Freightways

ANNUAL REPORT | 2008

Freightways

Freightways

New Zealand Couriers
www.nzcouriers.co.nz

Post Haste Couriers
www.posthaste.co.nz

Castle Parcels
www.castleparcels.co.nz

Now Couriers
www.nowcouriers.co.nz

SUB60
www.sub60.co.nz

Kiwi Express Couriers
www.kiwiexpress.co.nz

Security Express

DX Mail
www.dxmail.co.nz

Parceline Express

Online Security Services
www.onlinesecurity.co.nz

Document Destruction Service
www.destruction.co.nz

Data Security Services
www.datasecurity.co.nz

Archive Security
www.onlinerecords.co.nz

Databank
www.databank.com.au

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

Air Freight NZ

Fieldair Engineering
www.fieldair.co.nz

Freightways Information Services

COMPANY PARTICULARS

BOARD OF DIRECTORS

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

REGISTERED OFFICE

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

AUDITORS

PricewaterhouseCoopers
188 Quay Street
Auckland
DX CP24073

SHARE REGISTRAR

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

STOCK EXCHANGE

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

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

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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. Subsequent acquisitions and business development have positioned Freightways information management operations across Australia's eastern seaboard.

Express package and business mail

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

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

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

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

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

Information management

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

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

Internal service providers

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

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


CASTLE
PARCELS
CASTLE
PARCELS

FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	2008 $000	2007 $000	PERCENTAGE VARIANCE
Operating revenue		323,910	283,447	14%
EBITA	(i)	60,478	56,531	7%
Profit for the year		32,250	30,832	5%
Depreciation & software amortisation		7,985	6,398	25%
Net interest expense and finance costs		14,420	10,808	33%
Net operating cash flows before interest and tax		67,482	62,295	8%
Earnings per share (cents)		25.1	24.0	5%
Dividends to ordinary shareholders		23,797	22,799	4%

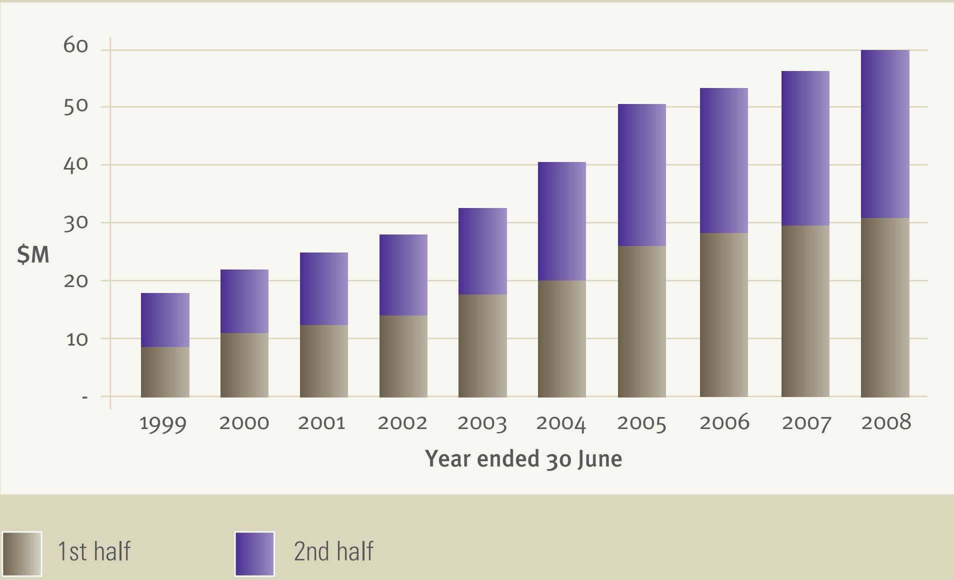
Note:
(i) Operating profit before interest and income tax

FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2008

FREIGHTWAYS OPERATING 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 THE CHAIRMAN AND MANAGING DIRECTOR

The Directors are pleased to present the financial results of Freightways Limited (Freightways) for the year ended 30 June 2008. Highlights for the year have included the successful execution of Freightways' growth strategy in the Australian market, a sound result from our core express package business in a challenging domestic market, outstanding performance from the information management division and the delivery of another record result.

Operating performance

The results for this full year have been prepared in accordance with NZIFRS for the first time. As there is no longer a charge for goodwill amortisation, the EBIT and NPAT for the prior corresponding period have also had goodwill amortisation excluded for comparative purposes.

Consolidated operating revenue of $324 million for the full year was 14% higher than the prior corresponding period.

Earnings before interest, tax and depreciation (EBITDA) of $68.5 million for the full year was 9% higher than the prior corresponding period, while earnings before interest and tax (EBITA) of $60.5 million for the full year was 7% higher than the prior corresponding period.

Consolidated net profit after tax (NPAT) of $32.3 million for the full year was 5% higher than the prior corresponding period.

Cash generated from operations before interest and tax of $67.5 million was 8% higher than the prior corresponding period.

Dividend

The Directors have declared a final dividend of $11.9 million reflecting this sound full year result. This translates to 9.25 cents per share, fully imputed at a tax rate of 33%, which will be paid on 30 September 2008. The record date for determination of entitlements to the dividend is 12 September 2008. This brings the total payout in respect of the year to $24.1 million or 18.75 cents per share, fully imputed, and is 4% higher than the prior year.

REVIEW OF OPERATIONS

Express package and business mail

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

Freightways' primary objective is to defend and grow its core express package business. A vast number of initiatives are implemented by a very experienced and capable team of people to achieve this objective. The express package operating environment has been challenging with negative organic volume growth, fluctuating month-on-month volumes and rising costs, particularly in relation to fuel. Despite these pressures, Freightways has been careful to continue to make decisions for the long-term good of the business. As such, it has continued to carry capacity in its air and road linehaul network and invest in its facilities, technology, customer service initiatives and, most importantly, in the training and development of its people. Freightways' experience is that the work it does today during these quieter times will determine its ability to reap the benefits from future growth.

The increased cost of fuel has naturally had a significant impact on Freightways' express package businesses. Recovery of this cost from customers lags the actual cost incurred and in a period of rapidly escalating fuel prices, as has been experienced throughout the second half of 2008, it means that some cost recovery will not occur until the point in time when the fuel price levels off or decreases. Freightways' business model is such that it incentivises productivity right through to the contractors that perform its front-line courier deliveries. As such Freightways ensures it is operating as efficiently as possible and is using its fuel resource wisely.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

The NOW Couriers business has, in its first three months of ownership, delivered against initial expectations. NOW Couriers operates a package delivery business in the metropolitan Auckland market and provides nationwide overnight services through the established networks of Castle Parcels and Post Haste Couriers.

The earnings performance of Freightways' express package business is slightly above the prior corresponding period. The strength and flexibility of Freightways' business model and the focus of its people are evident in the delivery of this result in a very challenging operating environment.

DX Mail operates in New Zealand's postal services market. In recent years, DX Mail has developed its own street delivery network in a number of city centres around New Zealand and gained real traction in the market by winning several important new customers. This market support demonstrates the value customers attribute to DX Mail's provision of a competitive postal service to that of the Government-owned NZ Post.

DX Mail is closely integrated with Freightways' express package business that performs the majority of DX Mail's pick-up services. DX Mail also operates from the premises of the express package businesses, as well as from its own network of over 250 postal exchanges located throughout New Zealand. DX Mail completes its own street delivery of mail in selected areas of Southland, Canterbury, Wellington, Manawatu, Wanganui, Taranaki, Hawkes Bay, Bay of Plenty and Waikato. DX Mail's strategy is to continue to develop this street delivery network. In the meantime it also accesses the NZ Post network for the delivery of a significant share of its mail volumes in areas where it is not represented itself.

Despite significantly growing its overall volume and revenue, DX Mail has returned a disappointing earnings result for the second half of the year due to a changing business mix affecting margins. A reduction in higher margin box-to-box business mail, particularly from the legal and travel sectors where DX Mail has traditionally had a very strong presence, has contributed to this change in business mix. In particular, physical airline tickets and documentation related to property conveyance have been substituted by electronic options. DX Mail has replaced this lost volume with lower margin general postal volumes. In addition, DX Mail has also had to invest in adjusting its operations to enable it to comply with the new pricing-in-proportion regime introduced to the market by NZ Post in March 2008.

