Freightways

2010 ANNUAL REPORT

Freightways

New Zealand Couriers
www.nzcouriers.co.nz

Freightways

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)
Sue Sheldon
Sir William Birch
Roger Corcoran
Kim Ellis
Mark Verbiest

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
159 Hurstmere Road
Takapuna
North Shore City 0622
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

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.

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, Western Australia and the 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).


SUB60


CASTLE
PARCELS
CASTLE
PARCELS

FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2010

	NOTE	2010 $000	2009 $000	PERCENTAGE VARIANCE
Operating revenue		328,469	339,491	(3%)
EBITA, excluding non-recurring items	(i)	53,881	56,976	(5%)
Non-recurring items:				
- income tax charge as a result of tax law changes		(5,694)	-	-
- profit on sale of Wellington property		-	3,907	-
NPAT, excluding non-recurring items	(ii)	28,858	30,686	(6%)

Note:

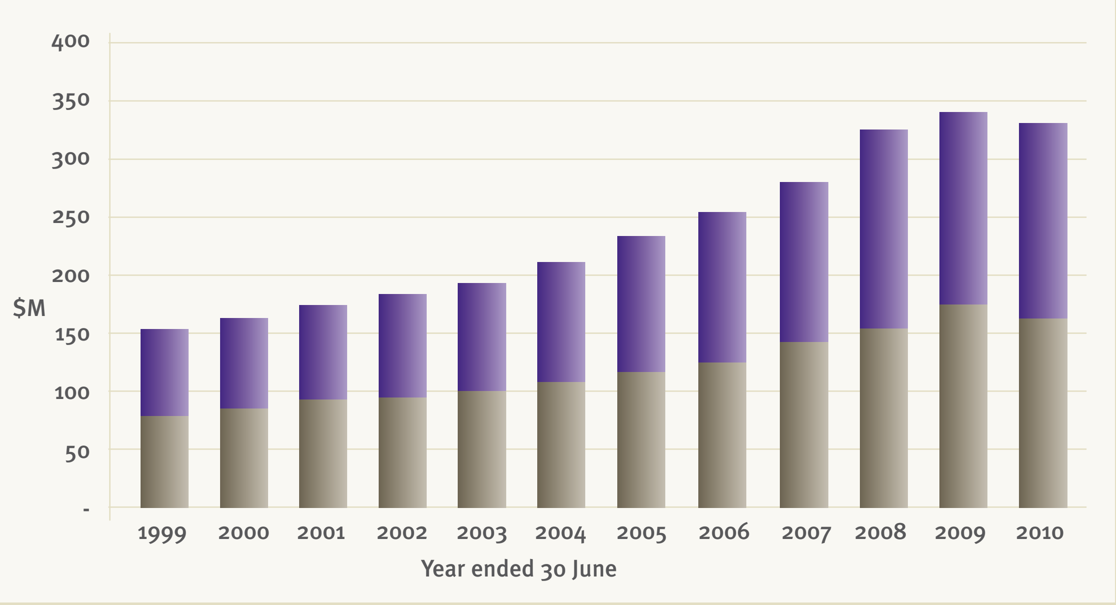
(i) Operating profit before interest, income tax, goodwill amortisation and non-recurring items

(ii) Net profit for the year after tax and before non-recurring items

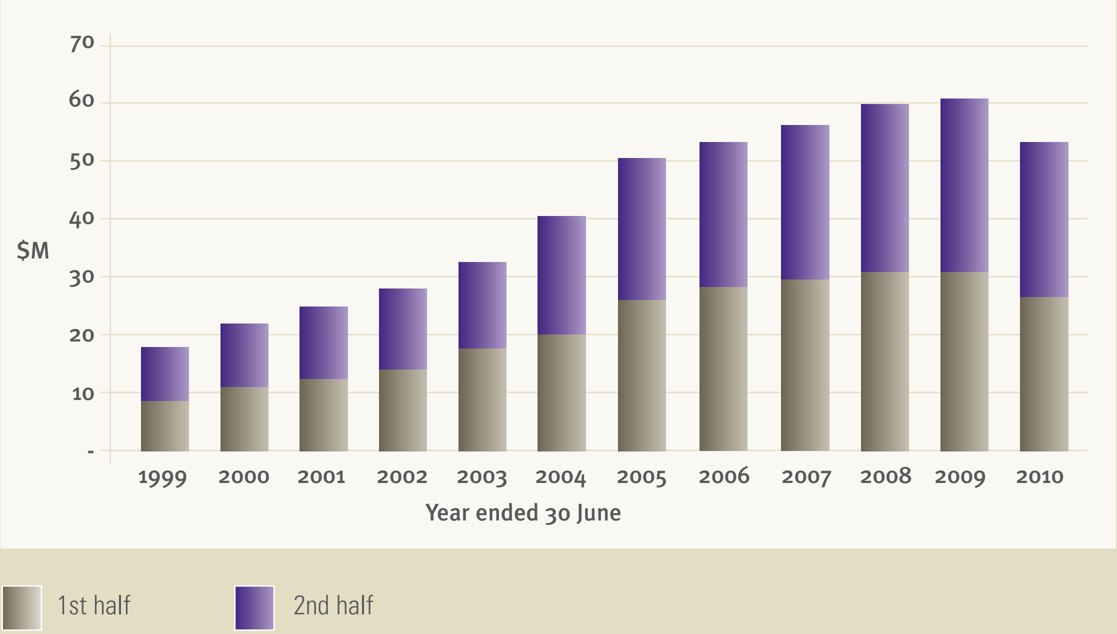
FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2010

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 result of Freightways Limited (Freightways) for the full year ended 30 June 2010. While below the prior year, this result demonstrates progressively improving Freightways performance in line with the gradual recovery of the domestic New Zealand marketplace.

Operating performance

Consolidated operating revenue of $328.5 million for the full year was 2% lower than the normalised* prior comparative period (pcp). Second half revenue from 1 January to 30 June 2010 was 1% above the normalised pcp, whereas previously announced first half revenue from 1 July to 31 December 2009 was 4% below the normalised pcp.

EBITDA of $63.7 million for the full year was 2% lower than the normalised pcp. Second half EBITDA from 1 January to 30 June 2010 was 5% above the normalised pcp, whereas previously announced first half EBITDA from 1 July to 31 December 2009 was 8% below the normalised pcp.

EBITA of $53.9 million for the full year was 3% lower than the normalised pcp. Second half EBITA from 1 January to 30 June 2010 was 6% above the normalised pcp, whereas previously announced first half EBITA from 1 July to 31 December 2009 was 10% below the normalised pcp.

Consolidated NPAT (before a $5.7 million abnormal tax charge) of $28.9 million for the full year was 2% lower than the normalised pcp. Second half NPAT from 1 January to 30 June 2010 was 4% above the normalised pcp, whereas previously announced first half NPAT from 1 July to 31 December 2009 was 8% below the normalised pcp.

An abnormal tax charge of $5.7 million relates to the previously announced tax changes arising from the Government's Budget of 20 May 2010. The Government will be reducing the corporate tax rate from 30% to 28% with effect for Freightways from 1 July 2011 and will be removing the tax deductibility of depreciation for buildings with a life of 50 years or more. These changes result in the need for an increase in the deferred tax liability and accordingly an abnormal charge to tax expense for the year ended 30 June 2010 is necessary to achieve this.

* *To ensure a like-for-like comparison for the purposes of this commentary only, references to the prior comparative period (pcp) are after normalising the actual result to remove 5 extra trading days that were accounted for in July of the pcp and the removal of the one-off $4 million benefit of a property sale that was accounted for in June of the pcp. These one-offs had contributed approximately $6 million to revenue, $5.5 million to earnings before interest, tax, depreciation and goodwill amortisation (EBITDA) and earnings before interest, tax and goodwill amortisation (EBITA) and $5 million to net profit after tax (NPAT) in the pcp.*

Dividend

The Directors have declared a final dividend of 7 cents per share, fully imputed at a tax rate of 30%. This represents a payout of approximately $10.8 million, on par with the interim dividend, bringing the full year's dividend payout in line with the Company's dividend policy of paying out 75% of annual NPAT before goodwill amortisation (NPATA), when excluding the $5.7 million abnormal tax charge which is a non-cash accounting adjustment only. The dividend will be paid on 30 September 2010. The record date for determination of entitlements to the dividend will be 17 September 2010.

