service providers**

Fieldair Holdings Limited provides airfreight linehaul services to Freightways' express package brands through the operation of our fleet of freighter aircraft by its subsidiary Air Freight NZ Limited. The benefits derived from directly controlling our core airfreight linehaul requirements continue to be evidenced through the consistent provision of outstanding service by this division. Our aviation engineering business, Fieldair Engineering Limited, provides design, manufacturing and maintenance services, both internally and externally, to the aviation market. Externally generated revenues have been lower in 2007 than in recent years due to a lesser requirement for major project work.

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

# REPORT FROM CHAIRMAN AND MANAGING DIRECTOR

Freightways Information Services Limited, our in-house IT services provider, has successfully progressed the transition to a next-generation information systems operating environment, while maintaining the development and integrity of our existing system. This major IT project is scheduled for completion in 2008. Capital expenditure associated with this project is running to expectation.

Corporate costs continue to be managed within expectations. An additional corporate office was established in Australia during 2007 to support the requirements of our Australian interests. All acquisitions made during 2007 and the property purchase in Wellington were funded using existing finance facilities.

## OUTLOOK

Freightways' core express package business is expected to continue to perform soundly, although growth in this market will again be influenced by the performance of the domestic New Zealand marketplace it operates in. Freightways' emerging growth businesses in the Business Mail and Information Management markets are expected to continue their positive growth and development.

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

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

Capital investment of approximately $15 million will be spent during the next financial year in areas that support the growth of our core and emerging businesses. This includes the initial development of our recently acquired information management site in Wellington. Investment will also continue to be made to enable the achievement of our positioning and performance objectives and to support the development of our people.

Freightways will move to reporting under International Financial Reporting Standards (IFRS) from 1 July 2007, commencing with its results for the half year ending 31 December 2007. The only material impact anticipated from this change to IFRS is that goodwill amortisation will no longer be charged against profits, resulting in an equivalent lift in net surplus to shareholders for the relevant period reported.

## CONCLUSION

In a challenging environment, Freightways has successfully executed its strategies to again deliver a record result. Investment in growth opportunities and service enhancement initiatives will continue in all three of Freightways' market segments.

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

The Directors acknowledge the outstanding work and ongoing dedication of the Freightways team.

**Wayne Boyd**
***Chairman***
**6 August 2007**

**Dean Bracewell**
***Managing Director***



NEW ZEA
COUR

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 2007 and their financial performance and cash flows for the year ended on that date.

## DIRECTORS

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

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

Wayne was appointed a Director and elected Chairman of Freightways in June 2003. After practising law for 18 years and spending five years in investment banking, he established a specialist advisory business and a career as a professional director. Wayne is Chairman of Telecom Corporation of New Zealand Limited, Meridian Energy Limited and Vulcan Steel Limited. He is also a director of Landco 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 and is a director of ABN AMRO Australia Holdings Pty Limited. He is also currently a director of a number of other public and private companies, including Viking Capital Limited 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** CNZM, B.COM, FCA, M INST D

Sue is a Chartered Accountant and full-time professional director. She is Chairman of the National Provident Fund Board of Trustees and Wool Industry Network Limited, Deputy Chairman of Christchurch International Airport Limited and a director of MediaWorks NZ Limited, Smiths City Group Limited and Electronic Transaction Services Limited. Sue is a former President of the New Zealand Institute of Chartered Accountants and is a Board member of Guides New Zealand. In June 2007, Sue was appointed a Companion of the New Zealand Order of Merit for services to business.

# DIRECTORS' REPORT

The Board has determined for the purposes of the NZSX Listing Rules that, as at 30 June 2007, Wayne Boyd, Sir William Birch, Warwick Lewis and Sue Sheldon are independent Directors and Dean Bracewell as Managing Director is not an independent Director.

## PRINCIPAL ACTIVITIES

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

The principal activities of the Group during the year ended 30 June 2007 were the operation of express package services, information management services and business mail services.

## CONSOLIDATED RESULT FOR THE YEAR

| | 2007 $000 | 2006 $000 |
|---|---|---|
| Sales revenue | 283,447 | 256,689 |
| Net surplus before income tax | 40,104 | 39,043 |
| Income tax | (15,013) | (14,737) |
| Net surplus after tax attributable to shareholders | 25,091 | 24,306 |

# DIRECTORS' REPORT

## DIRECTORS HOLDING OFFICE DURING THE YEAR WERE:

**Parent:**

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

**Subsidiaries:**

Dean Bracewell
Mark Royle

## REMUNERATION OF DIRECTORS

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Wayne Boyd | 100,000 | 100,000 | 100,000 | 100,000 |
| Dean Bracewell | 539,955 | 607,665 | - | - |
| 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 |
| Mark Royle | 324,276 | 326,487 | - | - |
| | 1,089,231 | 1,159,152 | 225,000 | 225,000 |

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2007 in respect of the two previous six-month performance periods (1 January to 30 June 2006 and 1 July to 31 December 2006). No amount was paid, or included above, in respect of incentive payments for the period 1 January to 30 June 2007. Incentive payments for the six months ended 30 June 2007 were paid in August 2007.