DX Mail's contribution to Freightways' earnings remains at this stage relatively small.

Information management

Freightways views the information management market as an emerging growth opportunity, as evidenced by the recent acquisitions it has completed, both in New Zealand and Australia. Within the information management market, Freightways offers specialist off-site management of electronic media in climate-controlled vaults, archiving and physical storage of documents and document destruction services to a wide range of business customers.

Freightways' information management businesses are experiencing strong growth on both sides of the Tasman and continue to demonstrate their resilience to the current economic downturn. In New Zealand, the businesses of Archive Security, Data Security Services and Document Destruction Services are based in five key locations that enable the provision of a national service. In Australia, the businesses of DataBank and Shred-X are concentrated in New South Wales, Victoria and Queensland. During 2008 DataBank established a new branch in South Australia and recently acquired the businesses of National Records Managers (Australian Capital Territory) and Moorside Document Storage (Victoria).

In July 2007, Freightways announced the acquisition of the document destruction businesses of Shred-X and Document Destruction & Paper Recyclers in Queensland. These acquisitions have delivered against Freightways' initial expectations and also enabled the closer investigation of further growth opportunities within Australia. Shred-X recently acquired Fine Paper Suppliers in Victoria.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

Both DataBank and Shred-X offer a national service, using agents in states where they have no established operations.

Accelerating growth has contributed to the strong performance of Freightways' information management businesses. This growth is being driven by an increasing awareness in the market for the need to professionally and securely manage the increasing volume of business information, meet increasing compliance requirements including those mandated by Australian privacy legislation, manage risk and assess the cost-benefit of outsourcing. Specifically, in regard to document destruction, there is a growing market demand to securely destroy documents and recycle paper.

During 2008 Freightways embarked on increasing its operating capacity in a number of locations in both New Zealand and Australia to ensure it was able to cope with the growing market demand for its information management services. The information management business currently contributes approximately 15% of Freightways' revenue and earnings. The performance of this business has been outstanding. Freightways' information management business has delivered a strong contribution to the group's overall result.

Internal service providers

Fieldair Holdings Limited provides airfreight linehaul services, Parceline Express provides road linehaul services and Freightways Information Services provides IT support to Freightways' front-line businesses. All three internal service providers have continued to deliver outstanding service. Capacity in all three of these businesses exists to accommodate the future growth that is expected from the express package and business mail division.

Corporate costs have increased with the establishment of an office in Australia to support the development and growth of our Australian businesses. Freightways' finance facilities were renegotiated in August 2007 and extended out to November 2010. Additional funding headroom has also been negotiated to enable the execution of any near-term incremental acquisition opportunities. During the year, Freightways increased its borrowings to support its recent growth and capacity initiatives. While approximately 50% of Freightways' total debt is hedged, the group's weighted average interest rate on its borrowings has increased as a result of the higher cost of variable rate borrowings during a time of increasing interest rates in the general market.

OUTLOOK

Freightways' core express package business is expected to continue to perform soundly overall, although fluctuating month-on-month volume such as is currently being experienced makes it difficult to accurately forecast near-term performance. While some cost increases are expected to moderate in the 2009 financial year, the cost of fuel is naturally very difficult to predict. Pricing strategies are, however, in place to recharge the cost of fuel when it rises above published benchmarks. Cost surprises, such as the decision taken by the New Zealand Government to significantly increase the cost of Road User Charges without notice, do not contribute to a stable operating environment. Nevertheless, Freightways remains optimistic about the prospects of its core express package business.

Freightways' business mail operation is expected to improve its year-on-year performance in 2009. Despite operating in a relatively volatile market and competing against a Government-owned business, DX Mail continues to enjoy growing market support.

Freightways' information management businesses, both in New Zealand and Australia, are expected to continue their positive development. The cost of recently increased capacity to accommodate demand will result in a near-term margin reduction. However, total earnings are expected to increase as the benefit of growth initiatives are realised. As new capacity is utilised over the medium term, incremental revenue growth is expected to drive margins back to 2008 levels.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

In recent years, Freightways has successfully embarked on diversifying its activities both geographically and deeper into the information management market. Freightways will continue to seek and develop growth opportunities to support this strategy and continue to explore other opportunities that complement its existing capabilities.

In the near term, management expect Freightways' performance to continue the trend shown in this and recent results announcements, albeit the performance of the New Zealand economy will influence this outcome. In the medium to long-term, Freightways is exceptionally well positioned to reap the benefits of any improvement in the New Zealand marketplace.

CONCLUSION

In a challenging operating environment, Freightways has delivered a record result and better positioned itself for future growth. Its core business has performed well and its information management business has delivered outstanding performance. This result has enabled Directors to declare the payment of a final dividend that lifts the annual payout 4% above last year's level. Freightways expects to continue achieving positive performance for its shareholders and other stakeholders, subject to business factors beyond its control.

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

Wayne Boyd
Chairman
18 August 2008

Dean Bracewell
Managing Director

DIRECTORS' REPORT

The Directors of Freightways Limited (Freightways) resolved to submit the following report with respect to the financial position of the Company and the Group as at 30 June 2008 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.

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, Chairman of Investment Research Group Limited and is a trustee of the MFL and SIL Superannuation funds. Sir William was knighted by the Queen for public services in 1999.

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 Smiths City Group Limited, FibreTech NZ Limited and Electronic Transaction Services Limited. Sue is a former President of the Institute of Chartered Accountants of New Zealand.

DIRECTORS' REPORT

The Board has determined for the purposes of the NZSX Listing Rules that, as at 30 June 2008, 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 2008 were the operation of express package and business mail services and information management services.

CONSOLIDATED RESULT FOR THE YEAR

	2008 $000	2007 $000
Operating revenue	323,910	283,447
Profit before income tax	46,058	45,723
Income tax	(13,808)	(14,891)
Profit for the year	32,250	30,832

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

DIRECTORS' REPORT

REMUNERATION OF DIRECTORS

	GROUP		PARENT	
	2008 $	2007 $	2008 $	2007 $
Wayne Boyd	113,000	100,000	113,000	100,000
Dean Bracewell	641,405	539,955	-	-
Sir William Birch	48,000	40,000	48,000	40,000
Warwick Lewis	48,000	40,000	48,000	40,000
Sue Sheldon	55,000	45,000	55,000	45,000
Mark Royle	437,130	324,276	-	-
	1,342,535	1,089,231	264,000	225,000

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2008 in respect of the two previous six-month performance periods (1 January to 30 June 2007 and 1 July to 31 December 2007). No amount was paid, or included above, in respect of incentive payments for the period 1 January to 30 June 2008. Incentive payments for the six months ended 30 June 2008 were paid in August 2008.

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	
	2008	2007	2008	2007
$100,000 – $109,999	14	12	-	-
$110,000 – $119,999	13	10	-	-
$120,000 – $129,999	8	4	-	-
$130,000 – $139,999	5	4	-	-
$140,000 – $149,999	5	4	-	-
$150,000 – $159,999	6	-	-	-
$160,000 – $169,999	2	-	-	-
$180,000 – $189,999	1	3	-	-
$190,000 – $199,999	3	1	-	-
$200,000 – $209,999	3	2	-	-
$210,000 – $219,999	-	2	-	-
$220,000 – $229,999	1	-	-	-
$240,000 – $249,999	2	-	-	-
$250,000 – $259,999	1	-	-	-
$260,000 – $269,999	1	-	-	-
$280,000 – $289,999	-	1	-	-
$290,000 – $299,999	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:

	FULLY PAID ORDINARY SHARES	
DIRECTOR	BENEFICIALLY	NON-BENEFICIALLY
Wayne Boyd	-	281,885
Dean Bracewell	-	2,880,288
Sir William Birch	-	126,569
Warwick Lewis	-	253,176
Sue Sheldon	-	116,664
Mark Royle	-	675,000

The following table shows transactions recorded in respect of those securities during the year ended 30 June 2008:

	NUMBER ACQUIRED / (DISPOSED)	$ COST / (SALE)
Wayne Boyd		
Non-beneficial ownership in shares sold 31 March 2008	231,885	-
Non-beneficial ownership in shares acquired 31 March 2008	(231,885)	-
Sue Sheldon		
Non-beneficial ownership in shares acquired 9 April 2008	720	2,556

DIRECTORS' REPORT

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

For and on behalf of the Board this 18th day of August 2008.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

PRICEWATERHOUSECOOPERS

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Facsimile +64 9 355 8001

AUDITORS' REPORT

To the shareholders of Freightways Limited.