The Dividend Reinvestment Plan (DRP) will not be offered in relation to this final dividend. As a capital management tool, the application of the DRP will be reviewed for each future dividend.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

REVIEW OF OPERATIONS

Express package and business mail

The core express package & business mail division currently contributes 80% of Freightways' revenue and 78% of its earnings through its brands of New Zealand Couriers, Post Haste Couriers, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express and DX Mail.

As the year has progressed the performance of the express package & business mail division has gradually improved.

Operating revenue of $263.5 million for the full year was 4% lower than the normalised pcp. Second half revenue from 1 January to 30 June 2010 was 1% lower than the normalised pcp, whereas previously announced first half revenue from 1 July to 31 December 2009 was 7% below the normalised pcp.

EBITDA of $48.9 million for the full year was 5% lower than the normalised pcp. Second half EBITDA from 1 January to 30 June 2010 was 3% above the normalised pcp, whereas the previously announced half year EBITDA from 1 July to 31 December 2009 was 11% below the normalised pcp.

EBITA of $43.2 million for the full year was 5% lower than the normalised pcp. Second half EBITA from 1 January to 30 June 2010 was 4% above the normalised pcp, whereas previously announced first half EBITA from 1 July to 31 December 2009 was 12% below the normalised pcp.

Overall lower express package volumes from existing customers have meant lower revenue was earned this year than the prior year. The successful implementation of a wide range of strategies by a committed and very experienced team has meant the economic factors external to the team's direct control have not had a more serious impact on performance. While a great deal of focus has naturally been on service quality and cost management, Freightways has been careful to continue to very actively seek quality market share growth and to continue to develop strategic growth opportunities. Among a number of key successes have been:

- the winning of Australia Post's international inbound express mail service, air parcels and courier product deliveries into New Zealand; and
- the launch of two new sub-brands – 'Stuck' which is positioned to satisfy demand for hard to deliver express freight jobs (refer www.stuck.co.nz) and 'Pass the Parcel,' which is positioned to service customers of TradeMe (refer www.passtheparcel.co.nz).

While overall volumes have improved in recent months to be on a par with the previous year this is not yet the case in all businesses within this division. Until a more broadly-based performance improvement is evidenced, we anticipate the recovery of the economy, and how it translates into the performance of Freightways' core express package businesses, will continue to be gradual.

DX Mail operates in New Zealand's postal industry and competes directly with NZ Post. DX Mail has established itself as a viable alternative to the state-owned NZ Post and has developed many important customer relationships. This market support demonstrates the value that customers attribute to DX Mail's provision of a competitive postal service.

Due to NZ Post's inherent advantages, obtained from the era during which it had a statutory monopoly, and the high barriers to establishing a competitive postal network, DX Mail remains in the formative stage of its development. As such, it must access NZ Post's network for the final delivery of some of the mail it manages. Whereas in the past NZ Post has determined how, where and at what price this access occurs, it is intended that future access arrangements will be determined by an independent access committee. The establishment of this independent access committee is expected to be positive for the overall postal industry, including independent operators such as DX Mail. DX Mail is a small contributor to Freightways' consolidated results, but forms a strategic part of the Group's overall service portfolio.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

Information management

The information management division is established in New Zealand through the brands of Online Security Services, Archive Security, Document Destruction Services and Data Security Services, and in Australia through the brands of DataBank, Archive Security and Shred-X.

This division continues to demonstrate positive revenue and earnings growth, particularly as paper sales revenue has returned to more normal levels as global demand and pricing for paper rebounded from 2009's lows.

Operating revenue of $66.2 million for the full year was 9% above the normalised pcp. Second half revenue from 1 January to 30 June 2010 of $34.1 million was 9% above the normalised pcp, whereas previously announced first half revenue from 1 July to 31 December 2009 was 9.5% above the normalised pcp.

EBITDA of $15.5 million for the full year was 12% above the normalised pcp. Second half EBITDA from 1 January to 30 June 2010 was 25% above the normalised pcp, whereas previously announced first half EBITDA from 1 July to 31 December 2009 was on par with the normalised pcp.

EBITA of $12.3 million for the full year was 12% above the normalised pcp. Second half EBITA from 1 January to 30 June 2010 was 28% above the normalised pcp whereas previously announced first half EBITA from 1 July to 31 December 2009 was 4% below the normalised pcp.

Freightways' Trans-Tasman information management businesses have continued to show great resilience to the economic cycle. While the document destruction arm was initially severely affected by lower revenue from the sale of its recycled paper, due to reduced global demand, this impact was largely offset by the growth and development of the document and data storage businesses and efficiency gains as the benefits associated with consolidating operations in a number of locations were realised. More recently, recycled paper prices have returned to the long run average for this product.

Recent investment in additional capacity in Melbourne and Wellington has increased the cost base of this division. Accelerated demand for the services offered by our information management division has meant that further storage capacity will be leased in Sydney, Perth, Adelaide and Auckland during 2011. This investment will reap future rewards as utilisation of this capacity increases. While highly competitive, the information management market continues to perform to expectations, including providing Freightways with a very real and important platform for strategic growth.

The information management division has contributed approximately 22% of Freightways' total EBITA this year and its overall performance has been very good.

Internal service providers

Fieldair Holdings Limited provides airfreight linehaul services, Parceline Express provides road linehaul services and Freightways Information Services provides IT support to the Freightways front line express package and business mail businesses. All three internal service providers have continued to deliver exceptional service.

Corporate

Following the capital management initiatives of 2009, Freightways has maintained its lower debt levels. This lower level of debt has contributed to Freightways' ability to offset the higher margins that are currently being charged by its lenders. Freightways' finance facilities were renegotiated during the first half of the financial year and came into effect on 9 September 2009.

Corporate overhead costs continue to be well contained, as have all other major areas of cost within the operating businesses, other than occupancy. Occupancy costs have been impacted by investment in increased capacity for our growing information management division.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

OUTLOOK

We have not yet experienced a sustained, across-the-board improvement in all our businesses, which indicates to us ongoing market uncertainty and suggests that the impact on Freightways of an improving economy will continue to be gradual. In the meantime, Freightways will actively manage its cost base, seek to further improve its service quality and continue to develop growth initiatives wherever possible.

The express package & business mail division, while reliant on growth amongst its existing customer base to improve its year-on-year performance, will also benefit from the quality market share wins it has achieved during 2010 and new revenue created by innovative new services.

The information management division is expected to perform strongly and continue to benefit from its recurring and growing revenue base and growth of its overall market, albeit new capacity will come at an initial stepped cost. It remains difficult to accurately forecast demand and pricing for recycled paper, which both influence overall earnings in this division. Current pricing levels are in line with long run averages. The sustainability of the global economic recovery will affect paper prices.

Forecast capital expenditure for the financial year ahead is $13 million. This investment will be evenly distributed between the express package & business mail division and the information management division.

In recent years, Freightways has strengthened its earnings profile by 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 will also explore other opportunities that complement its core capabilities.

Subject to business factors beyond its control, Freightways is particularly well positioned to reap the benefits of further improvement in the marketplace.

CONCLUSION

Freightways has delivered a full year operating result that, while below the prior year, is considered sound, again demonstrating the resilience of the Group, the positive features of the markets it operates in and the high quality of its subsidiary businesses and teams of people. Performance in the second half of the year showed good improvement compared to the pcp. Accordingly, the Directors have been able to declare a fully imputed 7 cents per share final dividend.

The Directors acknowledge the outstanding work and ongoing dedication of the Freightways team in a very difficult trading environment.

Wayne Boyd
Chairman
16 August 2010

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 2010 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 5 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 5-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.

Sue Sheldon CNZM, B.COM, FCA, M INST D

Sue is a Chartered Accountant and full time professional director. She is a director of the Reserve Bank of New Zealand, Contact Energy Limited, Telecom Corporation of New Zealand Limited, Smiths City Group Limited, Wool Grower Holdings Limited and Paymark Limited. Sue is a former President of the New Zealand Institute of Chartered Accountants.