# 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 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| $100,000 – $109,999 | 12 | 10 | - | - |
| $110,000 – $119,999 | 10 | 8 | - | - |
| $120,000 – $129,999 | 4 | 2 | - | - |
| $130,000 – $139,999 | 4 | 3 | - | - |
| $140,000 – $149,999 | 4 | - | - | - |
| $150,000 – $159,999 | - | 1 | - | - |
| $160,000 – $169,999 | - | 3 | - | - |
| $180,000 – $189,999 | 3 | 1 | - | - |
| $190,000 – $199,999 | 1 | 2 | - | - |
| $200,000 – $209,999 | 2 | 1 | - | - |
| $210,000 – $219,999 | 2 | 1 | - | - |
| $220,000 – $229,999 | - | 1 | - | - |
| $230,000 – $239,999 | - | 1 | - | - |
| $240,000 – $249,999 | - | 2 | - | - |
| $280,000 – $289,999 | 1 | - | - | - |
| $320,000 – $329,999 | - | 1 | - | - |
| $380,000 – $389,999 | 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 | - | 281,885 | - | - |
| Dean Bracewell | - | 2,880,288 | - | - |
| Sir William Birch | - | 126,569 | - | - |
| Warwick Lewis | - | 253,176 | - | - |
| Sue Sheldon | - | 115,944 | - | - |
| Mark Royle | - | 675,000 | - | - |

# DIRECTORS' REPORT

The following table shows transactions recorded in respect of those securities during the year ended 30 June 2007:

| | NUMBER ACQUIRED / (DISPOSED) | $ COST / (SALE) |
|---|---|---|
| **Wayne Boyd** | | |
| Unpaid shares fully paid up 9 March 2007 | 77,295 | 147,502 |
| Non-beneficial ownership in shares sold 9 March 2007 | (77,295) | (147,502) |
| Non-beneficial ownership in shares acquired 9 March 2007 | 77,295 | 147,502 |
| **Sir William Birch** | | |
| Unpaid shares fully paid 9 March 2007 | 38,648 | 73,752 |
| **Warwick Lewis** | | |
| Unpaid shares fully paid 9 March 2007 | 38,648 | 73,752 |
| **Sue Sheldon** | | |
| Unpaid shares fully paid 9 March 2007 | 38,648 | 73,752 |
| **Mark Royle** | | |
| Non-beneficial ownership in shares sold 22 November 2006 | (675,000) | (2,862,000) |
| Non-beneficial ownership in shares acquired 22 November 2006 | 675,000 | 2,862,000 |

# DIRECTORS' REPORT

## DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

## AUDITORS

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

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| Audit services | 201 | 153 | - | - |
| Other assurance services | 9 | 10 | - | - |
| | 210 | 163 | - | - |

## DONATIONS

During the year donations totalling $15,361 (2006: $13,395) were made by companies in the Group, of which none were made by the Parent.

For and on behalf of the Board this 6th day of August 2007.

**Wayne Boyd**
***Chairman***

**Dean Bracewell**
***Managing Director***

PRICEWATERHOUSECOOPERS

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188 Quay Street
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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 2007 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 2007 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 2007 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 6 August 2007 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

**Chartered Accountants, Auckland**

# STATEMENTS OF FINANCIAL PERFORMANCE

***FOR THE YEAR ENDED 30 JUNE 2007***

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | NOTE | $000 | $000 | $000 | $000 |
| **Operating revenue** | 1 | 283,641 | 256,862 | 26,000 | 25,000 |
| **Net surplus before income tax** | 2 | 40,104 | 39,043 | 25,655 | 24,523 |
| Income tax | 3 | (15,013) | (14,737) | 111 | 218 |
| **Net surplus after income tax attributable to shareholders** | | 25,091 | 24,306 | 25,766 | 24,741 |

NB: All revenue and earnings are from continuing operations.

# STATEMENTS OF MOVEMENTS IN EQUITY

***FOR THE YEAR ENDED 30 JUNE 2007***

| | NOTE | GROUP 2007 $000 | GROUP 2006 $000 | PARENT 2007 $000 | PARENT 2006 $000 |
|---|---|---|---|---|---|
| **Equity at beginning of year** | | 74,940 | 70,498 | 75,865 | 70,988 |
| **Net surplus for the year** | | | | | |
| (being total recognised revenues and expenses) | | 25,091 | 24,306 | 25,766 | 24,741 |
| **Distributions to shareholders** | | | | | |
| Dividends to ordinary shareholders | 4 | (22,799) | (21,637) | (22,799) | (21,637) |
| | | (22,799) | (21,637) | (22,799) | (21,637) |
| **Contributions from shareholders** | | | | | |
| Proceeds from unpaid shares fully paid | 15 | 369 | 942 | 369 | 942 |
| Issue of ordinary shares | 15 | 364 | 831 | 366 | 831 |
| | | 733 | 1,773 | 735 | 1,773 |
| Foreign currency translation reserve | | (8) | - | - | - |
| **Movement in equity for the year** | | 3,017 | 4,442 | 3,702 | 4,877 |
| **Equity at end of year** | | 77,957 | 74,940 | 79,567 | 75,865 |

# STATEMENTS OF FINANCIAL POSITION

***AS AT 30 JUNE 2007***

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | NOTE | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **Current assets** | | | | | |
| Cash and bank balances | 22 | 1,673 | 1,652 | 3 | - |
| Accounts receivable | 5 | 39,215 | 33,417 | 2,056 | 1,517 |
| Inventories | 6 | 5,809 | 5,536 | - | - |
| Other current assets | | 110 | - | - | - |
| Total current assets | | 46,807 | 40,605 | 2,059 | 1,517 |
| **Non-current assets** | | | | | |
| Investments in subsidiaries | 7 | - | - | 121,013 | 121,013 |
| Accounts receivable | 5 | 110 | 293 | 88,633 | 85,518 |
| Fixed assets | 8 | 61,124 | 49,097 | - | - |
| Intangible assets | 9 | 184,552 | 156,156 | - | - |
| Other non-current assets | | 275 | - | - | - |
| Total non-current assets | | 246,061 | 205,546 | 209,646 | 206,531 |
| **Total assets** | | 292,868 | 246,151 | 211,705 | 208,048 |
| **Current liabilities** | | | | | |
| Payables and accruals | 11 | 39,941 | 23,501 | 4 | 49 |
| Hire purchase liabilities | | 86 | - | - | - |
| Provisions | 13 | 317 | 167 | - | - |
| Unearned income | 14 | 21,129 | 19,219 | - | - |
| Total current liabilities | | 61,473 | 42,887 | 4 | 49 |
| **Non-current liabilities** | | | | | |
| Borrowings | 12 | 152,904 | 128,000 | 132,134 | 132,134 |
| Hire purchase liabilities | | 367 | - | - | - |
| Deferred tax liability | 10 | 167 | 324 | - | - |
| Total non-current liabilities | | 153,438 | 128,324 | 132,134 | 132,134 |
| **Total liabilities** | | 214,911 | 171,211 | 132,138 | 132,183 |
| **Net assets** | | 77,957 | 74,940 | 79,567 | 75,865 |
| **Equity** | | | | | |
| Share capital | 15 | 58,117 | 57,384 | 58,119 | 57,384 |
| Retained earnings | 21 | 19,848 | 17,556 | 21,448 | 18,481 |
| Foreign currency translation reserve | | (8) | - | - | - |
| **Total Equity** | | 77,957 | 74,940 | 79,567 | 75,865 |

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 6th day of August 2007.