We have audited the financial statements on pages 18 to 61. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2008 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 22 to 28.

Directors' Responsibilities

The Company's Directors are responsible for the preparation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2008 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; and
- Whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

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

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

(b) The financial statements on pages 18 to 61:

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

(ii) Comply with International Financial Reporting Standards; and

(iii) Give a true and fair view of the financial position of the Company and Group as at 30 June 2008 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 18 August 2008 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants, Auckland

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Operating revenue	2	323,910	283,447	-	-
Dividends received from subsidiaries		-	-	27,000	26,000
		323,910	283,447	27,000	26,000
Transport and logistics expenses*		(149,846)	(133,194)	-	-
Employee benefits expenses*		(68,916)	(59,011)	-	-
Occupancy expenses		(7,914)	(5,848)	-	-
General and administration expenses		(28,771)	(22,465)	(394)	(342)
Operating profit before interest, tax, depreciation and software amortisation		68,463	62,929	26,606	25,658
Depreciation and software amortisation		(7,985)	(6,398)	-	-
Operating profit before interest and income tax		60,478	56,531	26,606	25,658
Net interest and finance costs		(14,420)	(10,808)	-	(3)
Profit before income tax		46,058	45,723	26,606	25,655
Income tax	4	(13,808)	(14,891)	127	111
Profit for the year		32,250	30,832	26,733	25,766
Earnings per share	22				
Basic earnings per share (cents)		25.1	24.0	-	-
Diluted earnings per share (cents)		25.1	24.0	-	-

* Employee benefits of $6,367,000 (2007: $3,161,000) have been included in Transport and logistics expenses, due to the function performed by the relevant employees. The total Employee benefits expenses of the consolidated group for the year ended 30 June 2008 were $75,283,000 (2007: $62,172,000).

NB: All revenue and earnings are from continuing operations.

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

		GROUP		PARENT	
	NOTE	2008 $000	2007 $000	2008 $000	2007 $000
Equity at the beginning of the year	19	83,140	72,751	79,567	75,865
Exchange differences on translation of foreign operations		266	(8)	-	-
Cash flow hedges taken directly to equity, net of tax		(370)	1,631	-	-
Net income recognised directly in equity		(104)	1,623	-	-
Profit for the year		32,250	30,832	26,733	25,766
Total recognised income and expenses for the year		32,146	32,455	26,733	25,766
Dividends paid	5	(23,797)	(22,799)	(23,797)	(22,799)
Proceeds from unpaid shares fully paid		-	369	-	369
Issue of ordinary shares		235	364	239	366
Equity at the end of the year	19	91,724	83,140	82,742	79,567

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

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

For and on behalf of the Board this 18th day of August 2008.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

BALANCE SHEETS

AS AT 30 JUNE 2008

	NOTE	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Current assets					
Cash and cash equivalents	6	2,296	1,673	2	3
Trade and other receivables	7	45,094	39,215	3,628	2,056
Inventories	8	6,288	5,809	-	-
Derivative financial instruments	9	197	299	-	-
Other current assets		127	110	-	-
Total current assets		54,002	47,106	3,630	2,059
Non-current assets					
Investments in subsidiaries	10	-	-	121,013	121,013
Trade and other receivables	7	1,381	110	90,237	88,633
Property, plant and equipment	11	67,771	56,994	-	-
Intangible assets	12	235,394	194,561	-	-
Derivative financial instruments	9	1,959	3,292	-	-
Deferred tax asset	13	832	424	-	-
Other non-current assets		65	275	-	-
Total non-current assets		307,402	255,656	211,250	209,646
Total assets		361,404	302,762	214,880	211,705
Current liabilities					
Trade and other payables	14	43,279	35,327	4	4
Finance lease liabilities	15	422	86	-	-
Provisions	16	712	457	-	-
Unearned income	17	18,457	21,129	-	-
Total current liabilities		62,870	56,999	4	4
Non-current liabilities					
Trade and other payables	14	1,405	4,961	-	-
Borrowings (secured)	18	201,219	152,904	132,134	132,134
Deferred tax liability	13	3,728	4,391	-	-
Finance lease liabilities	15	458	367	-	-
Total non-current liabilities		206,810	162,623	132,134	132,134
Total liabilities		269,680	219,622	132,138	132,138
Net assets		91,724	83,140	82,742	79,567
Equity					
Contributed equity		58,352	58,117	58,358	58,119
Retained earnings		31,244	22,791	24,384	21,448
Cash flow hedge reserve		1,870	2,240	-	-
Foreign currency translation reserve		258	(8)	-	-
Total Equity	19	91,724	83,140	82,742	79,567

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	GROUP 2008 $000 INFLOWS (OUTFLOWS)	GROUP 2007 $000 INFLOWS (OUTFLOWS)	PARENT 2008 $000 INFLOWS (OUTFLOWS)	PARENT 2007 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities					
Receipts from customers		322,253	284,643	-	-
Payments to suppliers and employees		(254,771)	(222,348)	-	-
Interest received		153	190	-	-
Interest and other costs of finance paid		(12,806)	(10,691)	-	-
Income taxes paid		(13,966)	(14,233)	(1,198)	(745)
Net cash inflows (outflows) from operating activities	20	40,863	37,561	(1,198)	(745)
Cash flows from investing activities					
Payments for property, plant & equipment		(14,367)	(17,753)	-	-
Payments for software		(892)	-	-	-
Proceeds from disposal of plant & equipment		213	58	-	-
Payments for businesses acquired		(40,641)	(23,901)	-	-
Advances to associate		(1,268)	-	-	-
Investment in short term deposit		-	(115)	-	-
Payment for other investing activities		(45)	(278)	-	-
Net cash outflows from investing activities		(57,000)	(41,989)	-	-
Cash flows from financing activities					
Dividends paid		(23,797)	(22,799)	(23,797)	(22,799)
Increase in bank borrowings		42,127	26,233	-	-
Proceeds from unpaid shares fully paid		-	369	-	369
Finance lease liabilities repaid		(826)	(589)	-	-
Loans advanced from subsidiaries		-	-	24,994	23,178
Net cash inflows from financing activities		17,504	3,214	1,197	748
Net increase (decrease) in cash and cash equivalents		1,367	(1,214)	(1)	3
Cash and cash equivalents at beginning of year		1,673	1,652	3	-
Cash acquired through acquisition of businesses		4	488	-	-
Exchange rate adjustments		(744)	747	-	-
Cash and cash equivalents at end of year	6	2,296	1,673	2	3

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Reporting entity and statutory base

Freightways Limited is a profit-oriented company registered in New Zealand under the Companies Act 1993, and is an issuer for the purposes of the Financial Reporting Act 1993.

The consolidated financial statements for the year ended 30 June 2008 comprise Freightways Limited ('the Company' or 'Parent') and subsidiary companies (together with the Company, referred to as the 'Group').

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

Application of NZ IFRS 1 – First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been complied with.

The financial statements also comply with IFRS and as such IFRS 1.

In preparing these consolidated financial statements in accordance with NZ IFRS 1 the Group has applied certain optional exemptions from full retrospective application of NZ IFRS. Further details are provided in Note 29.

Historical cost convention

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

Critical accounting estimates

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

(i) Carrying value of indefinite life intangible assets

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

(ii) Accounting for unearned income

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

b) Basis of consolidation

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

The consolidated financial statements include the Company and its subsidiaries accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets acquired,

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

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

c) Segment reporting

A segment is a distinguishable component of the entity that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different to those of other segments.