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 6 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 6 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. He is now a director of a number of public and private companies, Chairman of Investment Research Group Limited, a trustee of the MFL and SIL Superannuation funds and a member of the Royal Bank of Scotland's Australian Advisory Council. Sir William was knighted by the Queen for public services in 1999.

Roger Corcoran

Roger, who is based in Australia, was appointed a Director in May 2009. He has gained extensive global business experience during a 30-year career with multi-national transport & logistics operator, TNT. Roger retired as CEO of TNT Australia, New Zealand and the Pacific Islands in December 2008, having worked throughout the world during his years with TNT.

Kim Ellis

Kim was appointed a Director in August 2009. He spent 28 years in chief executive roles in a number of sectors, including industrial services, and has developed businesses in both New Zealand and Australia. Kim is now a professional director working with both private and listed companies.

DIRECTORS' REPORT

Mark Verbiest

Mark was appointed a Director in February 2010. He is a professional director who has a strong working knowledge of technology and technology-related businesses, as well as having extensive capital markets experience. A lawyer by training, with widespread corporate legal experience in private practice, he spent 7.5 years on the senior executive team of Telecom NZ through until mid-2008, where among other things he had executive accountability for two business units. Mark is also a member of the Securities Commission.

The Board has determined for the purposes of the NZSX Listing Rules that, as at 30 June 2010, Wayne Boyd, Sue Sheldon, Sir William Birch, Roger Corcoran, Kim Ellis and Mark Verbiest 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 2010 were the operation of express package & business mail services and information management services.

CONSOLIDATED RESULT FOR THE YEAR

	2010 $000	2009 $000
Operating revenue	328,469	339,491
Profit before income tax	39,525	45,877
- Tax applicable to operating earnings	(10,667)	(11,284)
- Tax charge as a result of tax law changes	(5,694)	-
Total income tax	(16,361)	(11,284)
Profit for the year	23,164	34,593

DIRECTORS HOLDING OFFICE DURING THE YEAR WERE:

Parent:

Wayne Boyd (Chairman)
Dean Bracewell (Managing Director)
Sue Sheldon
Sir William Birch
Roger Corcoran
Kim Ellis (appointed 25 August 2009)
Mark Verbiest (appointed 15 February 2010)
Warwick Lewis (resigned 24 March 2010)

Subsidiaries:

Dean Bracewell
Mark Royle

DIRECTORS' REPORT

REMUNERATION OF DIRECTORS

	GROUP		PARENT	
	2010 $	2009 $	2010 $	2009 $
Wayne Boyd	120,000	120,000	120,000	120,000
Dean Bracewell	772,569	719,339	-	-
Sue Sheldon	60,000	60,000	60,000	60,000
Sir William Birch	52,000	52,000	52,000	52,000
Roger Corcoran	64,013	8,000	64,013	8,000
Warwick Lewis	39,000	52,000	39,000	52,000
Kim Ellis	47,695	-	47,695	-
Mark Verbiest	19,500	-	19,500	-
Mark Royle	487,621	474,357	-	-
	1,662,398	1,485,696	402,208	292,000

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2010 in respect of the two previous six-month performance periods (1 January to 30 June 2009 and 1 July to 31 December 2009). No amount was included above in respect of incentive payments for the period 1 January to 30 June 2010, as these were paid in August 2010.

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	
	2010	2009	2010	2009
$100,000 – $109,999	16	15	-	-
$110,000 – $119,999	14	14	-	-
$120,000 – $129,999	12	12	-	-
$130,000 – $139,999	6	6	-	-
$140,000 – $149,999	11	8	-	-
$150,000 – $159,999	11	10	-	-
$160,000 – $169,999	4	2	-	-
$170,000 – $179,999	3	3	-	-
$180,000 – $189,999	3	2	-	-
$190,000 – $199,999	-	1	-	-
$200,000 – $209,999	3	2	-	-
$210,000 – $219,999	-	1	-	-
$220,000 – $229,999	3	2	-	-
$230,000 – $239,999	2	-	-	-
$240,000 – $249,999	-	3	-	-
$250,000 – $259,999	2	1	-	-
$260,000 – $269,999	-	1	-	-
$280,000 – $289,999	3	2	-	-
$350,000 – $359,999	1	-	-	-

DIRECTORS' REPORT

ENTRIES IN THE REGISTER OF DIRECTORS' INTERESTS

The Register of Directors' Interests records that the following directors of Freightways Limited and its subsidiaries have an equity interest in the Company. These Directors therefore have an interest in any transactions between Freightways Limited and any of its subsidiaries:

Freightways Limited shares

At balance date Directors held the following number of equity securities in the Company:

	FULLY PAID ORDINARY SHARES		PARTLY PAID ORDINARY SHARES
DIRECTOR	BENEFICIALLY	NON-BENEFICIALLY	BENEFICIALLY
Wayne Boyd	-	285,908	-
Dean Bracewell	-	2,880,737	-
Sue Sheldon	-	121,262	-
Sir William Birch	-	130,492	-
Roger Corcoran	-	-	-
Kim Ellis	-	-	-
Mark Verbiest	-	-	-
Mark Royle	-	676,913	23,959

The following table shows transactions recorded in respect of securities acquired or disposed of by Directors of the Group during the year ended 30 June 2010:

	NOTE	NUMBER ACQUIRED	$ COST
Wayne Boyd			
Non-beneficial ownership in shares acquired 15 March 2010		3,574	10,901
Sir William Birch			
Non-beneficial ownership in shares acquired 30 September 2009	(i)	3,474	10,797
Sue Sheldon			
Non-beneficial ownership in shares acquired 30 September 2009	(i)	3,149	9,787
Mark Royle			
Non-beneficial ownership in shares acquired 17 August 2009	(ii)	1,913	5,739
Beneficial ownership in partly paid shares acquired 25 August 2009	(iii)	15,901	159

Notes: (i) Shares issued under the Freightways Dividend Reinvestment Plan.
(ii) Partly paid shares fully paid-up under the Freightways Senior Executive Performance Share Plan.
(iii) Allocation of partly paid shares under the Freightways Senior Executive Performance Share Plan.

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 16th day of August 2010.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the shareholders of Freightways Limited.

We have audited the financial statements on pages 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 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 22 to 29.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

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 2010 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:

(a) The significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) 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 capacity as auditors and taxation advisors.

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; and
   (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 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 16 August 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants, Auckland

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Operating revenue	2	328,469	339,491	-	-
Dividends received from subsidiaries		-	-	23,000	24,000
		328,469	339,491	23,000	24,000
Transport and logistics expenses*		(149,072)	(155,461)	-	-
Employee benefits expenses*		(75,202)	(76,695)	-	-
Occupancy expenses		(11,720)	(9,980)	-	-
General and administration expenses		(28,733)	(26,807)	(532)	(427)
Operating profit before interest, tax, depreciation and software amortisation		63,742	70,548	22,468	23,573
Depreciation and software amortisation	3	(9,861)	(9,577)	-	-
Operating profit before interest and income tax		53,881	60,971	22,468	23,573
Net interest and finance costs	3	(14,356)	(15,094)	3	-
Profit before income tax		39,525	45,877	22,471	23,573
Income tax					
- Tax applicable to operating earnings		(10,667)	(11,284)	159	128
- Tax charge as a result of tax law changes		(5,694)	-	-	-
Total income tax	4	(16,361)	(11,284)	159	128
Profit for the year		23,164	34,593	22,630	23,701
Earnings per share**	23				
Basic earnings per share (cents)		15.2	26.1	-	-
Diluted earnings per share (cents)		15.2	26.0	-	-

* Employee benefits of $8,689,000 (2009: $7,618,000) 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 2010 were $83,891,000 (2009: $84,313,000).

** Basic and diluted earnings per share calculated on the profit for the year, excluding the non-recurring tax charge of $5.7 million, is 18.9 cents (2009: 23.1 cents using the 2009 profit for the year, excluding the non-recurring profit on sale of Wellington property of $3.9 million).