**Wayne Boyd**
***Chairman***

**Dean Bracewell**
***Managing Director***

# STATEMENTS OF CASH FLOWS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | NOTE | GROUP 2007 $000 INFLOWS (OUTFLOWS) | GROUP 2006 $000 INFLOWS (OUTFLOWS) | PARENT 2007 $000 INFLOWS (OUTFLOWS) | PARENT 2006 $000 INFLOWS (OUTFLOWS) |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | 284,643 | 255,797 | - | - |
| Payments to suppliers and employees | | (222,348) | (202,497) | - | - |
| Interest received | | 190 | 152 | - | - |
| Interest and other costs of finance paid | | (10,691) | (8,786) | - | - |
| Income taxes paid | | (14,233) | (14,174) | (745) | (559) |
| Net cash inflows (outflows) from operating activities | 22 | 37,561 | 30,492 | (745) | (559) |
| **Cash flows from investing activities** | | | | | |
| Payments for fixed assets | | (17,753) | (7,486) | - | - |
| Payments for businesses acquired | 22 | (23,901) | (3,959) | - | - |
| Proceeds from disposal of fixed assets | | 58 | 59 | - | - |
| Investment in short term deposit | | (115) | - | - | - |
| Payment for other investments | | (278) | - | - | - |
| Net cash outflows from investing activities | | (41,989) | (11,386) | - | - |
| **Cash flows from financing activities** | | | | | |
| Dividends to ordinary shareholders | 4 | (22,799) | (21,637) | (22,799) | (21,637) |
| Increase (decrease) in bank borrowings | | 26,233 | 1,000 | - | - |
| Proceeds from unpaid shares fully paid | 15 | 369 | 942 | 369 | 942 |
| HP liabilities repaid | | (589) | - | - | - |
| Loans advanced from subsidiaries | | - | - | 23,178 | 21,254 |
| Net cash inflows (outflows) from financing activities | | 3,214 | (19,695) | 748 | 559 |
| **Net increase (decrease) in cash held** | | (1,214) | (589) | 3 | - |
| Cash at beginning of year | | 1,652 | 2,237 | - | - |
| Cash acquired through acquisition of businesses | | 488 | - | - | - |
| Exchange rate adjustments | | 747 | 4 | - | - |
| **Cash at end of year** | 22 | 1,673 | 1,652 | 3 | - |

# STATEMENT OF ACCOUNTING POLICIES

***FOR THE YEAR ENDED 30 JUNE 2007***

## 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 2007***

**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**

**Foreign currency transactions** – 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.

**Foreign operations** – Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rate in effect at the date of the transaction, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at rates of exchange ruling at balance date.

Exchange differences arising from the translation of independent foreign operations are recognised in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations.

**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:

# STATEMENT OF ACCOUNTING POLICIES

***FOR THE YEAR ENDED 30 JUNE 2007***

| | **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 |

**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. Any 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.

# STATEMENT OF ACCOUNTING POLICIES

***FOR THE YEAR ENDED 30 JUNE 2007***

**p) Borrowing costs**

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

**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 2007***

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **NOTE 1. OPERATING REVENUE** | | | | |
| **Sales revenue** | 283,447 | 256,689 | - | - |
| **Other revenue** | | | | |
| Dividends received from subsidiaries | - | - | 26,000 | 25,000 |
| Interest received | 194 | 173 | - | - |
| | 283,641 | 256,862 | 26,000 | 25,000 |

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **NOTE 2. NET SURPLUS BEFORE INCOME TAX** | | | | |
| Net surplus before income tax has been determined after charging (crediting): | | | | |
| Amortisation of goodwill | 5,810 | 4,970 | - | - |
| Auditors' remuneration | | | | |
| - for audit services | 201 | 153 | - | - |
| - for other assurance services | 9 | 10 | - | - |
| Bad debts written off | 91 | 63 | - | - |
| Depreciation of: | | | | |
| - buildings | 868 | 764 | - | - |
| - leasehold improvements | 301 | 223 | - | - |
| - motor vehicles | 292 | 101 | - | - |
| - equipment | 4,937 | 3,870 | - | - |
| Total depreciation | 6,398 | 4,958 | - | - |
| Transfers to (from) provision for: | | | | |
| - Doubtful debts | (106) | 14 | - | - |
| Interest and borrowing costs paid: | | | | |
| - banks | 10,811 | 9,492 | 1 | 3 |
| - other | - | 28 | - | - |
| Directors' fees | 225 | 225 | 225 | 225 |
| Donations | 15 | 13 | - | - |
| Net loss (gain) on disposal of fixed assets | 10 | (4) | - | - |
| Net foreign exchange loss (gain) | (12) | (10) | - | - |
| Operating lease expenses | 9,264 | 8,493 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | GROUP 2007 $000 | GROUP 2006 $000 | PARENT 2007 $000 | PARENT 2006 $000 |
|---|---|---|---|---|
| **NOTE 3. INCOME TAX** | | | | |
| Net surplus before income tax | 40,104 | 39,043 | 25,655 | 24,523 |
| Prima facie income tax at 33% | 13,234 | 12,884 | 8,466 | 8,092 |
| Tax effect of permanent differences: | | | | |
| Amortisation of goodwill | 1,893 | 1,640 | - | - |
| Dividends | - | - | (8,581) | (8,250) |
| Other | (114) | 213 | 4 | (60) |
| Income tax expense (benefit) | 15,013 | 14,737 | (111) | (218) |
| The taxation charge is represented by: | | | | |
| Current | 14,779 | 13,381 | (111) | (364) |
| Deferred | 234 | 1,356 | - | 146 |
| | 15,013 | 14,737 | (111) | (218) |