Operating segments are reported in a manner consistent with the internal reporting used for strategic decision making. NZ IFRS 8, Operating Segments, was adopted early by the Group in 2008. NZ IFRS 8 replaces NZ IAS 14, Segment Reporting.

d) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding at the end of the year. Diluted EPS is determined by adjusting the weighted average number of ordinary shares for the effects of all dilutive potential ordinary shares.

e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Foreign operations

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

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

– income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)

– all resulting exchange differences are recognised as a separate component of equity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

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

f) Revenue recognition

(i) Goods and services

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

(ii) Interest income

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

(iii) Dividend income

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

g) Income tax

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

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

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

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

h) Leases

(i) Finance leases

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

(ii) Operating leases

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

i) Impairment of non-financial assets

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

j) Cash and cash equivalents

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

k) Trade and other receivables

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

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

l) Inventories

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

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

m) Property, plant & equipment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

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

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

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

n) Intangible assets

(i) Goodwill

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

(ii) Brand names

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

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

(iii) Computer software

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

o) Investments

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

p) Derivative financial instruments

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

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

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

q) Fair value estimation

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques.

r) Trade and other payables

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

s) Employee entitlements

(i) Wages, salaries and annual leave

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

(ii) Long service leave

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

t) Provisions

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

u) Borrowing costs

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

v) Capitalised interest and finance costs

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

w) Contributed equity

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

x) Goods and services tax (GST)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 2. SEGMENT REPORTING

The Group is organised into the following business segments:

Express package and business mail

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

Information management

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

Corporate and other

Comprises corporate, financing and property management services.

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

The Group has no individual customers that represent 5% or more of external sales revenue.

As at and for the year ended 30 June 2008:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

As at and for the year ended 30 June 2007:

	EXPRESS PACKAGE & BUSINESS MAIL $000	INFORMATION MANAGEMENT $000	CORPORATE & OTHER $000	INTER SEGMENT ELIMINATION $000	CONSOLIDATED OPERATIONS $000
Income Statement					
Sales to external customers	255,841	27,583	23	-	283,447
Inter-segment sales	996	130	2,789	(3,915)	-
Total revenue	256,837	27,713	2,812	(3,915)	283,447
Operating profit before interest, tax, depreciation and software amortisation	54,887	7,511	531	-	62,929
Depreciation and software amortisation expense	(4,447)	(1,101)	(850)	-	(6,398)
Operating profit before interest and income tax	50,440	6,410	(319)	-	56,531
Balance Sheet					
Segment assets	209,584	57,601	35,577	-	302,762
Segment liabilities	43,683	3,329	172,610	-	219,622

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

		GROUP		PARENT	
		2008	2007	2008	2007
	NOTE	$000	$000	$000	$000
NOTE 3. INCOME AND EXPENSES					
Profit before income tax includes the following specific income and expenses:					
Income:					
Interest income		185	194	-	-
Operating expenses:					
Net loss (gain) on disposal of property, plant & equipment		(8)	10	-	-
Depreciation	11	7,505	6,140	-	-
Amortisation of software	12	480	258	-	-
Operating lease expenses		10,978	9,264	-	-
Auditors' fees:					
Audit services		295	201	-	-
Other assurance services		29	-	-	-
Taxation services		18	9		
Costs of offering credit:					
Impairment loss (gain) on trade receivables		155	(15)	-	-
Interest:					
Bank borrowings		14,018	10,753	-	3
Finance leases		71	58	-	-
Derivative fair value movement		516	191	-	-
Other:					
Net foreign exchange gain		(2)	(12)	-	-
Directors' fees		264	225	264	225
Donations		24	15	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
NOTE 4. INCOME TAX EXPENSE				
Current	14,266	14,717	(127)	(111)
Deferred (note 13)	(165)	174	-	-
Reduction in New Zealand tax rate	(293)	-	-	-
	13,808	14,891	(127)	(111)

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

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
Profit before income tax	46,058	45,723	26,606	25,655
Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries	15,124	15,047	8,780	8,466
Tax-effect of amounts which are treated differently when calculating taxable income:				
- Non-taxable intercompany dividends	-	-	(8,910)	(8,581)
- Non-deductible expenses	135	92	-	-
- Additional amounts deductible	(808)	(293)	-	-
- Reduction in New Zealand tax rate	(293)	-	-	-
- Other	(350)	45	3	4
Income tax expense (benefit)	13,808	14,891	(127)	(111)

The Group has no tax losses (2007: nil) and no unrecognised temporary differences (2007: nil).

	GROUP 2008 $000	GROUP 2007 $000
Imputation credit account		
Balance at beginning of year	15,985	14,286
Income tax payments made during the year	12,500	12,936
Imputation credits attaching to dividends paid during the year	(11,720)	(11,237)
Balance at end of year (available for use at 33%)	16,765	15,985
At balance date the imputation credits available to shareholders were:	16,765	15,985

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	PARENT	
	2008	2007
	$000	$000
NOTE 5. DIVIDENDS		
Recognised amounts		
Fully imputed dividends declared and paid during the year:		
Final dividend for 2007 at 9.00 cents per share (2006: 8.75 cents)	11,578	11,232
Interim dividend for 2008 at 9.50 cents per share (2007: 9.00 cents)	12,219	11,567
Supplementary dividends	1,198	745
Foreign investor tax credit	(1,198)	(745)
	23,797	22,799
Unrecognised amounts		
Final dividend for 2008 at 9.25 cents per share (2007: 9.00 cents)	11,900	11,578

Subsequent to balance date the above unrecognised dividend was approved by a directors' resolution dated 18 August 2008. This amount has not been recognised as a liability at the reporting date, but will be brought to account when paid in September 2008.

Dividend Yield

Dividend yield for the 12 months to 30 June 2008 was:

- Gross dividend *: 9.4% (2007: 6.7%)
- Net dividend**: 6.3% (2007: 4.5%)

* Based on annual gross dividend paid of 27.61 cents divided by 30 June 2008 share price of $2.95 per share.

** Based on annual net dividend paid of 18.50 cents divided by 30 June 2008 share price of $2.95 per share.

	GROUP		PARENT	
	2008	2007	2008	2007
	$000	$000	$000	$000
NOTE 6. CASH AND CASH EQUIVALENTS				
Comprises:				
- Cash at bank	1,996	1,673	2	3
- Overnight deposit	300	-	-	-
Cash and cash equivalents in statement of cash flows	2,296	1,673	2	3

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
NOTE 7. TRADE AND OTHER RECEIVABLES				
Current:				
Trade receivables	41,146	34,013	-	-
Provision for doubtful receivables	(686)	(529)	-	-
	40,460	33,484	-	-
Other debtors and prepayments	4,249	5,731	1,445	1,197
Income tax receivable	385	-	2,183	859
	45,094	39,215	3,628	2,056
Non-current:				
Share Plan loans receivable from employees	90	110	-	-
Due from subsidiary	-	-	90,237	88,633
Due from associates	1,291	-	-	-
	1,381	110	90,237	88,633

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

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

	GROUP	
	2008 $000	2007 $000
Opening balance	529	635
Provision for doubtful receivables	155	(15)
Receivables written off	(172)	(91)
Provisions added from acquired businesses	148	-
Exchange rate movement	26	-
Closing balance (note 25(b))	686	529

	GROUP	
	2008 $000	2007 $000
NOTE 8. INVENTORIES		
The Parent Company has no inventory. The amounts below are for the Group.		
Finished goods	4,793	4,472
Ticket stocks, uniforms and consumables	1,495	1,337
	6,288	5,809

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	GROUP 2008 $000	GROUP 2007 $000
NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS		
The Parent Company has no derivative financial instruments. The amounts below are for the Group.		
Current:		
Interest rate swaps	165	238
Interest rate options	-	26
Forward exchange contracts	32	35
	197	299
Non-current:		
Interest rate swaps	1,770	3,211
Interest rate options	55	-
Interest rate collars	134	81
	1,959	3,292