NB: All revenue and earnings are from continuing operations.

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

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2010

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Profit for the year (NPAT)		23,164	34,593	22,630	23,701
Other comprehensive income					
Exchange differences on translation of foreign operations	19	(530)	(30)	-	-
Cash flow hedges taken directly to equity, net of tax	19	(170)	(7,282)	-	-
Total other comprehensive income after income tax		(700)	(7,312)	-	-
Total comprehensive income for the year		22,464	27,281	22,630	23,701

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2010

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Equity at the beginning of the year	19	146,055	91,724	133,514	82,742
Total comprehensive income for the year		22,464	27,281	22,630	23,701
Dividends paid	5	(23,457)	(22,222)	(23,457)	(22,222)
Issue of ordinary shares, net of costs	19	12,864	49,272	12,954	49,293
Equity at the end of the year	19	157,926	146,055	145,641	133,514

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 16th day of August 2010.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

BALANCE SHEETS

AS AT 30 JUNE 2010

	NOTE	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Current assets					
Cash and cash equivalents	6	4,996	16,970	5	3
Trade and other receivables	7	44,724	46,975	1,029	1,130
Inventories	8	7,770	6,765	-	-
Total current assets		57,490	70,710	1,034	1,133
Non-current assets					
Investments in subsidiaries	10	-	-	121,013	121,013
Trade and other receivables	7	360	232	155,728	143,517
Property, plant and equipment	11	77,111	75,389	-	-
Intangible assets	12	246,491	246,268	-	-
Deferred tax asset	13	1,034	1,109	-	-
Other non-current assets		22	37	-	-
Total non-current assets		325,018	323,035	276,741	264,530
Total assets		382,508	393,745	277,775	265,663
Current liabilities					
Trade and other payables	14	37,679	40,116	-	15
Finance lease liabilities	15	189	262	-	-
Provisions	16	1,090	915	-	-
Derivative financial instruments	9	233	49	-	-
Unearned income	17	15,645	15,539	-	-
Total current liabilities		54,836	56,881	-	15
Non-current liabilities					
Trade and other payables	14	1,842	1,862	-	-
Borrowings (secured)	18	154,648	180,078	132,134	132,134
Deferred tax liability	13	6,106	-	-	-
Finance lease liabilities	15	-	191	-	-
Derivative financial instruments	9	7,150	8,678	-	-
Total non-current liabilities		169,746	190,809	132,134	132,134
Total liabilities		224,582	247,690	132,134	132,149
Net assets		157,926	146,055	145,641	133,514
Equity					
Contributed equity		120,488	107,624	120,605	107,651
Retained earnings		43,322	43,615	25,036	25,863
Cash flow hedge reserve		(5,582)	(5,412)	-	-
Foreign currency translation reserve		(302)	228	-	-
Total equity	19	157,926	146,055	145,641	133,514

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

		GROUP		PARENT	
	NOTE	2010 $000 INFLOWS (OUTFLOWS)	2009 $000 INFLOWS (OUTFLOWS)	2010 $000 INFLOWS (OUTFLOWS)	2009 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities					
Receipts from customers		329,078	341,968	-	-
Payments to suppliers and employees		(265,566)	(275,259)	-	-
Cash generated from operations		63,512	66,709	-	-
Interest received		288	578	-	-
Interest and other costs of finance paid		(18,605)	(16,098)	-	-
Income taxes paid		(11,860)	(9,139)	(810)	(959)
Net cash inflows (outflows) from operating activities	21	33,335	42,050	(810)	(959)
Cash flows from investing activities					
Payments for property, plant and equipment		(10,783)	(19,902)	-	-
Payments for software		(1,674)	(1,186)	-	-
Proceeds from disposal of property, plant and equipment		127	8,361	-	-
Payments for businesses acquired	28	(526)	(18,231)	-	-
Advances from (to) associates		3,764	(2,418)	-	-
Cash flows from other investing activities		-	21	-	-
Net cash outflows from investing activities		(9,092)	(33,355)	-	-
Cash flows from financing activities					
Dividends paid		(20,392)	(22,222)	(20,392)	(22,222)
Increase (decrease) in bank borrowings		(24,553)	(20,333)	-	-
Net proceeds from issue of ordinary shares		9,423	48,727	9,423	48,727
Finance lease liabilities repaid		(265)	(408)	-	-
Loans advanced from (to) subsidiaries		-	-	11,781	(25,545)
Net cash inflows (outflows) from financing activities		(35,787)	5,764	812	960
Net increase (decrease) in cash and cash equivalents		(11,544)	14,459	2	1
Cash and cash equivalents at the beginning of year		16,970	2,296	3	2
Exchange rate adjustments		(430)	215	-	-
Cash and cash equivalents at end of year	6	4,996	16,970	5	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 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Reporting entity and statutory base

Freightways Limited is a profit-orientated company registered and domiciled in New Zealand under the Companies Act 1993, and is an issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993.

The consolidated financial statements for the year ended 30 June 2010 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.

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and with International Financial Reporting Standards.

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 and judgements

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. There are no judgements made that are considered to have a significant risk of causing a material adjustment to the carrying value of assets or liabilities. 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. Refer to Note 12.

(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. Accordingly, the balance is sensitive to movements in the future level of customer purchases and use of prepaid products, which can not be reliably estimated. Management regularly review the historical usage patterns to ensure adequate unearned income is recognised.

b) Basis of consolidation

(i) Subsidiaries

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, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

attributable to the acquisition are expensed to the income statement. 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.

(ii) Joint ventures – jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity to develop an operating facility and lease it to a subsidiary have been incorporated in the financial statements under the appropriate headings. The amounts involved are not material. Refer also to Note 25.

c) Segment reporting

A segment is a component of the Group that can be distinguished from other components of the Group by the products or services it sells, the market it operates in and the risks and returns applicable to it. Operating segments are reported upon in a manner consistent with the internal reporting used for allocating resources, assessing performance and strategic decision making.

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 during the year. Diluted EPS is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year, adjusted to include all dilutive potential ordinary shares (for example, partly-paid shares on issue) as if they had been converted to ordinary shares at the beginning of the year.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

- 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.

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 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 2010

(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 costs 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 2010

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 20 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 3 and 10 years.

o) Investments

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

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.

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 accepted treasury valuation techniques, such as estimated discounted cash flows, by an external treasury management system provider. The carrying value of trade receivables (less provision for doubtful receivables) and payables is assumed to approximate their fair values.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

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 for recognition by assessing 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.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan for senior executives, under which the Group receives services from employees as consideration for partly-paid ordinary shares in the Company. The fair value of the employee services received in exchange for the partly-paid ordinary shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the partly-paid ordinary shares allotted, taking into account market vesting conditions (for example, total shareholder return measures such as outperforming the median of the NZX50 Index), but excluding the impact of any non-market service and performance vesting conditions (for example, compound growth rates for earnings per share and remaining an employee of the Group over a specified time period). Non-market vesting conditions are included in assumptions about the number of partly-paid ordinary shares that are expected to vest. The total amount expensed is recognised over the relevant vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of partly-paid ordinary shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

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.

y) Borrowings and inter-company balances

Interest-bearing bank loans and overdrafts are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. In respect of the Company, no interest is payable or receivable on inter-company balances. These balances are recognised at face value, which is also considered to reflect their fair value.

z) Changes in accounting policies

Except as described below, the accounting policies and methods of computation are consistent with those used in the prior year.

The Group has adopted the following new and revised standards for which application was mandatory for the first time in the financial year beginning 1 July 2009:

(i) NZ IAS1 (Revised), Presentation of Financial Statements

The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements.

(ii) NZ IFRS2 Share-Based Payments

The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Application of this revised standard has not had a material impact on the Group's financial statements.

(iii) NZ IFRS3, Business Combinations (Revised) and NZ IAS27, Consolidated and Separate Financial Statements (Revised)

The revised standards continue to apply the acquisition method to business combinations but with some significant changes to the treatment of transaction costs and contingent consideration. Application of these revised standards has not had a material impact on the Group's financial statements.