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

| | GROUP 2007 $000 | GROUP 2006 $000 |
|---|---|---|
| **Imputation credit account** | | |
| Balance at beginning of year | 14,286 | 11,327 |
| Income tax payments made during the year | 12,936 | 13,617 |
| Imputation credits attaching to dividends paid during the year | (11,237) | (10,658) |
| Balance at end of year | 15,985 | 14,286 |
| At balance date the imputation credits available to shareholders were | 15,985 | 14,286 |

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | PARENT | | | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 CENTS PER SHARE | 2006 CENTS PER SHARE |
| **NOTE 4. DIVIDENDS** | | | | |
| Current year interim dividend | 11,232 | 10,902 | 9.00 | 8.50 |
| Prior year final dividend | 11,567 | 10,735 | 8.75 | 8.50 |
| Supplementary dividends | 745 | 559 | | |
| Foreign investor tax credit | (745) | (559) | | |
| Total dividends recognised in the financial statements | 22,799 | 21,637 | | |
| Current year final dividend, declared subsequent to balance date | 11,580 | 11,230 | 9.00 | 8.75 |

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **NOTE 5. ACCOUNTS RECEIVABLE** | | | | |
| **Current:** | | | | |
| Trade debtors | 34,013 | 29,705 | - | - |
| Provision for doubtful debts | (529) | (635) | - | - |
| | 33,484 | 29,070 | - | - |
| Other debtors and prepaid expenses | 5,731 | 3,715 | 1,197 | 831 |
| Income tax receivable | - | 632 | 859 | 686 |
| | 39,215 | 33,417 | 2,056 | 1,517 |
| **Non-current:** | | | | |
| Share Plan loans receivable from employees | 110 | 293 | - | - |
| Loan to subsidiary | - | - | 88,633 | 85,518 |
| | 110 | 293 | 88,633 | 85,518 |
| **NOTE 6. INVENTORIES** | | | | |
| Finished goods | 4,472 | 4,060 | - | - |
| Ticket stocks, uniforms and consumables | 1,337 | 1,476 | - | - |
| | 5,809 | 5,536 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

## NOTE 7. INVESTMENTS IN SUBSIDIARIES

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 |
| Databank Technologies Pty Limited | Information management |
| 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 2007***

| | GROUP | |
|---|---|---|
| | **2007** | **2006** |
| | **$000** | **$000** |
| **NOTE 8. FIXED ASSETS** | | |
| The Parent Company has no fixed assets (2006: nil). The amounts below are for the Group. | | |
| **Land** | | |
| At cost | 12,707 | 8,275 |
| **Buildings** | | |
| At cost | 23,391 | 18,402 |
| Accumulated depreciation | (3,748) | (2,879) |
| Book value | 19,643 | 15,523 |
| **Leasehold alterations** | | |
| At cost | 2,839 | 1,503 |
| Accumulated depreciation | (1,154) | (644) |
| Book value | 1,685 | 859 |
| **Motor vehicles** | | |
| At cost | 2,664 | 576 |
| Accumulated depreciation | (1,101) | (198) |
| Book value | 1,563 | 378 |
| **Equipment** | | |
| At cost* | 43,831 | 37,064 |
| Accumulated depreciation | (18,305) | (13,002) |
| Book value | 25,526 | 24,062 |
| **Total** | | |
| At cost | 85,432 | 65,820 |
| Accumulated depreciation | (24,308) | (16,723) |
| Book value | 61,124 | 49,097 |

*Included in this amount for 2007 is equipment work in progress of $2.3 million (2006: $3.5 million) for which depreciation had not commenced; and capitalised borrowing costs of $0.3 million (2006: $0.2 million).

The Directors consider the value of freehold land and buildings to be $46.8 million based on independent valuations performed in July 2006 (total $37.2 million) and land and buildings purchased subsequent to the valuation, recorded at cost.

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **NOTE 9. INTANGIBLE ASSETS** | | | | |
| Goodwill acquired | 107,703 | 84,843 | - | - |
| Accumulated amortisation | (23,267) | (17,487) | - | - |
| | 84,436 | 67,356 | - | - |
| Brand names acquired | 100,116 | 88,800 | - | - |
| | 184,552 | 156,156 | - | - |

The value of brand names has been reviewed as described in the Statement of Accounting Policies note (h). An independent valuation of these brand names was conducted by Deloitte in July 2007. This independent report assessed the fair market value of the brand names as at 30 June 2007 to be between $177.5 million and $197.7 million, including the DataBank brand acquired in July 2006. The Directors are of the opinion that there has been no impairment in the value of brand names and goodwill acquired, as disclosed.

| **NOTE 10. DEFERRED TAX ASSET (LIABILITY)** | | | | |
|---|---|---|---|---|
| Balance at beginning of year | (324) | 1,032 | - | 146 |
| Transfer to statement of financial performance (Note 3) | (234) | (1,356) | - | (146) |
| Deferred tax asset acquired | 393 | - | - | - |
| Other | (2) | - | - | - |
| Balance at end of year | (167) | (324) | - | - |

| **NOTE 11. PAYABLES AND ACCRUALS** | | | | |
|---|---|---|---|---|
| Trade creditors | 29,346 | 15,187 | 4 | (12) |
| Employee entitlements | 4,987 | 3,464 | - | - |
| Other creditors and accruals | 5,351 | 4,850 | - | 61 |
| Income tax payable | 257 | - | - | - |
| | 39,941 | 23,501 | 4 | 49 |

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **NOTE 12. BORROWINGS** | | | | |
| **Non-current:** | | | | |
| Bank borrowings | 152,904 | 128,000 | - | - |
| Loans from subsidiaries (Note 20) | - | - | 132,134 | 132,134 |
| | 152,904 | 128,000 | 132,134 | 132,134 |