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

	INTEREST RATE DERIVATIVES NZD 2008 $000	NZD 2007 $000	AUD 2008 $000	AUD 2007 $000	FORWARD EXCHANGE CONTRACTS GBP 2008 $000	GBP 2007 $000
Interest rate swaps	60,000	67,000	20,000	15,000	-	-
Interest rate caps	5,000	11,000	4,000	-	-	-
Interest rate collars	12,000	5,000	17,000	-	-	-
Forward exchange contracts	-	-	-	-	335	-
	77,000	83,000	41,000	15,000	335	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 10. INVESTMENTS IN SUBSIDIARIES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 11. PROPERTY, PLANT & EQUIPMENT

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

	LAND	BUILDINGS	LEASEHOLD IMPROVEMENTS	MOTOR VEHICLES	EQUIPMENT	TOTAL
2008 ($000)						
Opening net book value	12,707	19,644	1,755	1,565	21,323	56,994
Additions	-	4,696	1,019	1,797	7,222	14,734
Additions through business combinations	-	-	-	1,109	1,661	2,770
Disposals	-	-	(7)	(34)	(174)	(215)
Depreciation expense	-	(975)	(425)	(663)	(5,442)	(7,505)
Exchange rate movement	20	82	146	356	389	993
Closing net book value	12,727	23,447	2,488	4,130	24,979	67,771
As at end of year						
Cost	12,727	28,169	4,077	5,930	48,200	99,103
Accumulated depreciation	-	(4,722)	(1,589)	(1,800)	(23,221)	(31,332)
Net book value	12,727	23,447	2,488	4,130	24,979	67,771
2007 ($000)						
Opening net book value	8,275	15,523	935	378	20,223	45,334
Additions	4,438	4,989	1,116	1,144	5,369	17,056
Additions through business combinations	-	-	69	406	467	942
Disposals	-	-	(30)	(2)	(34)	(66)
Depreciation expense	-	(868)	(335)	(293)	(4,644)	(6,140)
Exchange rate movement	(6)	-	-	(68)	(58)	(132)
Closing net book value	12,707	19,644	1,755	1,565	21,323	56,994
As at end of year						
Cost	12,707	23,391	2,979	2,664	39,006	80,747
Accumulated depreciation	-	(3,747)	(1,224)	(1,099)	(17,683)	(23,753)
Net book value	12,707	19,644	1,755	1,565	21,323	56,994

Included in the cost of buildings is an amount of $4.5m (2007: nil) in respect of assets under construction for which depreciation has not commenced and capitalised borrowing costs of $0.1m (2007: nil).

The latest independent valuations of land and buildings (performed in June 2008) assess these assets to have a total value of $53.9 million. These valuations did not include any buildings under construction, which are included at cost.

Finance leases: Motor vehicles includes items capitalised under finance leases with a cost of $0.5m (2007: $0.4m), together with accumulated depreciation of $0.2m (2007: $0.1m). Equipment includes items capitalised under finance leases with a cost of $0.8m (2007: $0.2m), together with accumulated depreciation of $0.1m (2007: $0.1m). These specific assets are pledged as security for the related finance lease liabilities. Refer Note 1(h)(i).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 12. INTANGIBLE ASSETS

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

	GOODWILL	BRAND NAMES	SOFTWARE	TOTAL
2008 ($000)				
Opening net book value	90,246	100,116	4,199	194,561
Additions	-	-	891	891
Additions through business combinations	26,225	6,894	-	33,119
Amortisation expense	-	-	(480)	(480)
Exchange rate movement	5,121	2,166	16	7,303
Closing net book value	121,592	109,176	4,626	235,394
As at end of year				
Cost	121,592	109,176	5,729	236,497
Accumulated amortisation	-	-	(1,103)	(1,103)
Net book value	121,592	109,176	4,626	235,394
2007 ($000)				
Opening net book value	67,356	88,800	3,838	159,994
Additions	-	-	619	619
Additions through business combinations	22,859	11,317	-	34,176
Amortisation expense	-	-	(258)	(258)
Exchange rate movement	31	(1)	-	30
Closing net book value	90,246	100,116	4,199	194,561
As at end of year				
Cost	90,246	100,116	4,457	194,819
Accumulated amortisation	-	-	(258)	(258)
Net book value	90,246	100,116	4,199	194,561

Included in the cost of software is work in progress of $2.8m (2007: $2.3m) for which amortisation had not commenced and capitalised borrowing costs of $0.4m (2007: $0.3m).

An independent valuation of the 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 $203 million and $223 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Impairment tests for indefinite life intangible assets

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

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

	GOODWILL		BRAND NAMES	
	2008 $000	2007 $000	2008 $000	2007 $000
Messenger Services	7,338	7,338	5,100	5,100
New Zealand Couriers	31,372	31,372	58,500	58,500
New Zealand Document Exchange	6,323	5,930	5,900	5,900
Post Haste and Castle Parcels	14,730	14,730	14,900	14,900
NOW Couriers	6,490	-	3,495	-
Online Security Services	10,338	9,347	4,400	4,400
Databank Technologies	27,742	21,529	12,979	11,316
Shred-X	17,259	-	3,902	-
	121,592	90,246	109,176	100,116

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

These calculations use pre-tax cash flow projections based on financial budgets prepared by management for the year ended 30 June 2009. Cash flows beyond June 2009 have been extrapolated using a steady growth rate which does not exceed the long-term historical average growth rate for each respective CGU. A consistent pre-tax discount rate of 10.65% has been applied to all CGUs.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 13. DEFERRED TAX ASSET (LIABILITY)

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

	ASSET		LIABILITY	
	2008 $000	2007 $000	2008 $000	2007 $000
Deferred tax	832	424	(3,728)	(4,391)

The deferred tax liability relates to the New Zealand tax jurisdiction, while the deferred tax asset relates to the Australian tax jurisdiction.

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

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

	PROPERTY, PLANT & EQUIPMENT	EMPLOYEE ENTITLEMENTS	ACCRUALS & PROVISIONS	DERIVATIVE FINANCIAL INSTRUMENTS	TOTAL
2007 ($000)					
Balance at beginning of year	(4,192)	639	482	(310)	(3,381)
Transfer to Income Statement	(352)	219	31	(72)	(174)
Amounts relating to business combinations	259	98	36	-	393
Transferred to cash flow hedge reserve	-	-	-	(803)	(803)
Exchange rate movement	1	(1)	(2)	-	(2)
Balance at end of year	(4,284)	955	547	(1,185)	(3,967)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
NOTE 14. TRADE AND OTHER PAYABLES				
Current:				
Trade creditors	20,937	16,989	4	4
Employee entitlements	6,633	4,987	-	-
Acquisition earn-out payments	8,257	8,434	-	-
Other creditors and accruals	6,485	4,313	-	-
Income tax payable	967	604	-	-
	43,279	35,327	4	4
Non-current:				
Acquisition earn-out payments	1,405	4,961	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 15. LEASES

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

(a) Finance lease commitments

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

	GROUP 2008 $000	GROUP 2007 $000
Within one year	477	386
After one year but not more than five years	488	88
After more than five years	-	-
Minimum lease payments	965	474
Less: future finance charges	(85)	(21)
	880	453
Classified in the balance sheet:		
Current	422	86
Non-current	458	367
	880	453

(b) Operating lease commitments (non-cancellable)

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

	GROUP 2008 $000	GROUP 2007 $000
Within one year	9,806	7,038
After one year but not more than five years	20,524	14,573
After more than five years	14,334	12,408
	44,664	34,019

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 16. PROVISIONS

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

	CUSTOMER CLAIMS	LONG SERVICE LEAVE	LEASE OBLIGATIONS	TOTAL
2008 ($000)				
Balance at beginning of year	208	43	206	457
Additions through business combinations	-	127	38	165
Current year provision	32	25	76	133
Expenses incurred	-	-	(92)	(92)
Movement in exchange rate	-	26	23	49
Balance at end of year	240	221	251	712
2007 ($000)				
Balance at beginning of year	167	-	146	313
Additions through business combinations	-	28	-	28
Current year provision	41	18	63	122
Expenses incurred	-	-	-	-
Movement in exchange rate	-	(3)	(3)	(6)
Balance at end of year	208	43	206	457