(iv) NZ IAS23 Borrowing Costs (Revised)

The revised standard requires the capitalisation of borrowing costs that are directly attributable to the acquisition or construction of qualifying assets, which are assets which take a substantial time to be readied for their intended use or sale. As the revised standard is consistent with the Group's existing accounting policy, the application of the new standard has had no impact on the Group's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 2. SEGMENT REPORTING

The Group is organised into the following reportable operating segments which categorise the business into its primary markets and reflect the structure and internal reporting used by Management and the Board to assist strategic decision-making:

Express package & 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 Group has no individual customer that represents more than 2% of external sales revenue.

As at and for the year ended 30 June 2010:

	EXPRESS PACKAGE & BUSINESS MAIL $000	INFORMATION MANAGEMENT $000	CORPORATE & OTHER $000	INTER-SEGMENT ELIMINATION $000	CONSOLIDATED OPERATIONS $000
Income statement					
Sales to external customers	262,378	66,090	1	-	328,469
Inter-segment sales	1,092	151	3,321	(4,564)	-
Total revenue	263,470	66,241	3,322	(4,564)	328,469
Operating profit before interest, tax, depreciation and software amortisation	48,852	15,536	(646)	-	63,742
Depreciation and software amortisation expense	(5,612)	(3,214)	(1,035)	-	(9,861)
Operating profit before interest and income tax	43,240	12,322	(1,681)	-	53,881
Balance sheet					
Segment assets	219,144	119,308	44,056	-	382,508
Segment liabilities	40,914	10,583	173,085	-	224,582

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

As at and for the year ended 30 June 2009:

	EXPRESS PACKAGE & BUSINESS MAIL $000	INFORMATION MANAGEMENT $000	CORPORATE & OTHER $000	INTER-SEGMENT ELIMINATION $000	CONSOLIDATED OPERATIONS $000
Income statement					
Sales to external customers	278,677	60,799	15	-	339,491
Inter-segment sales	1,056	162	3,638	(4,856)	-
Total revenue	279,733	60,961	3,653	(4,856)	339,491
Operating profit before interest, tax, depreciation and software amortisation	52,703	13,943	3,902	-	70,548
Depreciation and software amortisation expense	(5,789)	(2,798)	(990)	-	(9,577)
Operating profit before interest and income tax	46,914	11,145	2,912	-	60,971
Balance sheet					
Segment assets	220,275	116,074	57,396	-	393,745
Segment liabilities	41,258	10,833	195,599	-	247,690

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

For the year ended 30 June 2010, external revenue from customers in the Group's New Zealand and Australian operations was $282.8 million and $45.7 million, respectively (2009: $299.2 million and $40.3 million, respectively). As at 30 June 2010, non-current assets in respect of the New Zealand and Australian operations (excluding deferred tax assets) were $236.4 million and $87.6 million, respectively (2009: $236.3 million and $85.6 million, respectively).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 3. INCOME AND EXPENSES

Profit before income tax includes the following specific income and expenses:

		GROUP		PARENT	
	NOTE	2010 $000	2009 $000	2010 $000	2009 $000
Income:					
Interest income		286	636	3	-
Operating expenses:					
Net loss (gain) on disposal of property, plant & equipment		(8)	(4,016)	-	-
Depreciation	11	9,095	8,799	-	-
Amortisation of software	12	766	778	-	-
Operating lease expenses		12,469	11,753	-	-
Auditors' fees:					
Audit services		292	295	-	-
Other assurance services		-	-	-	-
Taxation services		11	17	-	-
Costs of offering credit:					
Impairment loss on trade receivables		208	421	-	-
Interest:					
Bank borrowings		14,730	14,994	-	-
Finance leases		26	54	-	-
Derivative fair value movement		(114)	682	-	-
Other:					
Net foreign exchange loss (gain)		(361)	(35)	-	-
Directors' fees		402	292	402	292
Donations		76	25	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 4. INCOME TAX EXPENSE

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Current tax:				
Current tax on profit for the year	10,046	12,333	(159)	(128)
Adjustments in respect of prior years	76	(174)	-	-
Total current tax	10,122	12,159	(159)	(128)
Deferred tax (note 13):				
Reversal of temporary differences	6,868	(875)	-	-
Impact of reduction in NZ tax rate	(629)	-	-	-
Total deferred tax	6,239	(875)	-	-
Income tax expense (benefit)	16,361	11,284	(159)	(128)

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:

Profit before income tax	39,525	45,877	22,471	23,573
Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries:	11,857	13,763	6,741	7,072
Tax-effect of amounts which are treated differently when calculating taxable income:				
- Non-taxable intercompany dividends	-	-	(6,900)	(7,200)
- Non-deductible expenses	435	132	-	-
- Adjustments for changes in tax law:				
Reversal of deferred tax on building depreciation	6,323	-	-	-
Reduction in NZ tax rate	(629)	-	-	-
	5,694	-	-	-
- Capital profit on sale of property, plant & equipment	-	(1,110)	-	-
- Additional amounts deductible	(1,158)	(1,209)	-	-
- Other	(467)	(292)	-	-
Income tax expense (benefit)	16,361	11,284	(159)	(128)

The Group has no tax losses (2009: Nil) and no unrecognised temporary differences (2009: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

	GROUP 2010 $000	GROUP 2009 $000
Imputation credit account		
Balance at beginning of year	12,138	16,765
Income tax payments made during the year, net of any refunds	10,418	6,320
Imputation credits attaching to dividends paid during the year	(10,733)	(10,947)
Balance at end of year	11,823	12,138
At balance date the imputation credits available to shareholders of the Company:		
Available for use at 33%	-	5,818
Available for use at 30%	11,823	6,320
	11,823	12,138

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 5. DIVIDENDS

	PARENT 2010 $000	PARENT 2009 $000
Recognised amounts		
Fully imputed dividends declared and paid during the year:		
Final dividend for 2009 at 8.50 cents per share (2008: 9.25 cents)	12,706	11,916
Interim dividend for 2010 at 7.00 cents per share (2009: 8.00 cents)	10,751	10,306
Supplementary dividends	790	959
Foreign investor tax credits	(790)	(959)
	23,457	22,222
Unrecognised amounts		
Final dividend for 2010 at 7.00 cents per share (2009: 8.50 cents)	10,759	12,700

Subsequent to balance date the above unrecognised dividend was approved by a directors' resolution dated 16 August 2010. This amount has not been recognised as a liability at the reporting date, but will be brought to account when paid.

NOTE 6. CASH AND CASH EQUIVALENTS

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Comprises:				
- Cash at bank	2,523	2,746	5	3
- Overnight deposit	2,473	14,224	-	-
Cash and cash equivalents in statement of cash flows	4,996	16,970	5	3

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 7. TRADE AND OTHER RECEIVABLES

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Current:				
Trade receivables	38,587	40,140	-	-
Provision for doubtful receivables	(1,176)	(1,304)	-	-
	37,411	38,836	-	-
Other debtors and prepayments	7,093	4,031	60	47
Share plan loans receivable from employees	220	233	-	-
Due from associates (note 25)	-	3,875	-	-
Income tax receivable	-	-	969	1,083
	44,724	46,975	1,029	1,130
Non-current:				
Share plan loans receivable from employees	195	232	-	-
Due from subsidiary	-	-	155,728	143,517
Due from associates (note 25)	165	-	-	-
	360	232	155,728	143,517

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

	GROUP 2010 $000	GROUP 2009 $000
Opening balance	1,304	686
Provision for doubtful receivables	250	606
Receivables written off	(402)	(97)
Provisions added from acquired businesses	25	114
Exchange rate movement	(1)	(5)
Closing balance (note 26.1(b))	1,176	1,304

NOTE 8. INVENTORIES

The Company has no inventory. The amounts below are for the Group.

	GROUP 2010 $000	GROUP 2009 $000
Finished goods	6,417	5,393
Ticket stocks, uniforms and consumables	1,353	1,372
	7,770	6,765

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has no derivative financial instruments. The amounts below are for the Group.