**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:

| | NEW ZEALAND DOLLARS | | AUSTRALIAN DOLLARS | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **BNZ** | | | | |
| – total bank overdraft facility available | 2,000 | 2,000 | - | - |
| – amount of credit unused | 2,000 | 2,000 | - | - |
| **Westpac** | | | | |
| – total loan facilities available | 77,500 | 77,500 | 20,000 | 20,000 |
| – amount of facilities used | 63,000 | 65,000 | 13,800 | - |
| – amount of facilities unused | 14,500 | 12,500 | 6,200 | 20,000 |
| **ANZ** | | | | |
| – total loan facilities available | 77,500 | 77,500 | 7,500 | 7,500 |
| – amount of facilities used | 69,000 | 63,000 | 5,200 | - |
| – amount of facilities unused | 8,500 | 14,500 | 2,300 | 7,500 |
| **NAB (Australia)** | | | | |
| – total bank overdraft facility | - | - | 200 | - |
| – amount of credit unused | - | - | 200 | - |
| Effective Interest Rate (as amended for interest rate hedges) | 7.72% | 7.25% | 6.75% | -* |

The finance facilities summarised above are available until November 2008.

* No funds had been drawn from the AUD facilities as at 30 June 2006.

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

## NOTE 13. PROVISIONS

The Parent Company has no provisions (2006: nil). The amounts below are for the Group.

| 2007 ($000) | CUSTOMER CLAIMS | LONG SERVICE LEAVE | RESTRUCTURING | SUPPLIER CONTRACTS | LEASE OBLIGATIONS | TOTAL |
|---|---|---|---|---|---|---|
| Balance at beginning of year | 167 | - | - | - | - | 167 |
| Acquisition of subsidiary | 41 | 26 | - | - | - | 67 |
| Current year provision | - | 17 | - | - | 66 | 83 |
| Expenses incurred | - | - | - | - | - | - |
| Balance at end of year | 208 | 43 | - | - | 66 | 317 |
| **2006 ($000)** | | | | | | |
| Balance at beginning of year | 250 | - | 480 | 228 | - | 958 |
| Acquisition of subsidiary | - | - | - | - | - | - |
| Current year provision | (83) | - | - | (228) | - | (311) |
| Expenses incurred | - | - | (480) | - | - | (480) |
| Balance at end of year | 167 | - | - | - | - | 167 |

### Explanation of provisions

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.

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

Provision for restructuring related to expenses of reorganising the business activities of a subsidiary. This expenditure had been completed by the end of October 2005.

Provision for supplier contracts related to estimated payments to suppliers resulting from contract amendments. No such payments are now expected to become payable and the provision was reversed during the 2006 financial year.

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

| | GROUP 2007 $000 | GROUP 2006 $000 | PARENT 2007 $000 | PARENT 2006 $000 |
|---|---|---|---|---|
| **NOTE 14. UNEARNED INCOME** | | | | |
| Income received in advance | 21,129 | 19,219 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **NOTE 15. SHARE CAPITAL** | | | | |
| Issued and Paid Up Capital: | | | | |
| **Ordinary shares** | | | | |
| Balance at beginning of year | 57,384 | 55,611 | 57,384 | 55,611 |
| Shares issued during the year | 364 | 831 | 366 | 831 |
| Unpaid shares fully paid | 369 | 942 | 369 | 942 |
| Balance at end of year | 58,117 | 57,384 | 58,119 | 57,384 |

**Fully paid ordinary shares**

As at 30 June 2007 there were 128,554,935 shares issued and fully paid (2006: 128,261,696). 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 193,239 (2006: 1,970,631) unpaid shares being fully paid up in March for $369,243 (2006: $942,106).

**Unpaid ordinary shares**

As at 30 June 2007 there were nil unpaid shares on issue (2006: 193,239). Unpaid shares have no voting or dividend rights and would not participate in any surplus on winding up.

**Employee Share Plan**

On 30 August 2006, the Company issued 100,000 fully paid ordinary shares at $3.33 to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan ('the Share Plan'). In addition, 11,604 shares, previously held by the Trustee as unallocated were allocated to participating employees. The terms of the issue were approved by the Freightways Limited Board. In total, participating employees were provided with interest-free loans of $0.4 million to fund the purchase of shares in the Share Plan. The loans are repayable over three years commencing September 2006. The Share Plan operates in accordance with section DC12 of the New Zealand Income Tax Act 2004 and the Trustees are appointed by the Freightways Limited Board.

At 30 June 2007 the Trustee held 317,765 (2006: 285,483) fully paid ordinary shares representing 0.2% (2006: 0.2%) of all issued ordinary shares of which 742 (2006: 12,346) were unallocated. These shares are held for allocation in the future.

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | GROUP | |
|---|---|---|
| | **2007** | **2006** |
| **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)** | 25,091 | 24,306 |
| **Weighted average number of ordinary shares ('000):** | | |
| Ordinary shares on issue at beginning of year | 128,262 | 125,971 |
| Shares issued – August 2005 | - | 291 |
| Unpaid shares fully paid – February 2006 | - | 354 |
| Unpaid shares fully paid – March 2006 | - | 357 |
| Shares issued – August 2006 | 100 | - |
| Unpaid shares fully paid – March 2007 | 193 | - |
| | 128,555 | 126,973 |
| **Basic earnings per share (cents)** | 19.5 | 19.1 |
| **Diluted Earnings Per Share** | | |
| The calculation of diluted earnings per share is based on: | | |
| **Diluted net surplus attributable to ordinary shareholders ($000)** | 25,091 | 24,306 |
| **Diluted weighted average number of ordinary shares ('000):** | | |
| Weighted average number of ordinary shares | 128,555 | 126,973 |
| Unpaid shares | - | 193 |
| | 128,555 | 127,166 |
| **Diluted earnings per share (cents)** | 19.5 | 19.1 |

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| **NOTE 17. CAPITAL AND LEASING COMMITMENTS** | | | | |
| The Group leases certain premises, motor vehicles and plant & equipment, and as a result has the following lease commitments: | | | | |
| – Payable not later than one year | 7,407 | 7,212 | - | - |
| – Payable between one and two years | 4,706 | 5,295 | - | - |
| – Payable between two and five years | 9,951 | 10,174 | - | - |
| – Payable later than five years | 12,408 | 12,391 | - | - |
| | 34,472 | 35,072 | - | - |

As at 30 June 2007 the group had total capital commitments in New Zealand and Australia of $1.2 and AUD2.4 million, respectively. New Zealand commitments related to plant & equipment. Australian commitments related to land and buildings.