Explanation of provisions

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

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

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

NOTE 17. UNEARNED INCOME

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

	GROUP 2008 $000	GROUP 2007 $000
Income received in advance	18,457	21,129

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
NOTE 18. BORROWINGS				
Bank borrowings	201,219	152,904	-	-
Loans from subsidiaries (note 24)	-	-	132,134	132,134
	201,219	152,904	132,134	132,134

(a) Security for borrowings

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

(b) Finance facilities

The following finance facilities existed at the reporting date:

	NEW ZEALAND DOLLARS		AUSTRALIAN DOLLARS	
	2008 $000	2007 $000	2008 $000	2007 $000
BNZ				
- total bank overdraft facility available	8,000	2,000	-	-
- amount of credit unused	8,000	2,000	-	-
Westpac				
- total loan facilities available	77,500	77,500	60,000	20,000
- amount of facilities used	71,000	63,000	37,263	13,800
- amount of facilities unused	6,500	14,500	22,737	6,200
ANZ				
- total loan facilities available	77,500	77,500	15,000	7,500
- amount of facilities used	69,000	69,000	11,210	5,200
- amount of facilities unused	8,500	8,500	3,790	2,300
NAB (Australia)				
- total bank overdraft facility available	-	-	200	200
- amount of credit unused	-	-	200	200
Effective interest rate at 30 June 2008 (as amended for interest rate hedges)	8.27%	7.72%	7.72%	6.75%

The finance facilities summarised above are available until November 2010.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 19. EQUITY

GROUP	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
2008 ($000)					
Balance at beginning of year	58,117	22,791	2,240	(8)	83,140
Profit for the year	-	32,250	-	-	32,250
Dividend payment	-	(23,797)	-	-	(23,797)
Shares issued	235	-	-	-	235
Cash flow hedges taken directly to equity, net of tax	-	-	(370)	-	(370)
Foreign currency translation reserve	-	-	-	266	266
Balance at end of year	58,352	31,244	1,870	258	91,724
2007 ($000)					
Balance at beginning of year	57,384	14,758	609	-	72,751
Profit for the year	-	30,832	-	-	30,832
Dividend payment	-	(22,799)	-	-	(22,799)
Proceeds from unpaid shares fully paid	369	-	-	-	369
Shares issued	364	-	-	-	364
Cash flow hedges taken directly to equity, net of tax	-	-	1,631	-	1,631
Foreign currency translation reserve	-	-	-	(8)	(8)
Balance at end of year	58,117	22,791	2,240	(8)	83,140

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

PARENT	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
2008 ($000)					
Balance at beginning of year	58,119	21,448	-	-	79,567
Profit for the year	-	26,733	-	-	26,733
Dividend payment	-	(23,797)	-	-	(23,797)
Shares issued	239	-	-	-	239
Balance at end of year	58,358	24,384	-	-	82,742
2007 ($000)					
Balance at beginning of year	57,384	18,481	-	-	75,865
Profit for the year	-	25,766	-	-	25,766
Dividend payment	-	(22,799)	-	-	(22,799)
Proceeds from unpaid shares fully paid	369	-	-	-	369
Shares issued	366	-	-	-	366
Balance at end of year	58,119	21,448	-	-	79,567

Contributed equity

(i) Fully paid ordinary shares

As at 30 June 2008 there were 128,621,935 shares issued and fully paid (2007: 128,554,935). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

During the prior year, issued and paid up capital increased as a result of 193,239 unpaid shares, in total, being fully paid up in March 2007 for $369,243.

(ii) Employee Share Plan

On 30 August 2007, the Company issued 67,000 fully paid ordinary shares at $3.56 to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan. In total, participating employees were provided with interest-free loans of $0.2 million to fund their purchase of the shares in the Share Plan. The loans are repayable over three years and repayment commenced in September 2007.

At 30 June 2008 the Trustee held 314,871 (2007: 317,765) fully paid ordinary shares (representing 0.2% (2007: 0.2%) of all issued ordinary shares) of which 1,608 (2006: 742) were unallocated. These shares are held for allocation in the future.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

	GROUP 2008 $000	GROUP 2007 $000	PARENT 2008 $000	PARENT 2007 $000
NOTE 20. RECONCILIATION OF PROFIT FOR THE YEAR WITH CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year	32,250	30,832	26,733	25,766
Depreciation and software amortisation	7,985	6,398	-	-
Movement in provision for doubtful debts	157	(106)	-	-
Movement in deferred income tax	(458)	174	-	-
Net loss (gain) on disposal of fixed assets	(8)	79	-	-
Net foreign exchange gain	(2)	(12)	-	-
Movement in derivative fair value	516	191	-	-
Transactions settled through loans from subsidiary	-	-	(26,359)	(25,926)
Movement in working capital, net of effects of acquisitions (disposals) of businesses:				
(Increase) decrease in trade and other receivables	(4,016)	(5,139)	(248)	(366)
(Increase) decrease in inventories	(479)	(273)	-	-
Increase (decrease) in trade and other payables	4,940	4,536	-	(45)
Increase (decrease) in income taxes payable	(22)	881	(1,324)	(174)
Net cash inflows (outflows) from operating activities	40,863	37,561	(1,198)	(745)

NOTE 21. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had contractual obligations to purchase buildings and equipment for NZ$10.3 million and A$2.0 million, respectively at the reporting date (2007: NZ$1.2 million and A$2.4 million, respectively) principally relating to the completion of operating facilities throughout the Group.

The Parent Company had no commitments for property, plant and equipment at 30 June 2008 (2007: nil).

The Group had no contingent liabilities at 30 June 2008 (2007: nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 22. EARNINGS PER SHARE

Basic earnings per share

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

	GROUP	
	2008	**2007**
Profit for the year ($000)	32,250	30,832
Weighted average number of ordinary shares ('000)	128,611	128,405
Basic earnings per share (cents)	25.1	24.0

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

Profit for the year ($000)	32,250	30,832
Weighted average number of ordinary shares ('000)	128,611	128,555
Effect of dilution	-	-
Diluted weighted average number of ordinary shares ('000)	128,611	128,555
Diluted earnings per share (cents)	25.1	24.0

NOTE 23. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 30 June 2008 was ($1.08) (2007: ($0.83)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 24. TRANSACTIONS WITH RELATED PARTIES

Loan to subsidiary: During the year net advances of $28 million were made by the Company to FEL, which together with $27 million of dividends receivable from FEL, resulted in a loan to subsidiary balance as at year end of $90 million (2007: $89 million). The receivable balance is set out in Note 7. 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 18. There is no interest payable on this loan.

Intra-group transactions: During the year the Parent Company received $27 million (2007: $26 million) of dividends from its directly-owned subsidiary (FEL).

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

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

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

Key management compensation:

	GROUP		PARENT	
	2008 $000	2007 $000	2008 $000	2007 $000
Key management compensation	3,733	2,809	-	-
Fees paid to independent directors	264	225	264	225

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 25. FINANCIAL RISK MANAGEMENT

25.1 Financial risk factors

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

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

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

(a) Liquidity risk

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

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

The amounts disclosed below are contractual, undiscounted cash flows.