	GROUP	
	2010 $000 Asset (Liability)	2009 $000 Asset (Liability)
Current:		
Interest rate swaps	(182)	(49)
Interest rate collars	(51)	-
	(233)	(49)
Non-current:		
Interest rate swaps	(7,054)	(8,202)
Interest rate collars	(96)	(476)
	(7,150)	(8,678)

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

	INTEREST RATE DERIVATIVES			
	NZD		AUD	
	2010 $000	2009 $000	2010 $000	2009 $000
Interest rate swaps	79,000	97,000	45,000	74,000
Interest rate caps	-	-	-	4,000
Interest rate collars	5,000	5,000	5,000	5,000
	84,000	102,000	50,000	83,000

The interest rate derivatives are 99% effective as cash flow hedges against the future interest payments of the Group (2009: 97%).

Income of $114,000, representing the ineffective portion of the derivative financial instruments, was recognised in the income statement during the year. In 2009 the ineffective portion recognised in the income statement was an expense of $682,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 10. INVESTMENTS IN SUBSIDIARIES

The 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 activities	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
Fieldair Holdings Limited*	Holding company (refer * below)	New Zealand
Freightways Finance Limited	Group treasury management	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 2010

NOTE 11. PROPERTY, PLANT & EQUIPMENT

The Company has no property, plant and equipment. The amounts below are for the Group.

	LAND	BUILDINGS	LEASEHOLD ALTERATIONS	MOTOR VEHICLES	EQUIPMENT	TOTAL
2010 ($000)						
Opening net book value	13,025	26,395	2,787	4,017	29,165	75,389
Additions	-	1,817	390	1,457	7,738	11,402
Acquisitions through business combinations	-	-	-	-	39	39
Disposals	-	-	(21)	(62)	(403)	(486)
Depreciation expense	-	(1,155)	(472)	(1,133)	(6,335)	(9,095)
Exchange rate movement	(16)	(21)	(3)	(32)	(66)	(138)
Closing net book value	13,009	27,036	2,681	4,247	30,138	77,111
As at end of year						
Cost	13,009	32,736	5,157	7,827	65,432	124,161
Accumulated depreciation	-	(5,700)	(2,476)	(3,580)	(35,294)	(47,050)
Net book value	13,009	27,036	2,681	4,247	30,138	77,111
2009 ($000)						
Opening net book value	12,727	23,447	2,488	4,130	24,979	67,771
Additions	1,414	6,999	824	1,062	9,967	20,266
Acquisitions through business combinations	-	-	-	-	558	558
Disposals	(1,129)	(3,031)	(4)	(71)	(112)	(4,347)
Depreciation expense	-	(1,013)	(504)	(1,049)	(6,233)	(8,799)
Exchange rate movement	13	(7)	(17)	(55)	6	(60)
Closing net book value	13,025	26,395	2,787	4,017	29,165	75,389
As at end of year						
Cost	13,025	30,942	4,836	6,730	58,467	114,000
Accumulated depreciation	-	(4,547)	(2,049)	(2,713)	(29,302)	(38,611)
Net book value	13,025	26,395	2,787	4,017	29,165	75,389

Included in the cost of buildings is an amount of $0.9 million (2009: $8.9 million) in respect of assets under construction for which depreciation has not commenced. This amount also includes capitalised borrowing costs of $0.1 million (2009: $0.6 million).

The latest independent valuations of land and buildings (performed in June 2010) assess these assets to have a total value of $52.8 million. These valuations did not include any buildings under construction, which are included at cost.

Finance leases: Motor vehicles include items capitalised under finance leases with a cost of $0.1 million (2009: $0.2 million), together with accumulated depreciation of $0.1 million (2009: $0.1 million). Equipment includes items capitalised under finance leases with a cost of $0.1 million (2009: $0.5 million), together with accumulated depreciation of $0.1 million (2009: $0.1 million). 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 2010

NOTE 12. INTANGIBLE ASSETS

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

	GOODWILL	BRAND NAMES	SOFTWARE	TOTAL
2010 ($000)				
Opening net book value	132,352	108,883	5,033	246,268
Additions	146	-	1,675	1,821
Reversal of accrued earn-out payment	(262)	-	-	(262)
Acquisitions through business combinations	184	-	-	184
Amortisation expense	-	-	(766)	(766)
Exchange rate movement	(568)	(168)	(18)	(754)
Closing net book value	131,852	108,715	5,924	246,491
As at end of year				
Cost	131,852	108,715	8,571	249,138
Accumulated amortisation	-	-	(2,647)	(2,647)
Net book value	131,852	108,715	5,924	246,491
2009 ($000)				
Opening net book value	121,592	109,176	4,626	235,394
Additions	1,050	-	1,186	2,236
Acquisitions through business combinations	10,214	-	-	10,214
Amortisation expense	-	-	(778)	(778)
Exchange rate movement	(504)	(293)	(1)	(798)
Closing net book value	132,352	108,883	5,033	246,268
As at end of year				
Cost	132,352	108,883	6,914	248,149
Accumulated amortisation	-	-	(1,881)	(1,881)
Net book value	132,352	108,883	5,033	246,268

Included in the cost of software is work in progress of $2.7 million (2009: $1.6 million) for which amortisation had not commenced. This amount also includes capitalised borrowing costs of $0.3 million (2009: $0.2 million).

An independent valuation of the brand names was conducted by Deloitte in July 2010. This independent report assessed the fair market value of the brand names as at 30 June 2010 to be between $161 million and $182 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

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 by CGU is outlined below:

	GOODWILL		BRAND NAMES	
	2010 $000	2009 $000	2010 $000	2009 $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	6,323	5,900	5,900
Post Haste and Castle Parcels	14,730	14,730	14,900	14,900
NOW Couriers	7,278	7,540	3,495	3,495
Online Security Services	10,338	10,338	4,400	4,400
Databank Technologies	32,007	32,193	12,625	12,753
Shred-X	22,466	22,518	3,795	3,835
	131,852	132,352	108,715	108,883

(i) Key assumptions used for value-in-use calculations

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 2011. Cash flows beyond June 2011 have been extrapolated using growth rates which do not exceed the historical compound annual earnings growth rates for each respective CGU, taking into consideration current and forecast economic conditions. The compound annual earnings growth rate for the Express Package & Business Mail segment over the past 10 years has been approximately 7%. For the Information Management segment, the compound annual earnings growth rate for the last 3 years of approximately 10% is considered indicative of the growth in this segment since the Company's expansion into Australia.

A pre-tax discount rate of 11% has been applied to all CGUs, which approximates the Group's weighted average cost of capital.

The value-in-use calculations indicate that the recoverable amounts of goodwill and brand names exceed their carrying values and therefore there is no impairment in the value of goodwill and brand names.

(ii) Sensitivity to changes in assumptions

With regard to the value-in-use assessment for all CGUs, management believes that no reasonably possible change in any of the above assumptions would cause the carrying values of goodwill and brand names to materially exceed their respective recoverable amounts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 13. DEFERRED TAX ASSET (LIABILITY)

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

	ASSET		LIABILITY	
	2010 $000	2009 $000	2010 $000	2009 $000
Deferred tax	1,034	1,109	(6,106)	-

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
2010 ($000)					
Balance at beginning of year	(4,050)	1,601	939	2,619	1,109
Transfer to income statement:					
- non-deductibility of building depreciation	(6,323)	-	-	-	(6,323)
- reduction in New Zealand tax rate	629	-	-	-	629
- other	12	(42)	(41)	(474)	(545)
Transferred to cash flow hedge reserve	-	-	-	70	70
Exchange rate movement	(4)	-	(8)	-	(12)
Balance at end of year	(9,736)	1,559	890	2,215	(5,072)

	PROPERTY, PLANT & EQUIPMENT	EMPLOYEE ENTITLEMENTS	ACCRUALS & PROVISIONS	DERIVATIVE FINANCIAL INSTRUMENTS	TOTAL
2009 ($000)					
Balance at beginning of year	(4,294)	1,397	647	(646)	(2,896)
Transfer to income statement	237	201	293	144	875
Amounts relating to business combinations	-	21	11	-	32
Transferred to cash flow hedge reserve	-	-	-	3,121	3,121
Exchange rate movement	7	(18)	(12)	-	(23)
Balance at end of year	(4,050)	1,601	939	2,619	1,109