The Group had no other capital commitments at 30 June 2007 (2006: nil).

The Parent Company had no capital commitments at 30 June 2007 (2006: nil).

## NOTE 18. CONTINGENT LIABILITIES

The Group had no contingent liabilities at 30 June 2007 (2006: nil).

## NOTE 19. STATEMENT OF OPERATIONS BY SEGMENTS

During the year, Group companies operated predominantly in the express package industry segment in New Zealand.

## NOTE 20. TRANSACTIONS WITH RELATED PARTIES

**Loan to subsidiary:** During the year net advances of $29 million were made by the Company to FEL, which together with $26 million of dividends receivable from FEL, resulted in a loan to subsidiary balance as at year end of $89 million (2006: $86 million). The receivable balance is set out in Note 5. There is no interest payable on this loan.

**Loan from subsidiary:** The Parent Company has a loan agreement with its wholly-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 Parent 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 2007***

**Unpaid shares:** At balance date, there were no remaining unpaid shares on issue to the Parent Company's non-executive directors or their nominees; (2006: 193,239). At the prior balance date (30 June 2006) the 193,239 unpaid shares on issue represented 0.2% of all issued ordinary shares.

During the year, the Parent Company's non-executive directors (or their nominees) fully paid up the final tranche (tranche 3) of their respective shareholdings. The terms of the three tranches are 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, which was $1.8094 per share); and

(iii) for tranche 3, the Tranche 2 Issue Price plus 15% less any cash dividends declared during the year ended 31 December 2006 (Tranche 2 Issue Price, which was $1.9108 per share).

The shares rank equally with the existing ordinary shares as to voting and dividend rights. 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 Christchurch International Airport Limited, Telecom Corporation of New Zealand Limited, Meridian Energy Limited. In addition, a subsidiary purchases steel racking from Capital Racking Limited. Capital Racking Limited purchases steel from Vulcan Steel Limited, of which Wayne Boyd is the Chairman.

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

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

| | GROUP 2007 $000 | GROUP 2006 $000 | PARENT 2007 $000 | PARENT 2006 $000 |
|---|---|---|---|---|
| **NOTE 21. RETAINED EARNINGS** | | | | |
| Balance at beginning of year | 17,556 | 14,887 | 18,481 | 15,377 |
| Net surplus for the year | 25,091 | 24,306 | 25,766 | 24,741 |
| Dividends to parent shareholders (Note 4) | (22,799) | (21,637) | (22,799) | (21,637) |
| Balance at end of year | 19,848 | 17,556 | 21,448 | 18,481 |

| | GROUP 2007 $000 | GROUP 2006 $000 | PARENT 2007 $000 | PARENT 2006 $000 |
|---|---|---|---|---|
| **NOTE 22. CASH FLOW INFORMATION** | | | | |
| **Reconciliation of cash** | | | | |
| Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to Cash at bank in the Statement of Financial Position | 1,673 | 1,652 | 3 | - |
| **Reconciliation of net surplus after income tax to net cash provided by operating activities** | | | | |
| Net surplus after income tax | 25,091 | 24,306 | 25,766 | 24,741 |
| Depreciation | 6,398 | 4,958 | - | - |
| Amortisation of goodwill | 5,810 | 4,970 | - | - |
| Movement in provision for doubtful debts | (106) | 14 | - | - |
| Movement in deferred income tax | 234 | 1,356 | - | (146) |
| Net loss (gain) on disposal of fixed assets | 10 | (4) | - | - |
| Net foreign exchange loss (gain) | (12) | (10) | - | - |
| Transactions settled through loans from subsidiary | - | - | (25,926) | (24,741) |
| Movement in working capital, net of effects of acquisition (disposal) of businesses and subsidiaries: | | | | |
| (Increase) decrease in receivables | (5,139) | (2,488) | (366) | (819) |
| (Increase) decrease in inventories | (273) | (2,012) | - | - |
| Increase (decrease) in trade and other creditors | 4,667 | 196 | (45) | 1,107 |
| Increase (decrease) in income taxes payable | 881 | (794) | (174) | (701) |
| Net cash provided by operating activities | 37,561 | 30,492 | (745) | (559) |

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

**Acquisition of Subsidiary and Businesses**

During the year the Parent Company and its subsidiaries acquired a subsidiary and a number of complementary businesses for cash:

| | $000 |
|---|---|
| – Databank Technologies Pty Limited | 21,425 |
| – Pete's Post (master franchisor rights) | 1,313 |
| – Other | 1,163 |
| | 23,901 |

All amounts are stated in New Zealand dollar equivalent.

Details of the acquisitions are as follows:

| | SUBSIDIARY & BUSINESSES ACQUIRED | |
|---|---|---|
| | 2007 $000 | 2006 $000 |
| **Fair value of assets & liabilities acquired:** | | |
| Net tangible assets | 2,203 | 75 |
| Goodwill | 23,548 | 2,714 |
| Brand names | 11,311 | 1,400 |
| | 37,062 | 4,189 |
| **Consideration:** | | |
| Cash consideration | 23,671 | 3,959 |
| Balance of purchase price payable | - | 230 |
| Purchase consideration payable upon achievement of 2007 earnings target | 13,391 | - |
| | 37,062 | 4,189 |
| **Per Statement of Cash Flows:** | | |
| Cash consideration | 23,671 | 3,959 |
| Balance of a prior period acquisition paid in the current year | 230 | - |
| Total cash consideration | 23,901 | 3,959 |

During the year the Parent Company's subsidiary, FEL, settled a number of transactions on behalf of the Parent Company and the amounts were deducted from the outstanding loan receivable from FEL. The outstanding balance as at 30 June 2007 is set out in Note 12.