GROUP	LESS THAN 6 MONTHS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	TOTAL	CARRYING VALUE
2008 ($000)						
Bank borrowings	7,495	7,495	14,989	246,186	276,165	201,219
Trade & other payables	38,995	4,284	1,405	-	44,684	44,684
Finance lease liabilities	279	144	266	191	880	880
2007 ($000)						
Bank borrowings	5,466	5,466	164,532	32,794	208,258	152,904
Trade & other payables	32,575	2,752	4,961	-	40,288	40,288
Finance lease liabilities	281	172	-	-	453	453

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

(b) Credit risk

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

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

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

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

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

	GROUP	
	2008 $000	**2007 $000**
Bank balance	2,296	1,673
Short term deposit	127	110
Trade and other receivables	45,064	35,045
Derivative financial instruments	2,156	3,591
	49,643	40,419

Trade receivables analysis

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

At 30 June 2008 aging analysis of trade receivables is as follows:

	2008 $000	**2007 $000**
Amounts due within normal trade credit period	31,621	27,518
Amounts due beyond normal trade credit period	9,525	6,495
Provision for doubtful receivables	(686)	(529)
Net trade receivables *	40,460	33,484

* Net trade receivables are considered collectable.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

(c) Market risk

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Sensitivity Analysis

	CARRYING AMOUNT $000	INTEREST RATE MOVEMENT + OR - 100 BASIS POINTS	NZD/GBP MOVEMENT + OR - 10%
2008 ($000)			
Financial assets			
Cash and cash equivalents	2,296	-	-
Trade & other receivables	46,475	-	221
Derivative financial instruments	2,156	656	-
Financial liabilities			
Borrowings	201,219	818	-
2007 ($000)			
Financial assets			
Cash and cash equivalents	1,673	23	-
Trade & other receivables	39,325	-	-
Derivative financial instruments	3,591	281	-
Financial liabilities			
Borrowings	152,904	584	-

25.2 Capital Risk Management

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 26. BUSINESS COMBINATIONS

Shred-X

In July 2007, the Group acquired the business and assets of Shred-X, which operates in the document destruction and paper recycling sector in Australia. The purchase consideration recognised to date is $11.3 million, as set out below. A further amount may be payable to the Shred-X vendors based on the earnings achieved in the 2011 financial year. No amount has been included below in respect of this contingent consideration, as the amount cannot be reliably estimated at this time.

Also, the acquired businesses and assets of Document Destruction & Paper Recyclers (DD&PR) and Fine Paper Suppliers (FPS) (refer to 'Other Australian acquisitions' below) were integrated into the operations of Shred-X upon acquisition. The purchase consideration and fair value of the net assets acquired for DD&PR and FPS have been included in 'Other Australian acquisitions' below.

The merged businesses, Shred-X, DD&PR and FPS, contributed revenue of $14 million and operating profit before interest and income tax of $2.7 million during the 2008 financial year. If these businesses had been acquired at the beginning of the year, the contribution to revenue and operating profit before interest and income tax is estimated at $16.5 million and $3.3 million, respectively.

Details of net assets acquired and goodwill for Shred-X are as follows:

	$000
Purchase consideration	
Cash paid in June 2007	924
Cash paid during the year	8,697
Direct costs relating to the acquisition, paid during the year	1,706
Total purchase consideration	11,327
Fair value of net identifiable assets acquired (refer below)	4,214
Goodwill	7,113
	11,327

The goodwill is attributable to Shred-X having strong profitability and a strong trading position in the information management market.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

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

	$000
Trade receivables	1,464
Inventories	9
Plant & equipment	1,413
Brand name	3,400
Net deferred tax assets	92
Trade and other payables	(885)
Finance leases	(1,094)
Unearned income	(185)
	4,214

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

The fair value for the brand name was determined at the time of the acquisition.

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

Databank Technologies Pty Limited

In July 2006, the Group acquired 100% of the Australian information management company, Databank Technologies Pty Limited (Databank). Payment of the purchase price was staged over two years, with initial payments of $23.7 million being made in the year ended 30 June 2007, as disclosed in the Company's 2007 Annual Report. Two additional payments were payable upon achievement of agreed annual earnings performance for the years ended 30 June 2007 and 2008, respectively. Following the finalisation of the results for the year ended 30 June 2007, a further payment of $9 million was paid to the vendors during the current year and was treated as intangible assets. The estimated additional purchase consideration of $7.4 million, expected to be paid during the half year ended 31 December 2008, has also been recorded in the balance sheet as at 30 June 2008 as intangible assets and included in trade and other payables.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Other Australian acquisitions

The Group acquired the businesses and assets of Document Destruction & Paper Recyclers (DD&PR) in July 2007 and National Records Management (NRM) and Fine Paper Suppliers (FPS) in April 08. DD&PR, NRM and FPS operate in the information management sector in Australia. The purchase consideration in respect of these acquisitions was $11 million in total, as set out below.

The contribution of revenue and operating profit before interest and income tax from DD&PR and FPS is included within the contribution from Shred-X above, as both DD&PR and FPS were integrated with Shred-X upon acquisition.

If the business of NRM had been acquired at the beginning of the year, the contribution to revenue and operating profit before interest and income tax is estimated at $0.6 million and $0.3 million, respectively. Contributed revenue and operating profit before interest and income tax were not material during the 2008 financial year.

Details of net assets acquired and goodwill for DD&PR, NRM and FPS are as follows:

	$000
Purchase consideration	
Cash paid during the year	10,692
Direct costs relating to these acquisitions, paid during the year	294
Total purchase consideration	10,986
Fair value of net identifiable assets acquired (refer below)	776
Goodwill	10,210
	10,986
The fair value of assets and liabilities arising from these acquisitions are as follows:	
Plant & equipment	1,068
Net deferred tax assets	122
Trade and other payables	(414)
	776

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOW Couriers

In April 2008, the Group acquired the business and assets of NOW Couriers, which operates in the express package sector in New Zealand. The purchase consideration recognised to date is $11.2 million, as set out below. This includes estimated future earn-out payments that will be payable in May 2009 and May 2010 upon the achievement of certain performance targets for the years ended 31 March 2009 and 2010, respectively.

NOW Couriers contributed revenue of $2.2 million and operating profit before interest and income tax of $0.5 million during the 2008 financial year. If NOW Couriers had been acquired at the beginning of the year, the estimated contribution to revenue and operating profit before interest and income tax is estimated at $9 million and $1.6 million, respectively.

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

	$000
Purchase consideration	
Cash paid during the year	8,896
Direct costs relating to the acquisition, paid during the year	31
Estimated future earn-out payments	2,260
Total purchase consideration	11,187
Fair value of net identifiable assets acquired (refer below)	4,697
Goodwill	6,490
	11,187

The goodwill is attributable to NOW Couriers having strong profitability and a strong trading position in the Auckland express package market.

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

	$000
Trade and other receivables	1,143
Inventories	52
Plant & equipment	234
Brand name	3,495
Trade and other payables	(27)
Unearned income	(200)
	4,697

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

The fair value for the brand name was determined at the time of the acquisition.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Other New Zealand acquisitions

The Group also acquired a small number of other businesses and associated assets during the year, including MSS Christchurch (MSS) for $1 million in July 2007. MSS operates in the information management sector. The purchase consideration in respect of these acquisitions was $1.4 million in total, as set out below.

These acquisitions contributed revenue of $1 million and operating profit before interest and income tax of $0.3 million during the 2008 financial year. The combined contribution of these acquisitions to the Group's revenue and operating profit before interest and income tax, had the businesses and assets been acquired at the beginning of the year, is estimated at $2 million and $0.5 million, respectively.

Details of net assets acquired and goodwill are as follows:

	$000
Purchase consideration	
Cash paid during the year	1,433
Direct costs relating to these acquisitions, paid during the year	5
Estimated future earn-out payments	9
Total purchase consideration	1,447
Fair value of assets and liabilities arising from acquisition	
Inventory	7
Plant & equipment	55
Goodwill	1,385
	1,447

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

NOTE 27. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 18 August 2008, the Directors declared a final dividend of 9.25 cents per share ($11.9 million) in respect of the year ended 30 June 2008. The dividend will be paid on 30 September 2008. The record date for determination of entitlements to the dividend is 12 September 2008.

The financial effect of the above event has not been recognised in these financial statements.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

NOTE 28. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations to existing standards have been issued and will be effective for the Group's accounting periods beginning on or after 1 July 2009 and have not yet been adopted.

NZ IFRS 3: Business Combinations (revised) and NZ IAS27 (revised) are mandatory for reporting periods beginning on or after 1 June 2009. The standard no longer permits acquisition costs to be capitalised. Contingent consideration is to be recognised at the date of acquisition with all future changes being recognised in the income statement.

NZ IAS 1: Presentation of Financial Statements is mandatory for reporting periods beginning on or after 1 June 2009. Changes to presentation and disclosure requirements.

Amendments to IAS 23: Borrowing Costs is mandatory for reporting periods beginning on or after 1 June 2009. The amendment removes the option of expensing borrowing costs incurred in the construction of qualifying assets. Borrowing costs incurred in relation to assets that take a substantial period of time to get ready for intended use must be capitalised as part of the cost of the asset.