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 14. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Current:				
Trade creditors	20,850	20,557	-	15
Employee entitlements	8,108	7,856	-	-
Acquisition earn-out payments	61	947	-	-
Other creditors and accruals	6,621	6,974	-	-
Income tax payable	2,039	3,782	-	-
	37,679	40,116	-	15
Non-current:				
Acquisition earn-out payments	1,842	1,862	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 15. LEASES

The 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:

	2010 $000	2009 $000
Within one year	191	289
After one year but not more than five years	-	193
After five years	-	-
Minimum lease payments	191	482
Less: future finance charges	(2)	(29)
	189	453
Classified in the balance sheet:		
Current	189	262
Non-current	-	191
	189	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:

	2010 $000	2009 $000
Within one year	11,747	12,368
After one year but not more than five years	25,350	23,488
After five years	20,509	17,367
	57,606	53,223

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 16. PROVISIONS

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

	CUSTOMER CLAIMS	LONG SERVICE LEAVE	LEASE OBLIGATIONS	TOTAL
2010 ($000)				
Balance at beginning of year	244	345	326	915
Current year provision	(9)	129	71	191
Expenses incurred	(3)	-	(3)	(6)
Movement in exchange rate	-	(6)	(4)	(10)
Balance at end of year	232	468	390	1,090
2009 ($000)				
Balance at beginning of year	240	221	251	712
Acquisition through business combinations	-	33	60	93
Current year provision	29	94	58	181
Expenses incurred	(25)	-	(43)	(68)
Movement in exchange rate	-	(3)	-	(3)
Balance at end of year	244	345	326	915

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

	GROUP 2010 $000	GROUP 2009 $000
Income received in advance	15,645	15,539

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 18. BORROWINGS

	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
Non-current:				
Bank borrowings	154,648	180,078	-	-
Loans from subsidiaries (note 25)	-	-	132,134	132,134
	154,648	180,078	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 2010 $000	NEW ZEALAND DOLLARS 2009 $000	AUSTRALIAN DOLLARS 2010 $000	AUSTRALIAN DOLLARS 2009 $000
BNZ				
- total bank overdraft facility available	8,000	8,000	-	-
- amount of overdraft facility unused	8,000	8,000	-	-
- total loan facilities available	20,000	-	5,000	-
- amount of loan facilities used	14,333	-	3,550	-
- amount of loan facilities unused	5,667	-	1,450	-
Westpac				
- total loan facilities available	35,000	77,500	60,000	60,000
- amount of facilities used	25,083	51,000	41,825	53,550
- amount of facilities unused	9,917	26,500	18,175	6,450
ANZ				
- total loan facilities available	65,000	77,500	-	15,000
- amount of facilities used	46,584	45,000	-	14,200
- amount of facilities unused	18,416	32,500	-	800
NAB (Australia)				
- total bank overdraft facility	-	-	20	200
- amount of overdraft facility unused	-	-	20	200
- total loan facilities available	-	-	15,000	-
- amount of facilities used	-	-	10,525	-
- amount of loan facilities unused	-	-	4,475	-
Effective interest rate at 30 June as amended for interest rate hedges	7.61%	7.12%	7.47%	6.69%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

On 9 September 2009 a refinancing was completed to replace the then existing banking arrangements with a four-bank syndicated debt facility. The new facility is available until 9 September 2012.

The Group was in compliance with its banking covenants throughout the year ended 30 June 2010. Subsequent to balance date, the Group sought and received the written consent of the banking syndicate's Facility Agent to exceed a distribution threshold contained in the banking covenants applicable to this debt facility. This was required in respect of the final dividend payable on 30 September 2010. Refer to Note 29.

NOTE 19. EQUITY

GROUP	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
2010 ($000)					
Balance at beginning of year	107,624	43,615	(5,412)	228	146,055
Profit for the year	-	23,164	-	-	23,164
Dividend payments	-	(23,457)	-	-	(23,457)
Shares issued	12,864	-	-	-	12,864
Cash flow hedges taken directly to equity, net of tax	-	-	(170)	-	(170)
Foreign currency translation reserve	-	-	-	(530)	(530)
Balance at end of year	120,488	43,322	(5,582)	(302)	157,926
2009 ($000)					
Balance at beginning of year	58,352	31,244	1,870	258	91,724
Profit for the year	-	34,593	-	-	34,593
Dividend payments	-	(22,222)	-	-	(22,222)
Shares issued	49,272	-	-	-	49,272
Cash flow hedges taken directly to equity, net of tax	-	-	(7,282)	-	(7,282)
Foreign currency translation reserve	-	-	-	(30)	(30)
Balance at end of year	107,624	43,615	(5,412)	228	146,055

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

PARENT	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
2010 ($000)					
Balance at beginning of year	107,651	25,863	-	-	133,514
Profit for the year	-	22,630	-	-	22,630
Dividend payment	-	(23,457)	-	-	(23,457)
Shares issued	12,954	-	-	-	12,954
Balance at end of year	120,605	25,036	-	-	145,641
2009 ($000)					
Balance at beginning of year	58,358	24,384	-	-	82,742
Profit for the year	-	23,701	-	-	23,701
Dividend payment	-	(22,222)	-	-	(22,222)
Shares issued	49,293	-	-	-	49,293
Balance at end of year	107,651	25,863	-	-	133,514

Contributed equity

(i) Fully paid ordinary shares

As at 30 June 2010 there were 153,592,160 shares issued and fully paid (2009: 149,319,275). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

(ii) Partly paid ordinary shares

On 25 August 2009, 103,357 partly-paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan. The issue price per share was $2.83 and the shares have been paid up by the relevant participants to one cent per share. The balance of the issue price per share may only be paid up upon the participants meeting agreed performance hurdles and upon the expiry of the applicable three-year escrow period in accordance with the Plan rules (refer Note 20). As at 30 June 2010 there were 155,701 partly-paid shares on issue, paid up to one cent per share (2009: 64,784). Partly-paid shares have no voting rights and no rights to dividends and surplus on winding up.

(iii) Partly-paid shares, fully paid up to ordinary shares

On 17 August 2009, 12,440 partly-paid shares were fully paid up by certain Freightways senior executives upon the achievement of agreed performance targets in accordance with the terms of the original issue of the relevant partly-paid shares under the Freightways Senior Executive Performance Share Plan. The issue price per share was $3.01.

(iv) Employee Share Plan

On 28 August 2009, the Company issued 150,000 fully paid ordinary shares at $2.67 to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan. In total, participating employees were provided with interest-free loans of $0.4 million to fund their purchase of the shares in the Share Plan. The loans are repayable over three years and repayment commenced in September 2009.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

As at 30 June 2010 the Trustee held 525,397 (2009: 437,124) fully paid ordinary shares (representing 0.3% (2009: 0.3%) of all issued ordinary shares) of which 44,676 (2009: 12,607) were unallocated. These shares are held for allocation in the future.

The Employee 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 of Directors.

(v) Dividend Reinvestment Plan

On 30 September 2009, 985,691 fully paid ordinary shares were issued at $3.1071 to shareholders participating in the Freightways Dividend Reinvestment Plan (DRP) in respect of the dividend paid on 30 September 2009. A further 3,124,754 fully paid ordinary shares were issued at $3.1071 to the underwriters of the DRP which provided the Company with the funds necessary to pay cash to those shareholders who chose not to participate in the DRP for this dividend. In total, approximately $0.2 million of transaction costs were incurred in respect of the operation and underwriting of the DRP for the dividend paid on 30 September 2009. These costs were deducted from the gross equity raised.

NOTE 20. SHARE-BASED PAYMENTS

Freightways Senior Executive Performance Share Plan (the 'Plan')

In September 2008, the Board approved the introduction of a long-term incentive scheme for certain Freightways senior executives using a performance share plan. The Plan aligns senior executives' long-term objectives with the interests of Freightways Limited shareholders.

Payment of any benefit is dependent upon the achievement of agreed performance targets. Partly-paid shares (paid up to one cent per share) were issued, subject to a three-year escrow period. At the end of each escrow period the Group will pay a bonus to the senior executives to the extent the performance targets have been achieved, sufficient for the shares to be fully paid-up. In the event that the performance targets have not been achieved at the expiry of the escrow period, the partly-paid shares may be redeemed by the Company.