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

## NOTE 23. SIGNIFICANT EVENTS AFTER BALANCE DATE

### Acquisitions

MSS Christchurch

On 2 July 2007, Freightways Limited (FRE) acquired the business and assets of MSS Christchurch (MSS). The purchase price for MSS was $1 million. Inclusive of synergies, incremental EBITDA of $0.3 million is expected to be achieved in the 2008 financial year as a result of this acquisition.

Shred-X

On 2 July 2007, FRE acquired the business and assets of Shred-X, a Queensland-based document destruction and paper recycling operation.

Payment of the purchase price of up to AUD8.7 million will be made in two instalments in July and September after finalisation of the results for the year ended 30 June 2007. Incremental EBITDA is expected to exceed AUD1.4 million in the 2008 financial year as a result of this acquisition. The founders of Shred-X have agreed to remain and to work alongside FRE in further developing and growing the business. An incentive arrangement for the founders has been agreed based on the delivery of future incremental earnings and will be paid in 2011.

In addition, FRE has entered into a 50/50 joint venture arrangement with the founders of Shred-X to purchase land and develop a purpose-built facility in Yatala, Queensland. FRE's share of the cost of this property development is AUD2.5 million.

Document Destruction and Paper Recycling (DDPR)

On 20 July 2007, FRE acquired the business and assets of Document Destruction and Paper Recycling Pty Ltd (DDPR), a Brisbane-based document destruction operation. The purchase price for DDPR was AUD3.5 million. Incremental annual EBITDA of AUD0.8 million is expected to be achieved following the merger of operations with Shred-X and realisation of the associated synergies.

All of these acquisitions have been funded from existing finance facilities.

### Declared dividends

On 6 August 2007, the Directors declared a final dividend of 9.0 cents per share ($11.6 million) in respect of the year ended 30 June 2007. The dividend will be paid on Monday, 1 October 2007. The record date for determination of entitlements to the dividend is Friday, 14 September 2007.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

## NOTE 24. 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 | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| Bank balances | 1,673 | 1,652 | - | - |
| Receivables | 35,045 | 31,559 | - | - |

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

– Policy:

  The Group has a treasury policy that requires foreign currency denominated risk to be effectively hedged against adverse fluctuations in foreign currency exchange rates.

– Foreign currency denominated commitments:

  Group policy is to hedge any substantial foreign currency denominated commitments.

– Overseas subsidiaries:

  Group policy is to create a natural hedge against the foreign exchange exposure to balance sheet currency translation risk. To achieve this the Group will maximise the borrowings in the local currency of the overseas subsidiary up to the total amount of the foreign currency denominated investment.

  Group policy is to hedge earnings of any overseas subsidiaries, where those earnings are material and reasonably certain.

– Unrecognised balances:

  There were no foreign exchange instruments outstanding at balance date.

# NOTES TO THE FINANCIAL STATEMENTS

***FOR THE YEAR ENDED 30 JUNE 2007***

**Interest rate risk**

Borrowings of the Group are at the market interest rate current at the time of drawdown and are re-priced at intervals not exceeding 180 days.

– 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 65% (2006: 61%) of borrowings are effectively hedged.

– Unrecognised balances:

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

| | NZD | | AUD | |
|---|---|---|---|---|
| | 2007 $000 | 2006 $000 | 2007 $000 | 2006 $000 |
| Interest rate swaps | 67,000 | 67,000 | 15,000 | - |
| Interest rate caps | 11,000 | 5,000 | - | - |
| Interest rate collars (cap & floor) | 5,000 | 12,000 | - | - |
| | 83,000 | 84,000 | 15,000 | - |

The Parent Company did not have any interest rate contracts outstanding at balance date.

These financial instruments have the following maturity profile:

| NZD | <1 YEAR $000 | 1-3 YEARS $000 | 3-5 YEARS $000 | 5-10 YEARS $000 |
|---|---|---|---|---|
| Interest rate swaps | 7,000 | 25,000 | 15,000 | 20,000 |
| Interest rate caps | 11,000 | - | - | - |
| Interest rate collars (cap & floor) | - | - | 5,000 | - |
| | 18,000 | 25,000 | 20,000 | 20,000 |

| AUD | <1 YEAR $000 | 1-3 YEARS $000 | 3-5 YEARS $000 | 5-10 YEARS $000 |
|---|---|---|---|---|
| Interest rate swaps | - | 4,000 | 4,000 | 7,000 |
| | - | 4,000 | 4,000 | 7,000 |

The cash settlement as measured by the current market value is:

| | NZD | | AUD | |
|---|---|---|---|---|
| | $000 RECEIVABLE | $000 PAYABLE | $000 RECEIVABLE | $000 PAYABLE |
| Interest rate swaps | 3,124 | - | 339 | - |
| Interest rate caps & collars | 162 | - | - | - |
| | 3,286 | - | 339 | - |

# NOTES TO THE FINANCIAL STATEMENTS

*FOR THE YEAR ENDED 30 JUNE 2007*

– Loans:

Group

Interest rates on bank facilities are based on the 90-day bank bill rate at the time of drawdown plus a commercial margin.

Parent

The Parent 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.

**Credit facilities**

The Group has bank overdraft facilities of $2,000,000 (NZD) and $200,000 (AUD). Of these facilities, 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 described above.

## NOTE 25. 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**

A project commenced in 2004 to plan for and implement NZ 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.

The project team is currently establishing the opening NZ IFRS balance sheet as at 1 July 2006 to determine comparative information for the initial reporting under NZ IFRS. The next phase of the project will be to finalise the opening NZ IFRS balance sheet and prepare the financial statements under NZ IFRS for the half year ended 31 December 2007.