NOTE 29. IMPACT OF ADOPTION OF NZ IFRS

The Group's financial statements for the year ended 30 June 2008 are the first annual financial statements that comply with NZ IFRS. The Group has applied NZ IFRS 1 – First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards.

The impacts of adopting NZ IFRS on the total equity and profit after tax under previous NZ GAAP (NZ FRS) are illustrated below:

(1) Reconciliation of total equity as presented under NZ FRS to that under NZ IFRS

	NOTE	30 JUNE 2007 $000	1 JULY 2006 $000
Total Equity under NZ FRS		77,957	74,940
Goodwill amortisation reversal	(a)	5,810	-
Derivative financial instruments recognition	(b)	3,244	938
Provision for lease obligations	(c)	(71)	(70)
Recognition of deferred tax	(d)	(3,800)	(3,057)
Total Equity under NZ IFRS		83,140	72,751

There were no adjustments to the equity of the Parent.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

(2) Reconciliation of profit for the year as presented under NZ FRS to that under NZ IFRS

	NOTE	30 JUNE 2007 $000
Profit for the year under NZ FRS		25,091
Goodwill amortisation reversal	(a)	5,810
Derivative financial instruments recognition	(b)	(128)
Provision for lease obligations	(c)	-
Recognition of deferred tax	(d)	59
Profit for the year under NZ IFRS		30,832

There were no adjustments to the equity of the Parent.

(3) Reconciliation of cash flow statement for the year ended 30 June 2007

The adoption of NZ IFRS has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Goodwill and amortisation

Goodwill is no longer amortised under NZ IFRS but is reviewed on an annual basis for impairment and when an indicator of impairment exists. The Group has reviewed its goodwill balances and determined there is no impairment.

(b) Derivative financial instruments

Under NZ IFRS, all derivative financial instruments, whether used as hedging instruments or otherwise have been recognised at fair value in the balance sheet.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured and re-stated to their fair value at the reporting date. The method of recognising the resultant gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

(i) Cash flow hedge

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2008

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative financial instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(c) Provision for lease obligations

A provision has been recognised for future estimated payments to reinstate leased buildings to an appropriate condition upon expiry of the lease term. The provision has been determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(d) Deferred tax

Under previous NZ GAAP income tax expense was calculated with reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of NZ IFRS has resulted in a change in accounting policy.

Under NZ IAS 12, an additional deferred tax liability has been recognised in respect of items of property, plant & equipment that had an associated revaluation increment under previous NZ GAAP. On the basis that those assets were held for use (rather than sale), no deferred tax liability was recorded on the revaluation increment. Additionally, a deferred tax liability has been recognised relating to the fair value of financial derivatives. NZ IAS 12 requires a deferred tax liability to be recognised to reflect the future taxable income embodied in the asset's carrying value.

(e) Reclassification of property, plant & equipment

Under NZ IFRS, software assets are classified as intangible assets rather than property, plant & equipment. This has resulted in reclassifications between intangible assets and property, plant & equipment. While the amount previously depreciated on these assets is unchanged, it is now classified as amortisation. This represents a reclassification within assets on the balance sheet. There is no impact on equity.

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 31 July 2008

	NUMBER OF HOLDERS	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
Size of shareholding			
1 to 1,999	1,685	2,019,408	1.57
2,000 to 4,999	2,180	6,669,351	5.19
5,000 to 9,999	1,433	9,266,626	7.20
10,000 to 49,999	1,017	16,680,192	12.97
50,000 to 99,999	38	2,363,876	1.84
100,000 to 499,999	40	8,070,413	6.27
500,000 to 999,999	12	8,166,013	6.35
1,000,000 and over	18	75,386,056	58.61
Total shareholders	6,423	128,621,935	100.00
Geographic distribution			
New Zealand	6,332	122,557,105	95.28
Australia	48	5,870,898	4.57
Other	43	193,932	0.15
	6,423	128,621,935	100.00

Substantial security holders as at 31 July 2008

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	%
Harris Associates LP	12,194,768	9.48
Fisher Funds Management Limited	8,783,828	6.83
ING (NZ) Limited	7,483,046	5.82
New Zealand Superannuation Fund Nominees Limited	6,466,185	5.03

The total number of issued voting securities of the Company as at 31 July 2008 was 128,621,935.

SHAREHOLDER INFORMATION

Top twenty registered shareholders of listed shares as at 31 July 2008

	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
HSBC Nominees (New Zealand) Limited *	14,184,688	11.03
National Nominees New Zealand Limited *	10,986,272	8.54
TEA Custodians Limited *	8,291,381	6.45
New Zealand Superannuation Fund Nominees Limited *	6,684,654	5.20
FNZ Custodians Limited	5,472,904	4.26
Port Devon Limited	5,445,681	4.23
Citibank Nominees (New Zealand) Limited *	3,231,786	2.51
Premier Nominees Ltd – ING Wholesale Australasian Share Fund *	2,771,032	2.15
Premier Nominees Limited – ING Wholesale Equity Select *	2,595,953	2.02
Investment Custodial Services Limited (Account C)	2,318,566	1.80
Custodial Services Limited	2,102,527	1.64
Lucerne Road Investments Limited	2,002,896	1.56
Accident Compensation Corporation *	1,898,619	1.48
Private Nominees Limited	1,847,688	1.44
AMP Investments Strategic Equity Growth Fund *	1,707,550	1.33
NZGT Nominees Limited – AIF Equity Fund *	1,404,825	1.09
Investment Custodial Services Limited (Account R)	1,394,866	1.08
HSBC Nominees (New Zealand) Limited *	1,044,168	0.81
ANZ Nominees Limited *	906,082	0.70
Bracewell Family Trust	877,392	0.68
	77,169,530	60.00

*Held through NZ Central Securities Depository Limited.

CORPORATE GOVERNANCE STATEMENT

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

THE ROLE OF THE BOARD OF DIRECTORS

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

BOARD RESPONSIBILITIES

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

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

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

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

BOARD COMPOSITION

In accordance with the Company's constitution the Board will comprise not less than three and not more than 10 directors. The Board will be comprised of 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, the Managing Director and three non-executive directors. Key executives attend board meetings by invitation. Freightways' Board includes four independent directors.

CORPORATE GOVERNANCE STATEMENT

BOARD MEETINGS

The following table outlines the number of board meetings attended by Directors during the course of the 2008 financial year:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Wayne Boyd	13	12
Dean Bracewell	13	13
Sir William Birch	13	13
Warwick Lewis	13	13
Sue Sheldon	13	13

BOARD COMMITTEES

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

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

The members of the Audit & Risk Committee are Sue Sheldon (Chairman), Warwick Lewis and Sir William Birch. All Members are independent non-executive Directors. Meetings were held and attended, as follows:

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

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

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

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sir William Birch	2	2
Wayne Boyd	2	2

CORPORATE GOVERNANCE STATEMENT

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

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

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Wayne Boyd	2	2
Sir William Birch	2	2
Warwick Lewis	2	2
Sue Sheldon	2	2
Dean Bracewell	2	2

CODE OF ETHICS

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

DELEGATION OF AUTHORITY

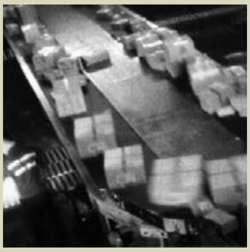
The Board delegates its authority where appropriate to the Managing Director for the day-to-day affairs of Freightways. Formal policies and procedures exist that detail the parameters that the Managing Director and in turn his direct reports are able to operate within.

SHARE TRADING BY DIRECTORS AND MANAGEMENT

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

TREASURY POLICY

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


CASTLE
PARCELS




DIRECTORY

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

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

New Zealand Document Exchange Limited
32 Botha Road
Penrose
DX CR59901
AUCKLAND
Telephone: 09 526 3150
www.dxmail.co.nz

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

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

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

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

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

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

Shred-X Pty Limited
PO Box 1184
Oxenford
Queensland 4215
AUSTRALIA
Telephone: +61 1 300 667 555

Databank Technologies Pty Limited
PO Box 984
Chatswood
New South Wales 2057
AUSTRALIA
Telephone: +61 2 9882 3420