**Adoption of IFRS**

The Group will adopt IFRS for the first time 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 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 47, 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 2007*

| 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 2007, the amount of that increase would have been $5.8 million.<br><br>As at 30 June 2007, 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 $5.8 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 2007 would result in both Total Assets and Equity increasing by approximately $3.6 million.<br><br>As the Group's interest rate hedging instruments are all considered effective hedges as at 30 June 2007, 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.<br><br>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 2007 indicated that if IFRS had been applied as at balance date additional deferred tax balances may need to be recognised with respect to revalued assets.<br><br>The tax expense would remain 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.

# SHAREHOLDER INFORMATION

## Stock exchange listing

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

**Distribution of shareholders and shareholdings** as at 20 July 2007

| | NUMBER OF HOLDERS | NUMBER OF SHARES HELD | % OF ISSUED CAPITAL |
|---|---|---|---|
| **Size of shareholding** | | | |
| 1 to 1,999 | 1,673 | 2,053,960 | 1.60 |
| 2,000 to 4,999 | 2,325 | 7,104,398 | 5.53 |
| 5,000 to 9,999 | 1,515 | 9,787,515 | 7.61 |
| 10,000 to 49,999 | 1,068 | 17,406,394 | 13.53 |
| 50,000 to 99,999 | 50 | 3,209,066 | 2.50 |
| 100,000 to 499,999 | 40 | 8,068,601 | 6.28 |
| 500,000 to 999,999 | 12 | 8,576,500 | 6.67 |
| 1,000,000 and over | 18 | 72,348,501 | 56.28 |
| Total shareholders | 6,701 | 128,554,935 | 100.00 |
| **Geographic distribution** | | | |
| New Zealand | 6,617 | 121,590,859 | 94.59 |
| Australia | 40 | 6,755,022 | 5.25 |
| Other | 44 | 209,054 | 0.16 |
| | 6,701 | 128,554,935 | 100.00 |

**Substantial security holders** as at 20 July 2007

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 | 13,707,440 | 10.66 |
| Harris Associates LP | 9,641,600 | 7.50 |
| ING (NZ) Limited | 6,871,427 | 5.35 |

The total number of issued voting securities of the Company as at 20 July 2007 was 128,554,935.

# SHAREHOLDER INFORMATION

**Top twenty registered shareholders of listed shares** as at 20 July 2007

| | NUMBER OF SHARES HELD | % OF ISSUED CAPITAL |
|---|---|---|
| National Nominees New Zealand Limited* | 15,018,037 | 11.68 |
| Tea Custodians Limited* | 10,143,115 | 7.89 |
| Port Devon Limited | 5,445,681 | 4.24 |
| FNZ Custodians Limited | 5,302,255 | 4.12 |
| NZ Superannuation Fund Nominees Limited* | 5,078,118 | 3.95 |
| Citibank Nominees (New Zealand) Limited* | 4,079,686 | 3.17 |
| HSBC Nominees (New Zealand) Limited* | 3,444,125 | 2.68 |
| ANZ Nominees Limited* | 3,402,375 | 2.65 |
| Investment Custodial Services Limited | 3,253,880 | 2.53 |
| Premier Nominees Limited – ING Wholesale Equity Select* | 3,091,998 | 2.41 |
| Accident Compensation Corporation* | 2,674,577 | 2.08 |
| TEA Custodians Ltd No 2 Account* | 2,520,494 | 1.96 |
| Custodial Services Limited | 2,312,559 | 1.80 |
| Lucerne Road Investments Limited | 2,002,896 | 1.56 |
| HSBC Nominees (NZ) Limited* | 1,234,625 | 0.96 |
| Custody and Investment Nominees Limited* | 1,185,309 | 0.92 |
| Private Nominees Limited | 1,110,865 | 0.86 |
| ASB Nominees Limited | 1,047,906 | 0.82 |
| Custodial Services Limited | 905,410 | 0.70 |
| AMP Investments Strategic Equity Growth Fund* | 890,803 | 0.69 |
| | 74,144,714 | 57.67 |

*held through NZ Central Securities Depository Limited

# CORPORATE GOVERNANCE STATEMENT

This statement is an overview of the Group's main corporate governance policies, practices and processes adopted or followed by the Board. The Group's corporate governance processes do not materially differ from the principles set out in the NZSX 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 four 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 independent non-executive Directors.

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

**Nominations Committee:** Wayne Boyd (Chairman), Sir William Birch, Warwick Lewis, Sue Sheldon and Dean Bracewell.

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 2007 financial year:

| | FULL | BOARD COMMITTEES | | |
|---|---|---|---|---|
| | BOARD | AUDIT & RISK | REMUNERATION | NOMINATIONS |
| Wayne Boyd | 10 | - | 3 | 1 |
| Dean Bracewell | 11 | - | - | 1 |
| Sir William Birch | 11 | 3 | 3 | 1 |
| Warwick Lewis | 11 | 3 | - | 1 |
| Sue Sheldon | 11 | 3 | - | 1 |
| Meetings held | 11 | 3 | 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.

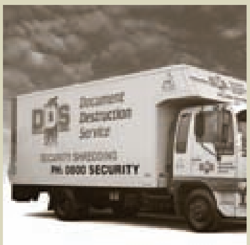
## SHARE TRADING BY DIRECTORS AND MANAGEMENT

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.


CASTLE
PARCELS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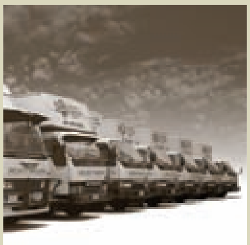
Service
SECURITY SHREDDING
PH: 0800 SECURITY



# 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.

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www.sub60.co.nz
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**New Zealand Couriers Limited**
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AUCKLAND
Telephone: 09 571 9600
www.nzcouriers.co.nz

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

**Castle Parcels Limited**
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**Shred-X Pty Limited**
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**Online Security Services Limited**
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Telephone: 09 580 4360
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**Fieldair Holdings Limited**
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