An initial allocation of 64,784 partly-paid ordinary shares was made on 1 January 2009 and a further issue of 103,357 partly-paid ordinary shares was made on 25 August 2009 in accordance with the rules of the Plan. Further allocations are expected to be made annually in August each year. The terms for these allocations, including the relevant performance hurdles, will be determined by the Board of Directors at the time of each allocation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Details of allocations are as follows:

Share allocation date	1 January 2009	25 August 2009
Number of partly-paid shares allocated	64,784	103,357
Market price per share at date of allocation	$3.01	$2.83
Amount paid-up per share upon allocation	$0.01	$0.01
Total amount paid-up during the year	$37,320	$1,034
Escrow periods:	30 June 2009 (20%)	30 June 2012 (100%)
	30 June 2010 (30%)	
	30 June 2011 (50%)	
Total number of partly-paid shares on issue:		
Balance at beginning of the year	64,784	
Issued during the year	103,357	
Cancelled during the year	-	
Fully paid-up during the year	(12,440)	
Balance at end of the year	155,701	
Partly-paid shares eligible to be paid-up at the end of the year	nil	

	GROUP 2010 $000	GROUP 2009 $000
Total amount expensed during the year for the senior executive performance share plan	105	87
Liability recognised at year end for bonuses payable to facilitate the paying-up of vested partly-paid shares	80	69

The fair value of the Plan was estimated as at the date of each allocation of partly-paid shares using both the binomial option pricing model and monte carlo simulation, and taking into account the terms and conditions upon which the partly-paid shares were issued.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 21. RECONCILIATION OF PROFIT FOR THE YEAR WITH CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		PARENT	
	2010 $000	**2009 $000**	**2010 $000**	**2009 $000**
Profit for the year	23,164	34,593	22,630	23,701
Add non-cash items:				
Depreciation and software amortisation	9,861	9,577	-	-
Movement in provision for doubtful debts	(87)	600	-	-
Movement in deferred income tax	6,168	(658)	-	-
Net loss (gain) on disposal of fixed assets	(8)	(4,016)	-	-
Net foreign exchange loss (gain)	(361)	(35)	-	-
Movement in derivative fair value	(114)	682	-	-
Transactions settled through loans from subsidiary	-	-	(23,300)	(25,732)
Items not included in profit for the year:				
Cash flow hedges taken directly to equity	170	-	-	-
Movement in working capital, net of effects of acquisitions of businesses:				
Decrease (increase) in trade and other receivables	(2,472)	363	(12)	(39)
Decrease (increase) in inventories	(1,007)	(477)	-	-
Increase (decrease) in trade and other payables	(242)	(1,778)	(15)	11
Increase (decrease) in income taxes payable	(1,737)	3,199	(113)	1,100
Net cash inflows (outflows) from operating activities	33,335	42,050	(810)	(959)

NOTE 22. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had contractual obligations to purchase or construct buildings and equipment for NZ$0.3 million at 30 June 2010 (2009: NZ$1.0 million and A$0.1 million) principally relating to the completion of operating facilities throughout the Group.

The Company had no commitments for property, plant and equipment at 30 June 2010 (2009: nil).

As at 30 June 2010, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $2.6 million. The letters of credit relate predominantly to support for regular payroll payments. The bank guarantees relate to security given to various landlords in respect of leased operating facilities.

The Company had no contingent liabilities at 30 June 2010 (2009: nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 23. 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 outstanding during the year:

	GROUP 2010	GROUP 2009
Profit for the year ($000)	23,164	34,593
Weighted average number of ordinary shares ('000)	152,542	132,777
Basic earnings per share (cents)	15.2	26.1

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding during the year to assume conversion of all dilutive potential ordinary shares had occurred at the beginning of the year:

	GROUP 2010	GROUP 2009
Profit for the year ($000)	23,164	34,593
Weighted average number of ordinary shares ('000)	152,542	132,777
Effect of dilution	157	65
Diluted weighted average number of ordinary shares ('000)	152,699	132,842
Diluted earnings per share (cents)	15.2	26.0

* Basic and diluted earnings per share calculated on the profit for the year, excluding the non-recurring tax charge of $5.7 million, is 18.9 cents (2009: 23.1 cents using the 2009 profit for the year, excluding the non-recurring profit on sale of Wellington property of $3.9 million).

NOTE 24. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 30 June 2010 was ($0.54) (2009: ($0.64)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 25. TRANSACTIONS WITH RELATED PARTIES

Loan to subsidiary: During the year net advances of $12 million were made by the Company to FEL (2009: $30 million), which together with $23 million (2009: $24 million) of dividends receivable from FEL, resulted in a loan to subsidiary balance as at year end of $156 million (2009: $144 million). The receivable balance is set out in Note 7. There is no interest payable on this loan.

Loan from subsidiary: The 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 Company received $23 million (2009: $24 million) of dividends from its directly-owned subsidiary (FEL).

Trading with related parties: The Group has not entered into any material external related party transactions which require disclosure. The Group does trade, on normal commercial terms, with certain companies in which there are common directorships. These counterparties include Telecom Corporation of New Zealand Limited, Contact Energy Limited and Meridian Energy Limited. In addition, from time to time a subsidiary purchases steel racking from Dexion Limited. Dexion Limited purchases steel from Vulcan Steel Limited, of which Wayne Boyd is the Chairman.

Due from associates: The Group 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 made progress payments to the developer on behalf of the JV. The other JV partners' outstanding share of these payments at balance date of $0.2 million (2009: $3.9 million) has been disclosed as 'Due from associates' in Note 7.

Key management compensation:

Compensation paid during the year (or payable as at year end in respect of the year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Short-term employee benefits	4,390	4,077	402	292
Long-term employee benefits	-	-	-	-
Post-employment benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments (note 20)	80	69	80	69

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

NOTE 26. FINANCIAL RISK MANAGEMENT

26.1 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 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 Group's 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 months cash requirement forecasts.

The table below analyses the Group's 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
2010 ($000)						
Bank borrowings	7,505	7,505	15,011	199,680	229,701	154,648
Trade & other payables	31,586	6,093	1,842	-	39,521	39,521
Finance lease liabilities	189	-	-	-	189	189
2009 ($000)						
Bank borrowings	6,093	6,093	192,262	36,559	241,007	180,078
Trade & other payables	32,406	7,710	1,862	-	41,978	41,978
Finance lease liabilities	131	131	191	-	453	453

The 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 2010

(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, accounts receivable and derivative financial instruments.

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	
	2010 $000	2009 $000
Cash and cash equivalents	4,996	16,970
Trade and other receivables	39,931	40,661
Derivative financial instruments	-	-
	44,927	57,631

Trade receivables analysis

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

At 30 June 2010 aging analysis of trade receivables is as follows:

	2010 $000	2009 $000
Current	32,675	32,376
31 - 60 days over standard terms	4,063	5,074
61 - 90 days over standard terms	820	1,249
91 + days over standard terms	1,029	1,441
	38,587	40,140

The Group has $4.7 million (2009: $6.5 million) of financial assets that are overdue and not impaired.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

(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 the Company or 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.

As disclosed in Note 18, at 30 June 2010 the Group had Australian dollar denominated bank borrowings of AUD55,900,000 (2009: AUD67,750,000). Of these borrowings, AUD14,200,000 (2009: AUD14,200,000) were borrowed by a New Zealand subsidiary and have been translated at the prevailing foreign currency rate as at balance date. The rest of the Australian dollar denominated bank borrowings have been borrowed by an Australian subsidiary and are translated as part of the consolidation of the Group for reporting purposes. The Group has no other outstanding foreign currency denominated monetary items.

The table on the opposite page details the Group's sensitivity to the increase and decrease in the New Zealand dollar (NZD) against the Australian dollar (AUD) in respect of the Australian dollar denominated bank borrowings, borrowed in New Zealand. 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 a decrease in Liabilities (bank borrowings) and the Foreign Currency Translation Reserve (included in equity) where the NZD strengthens against the AUD.

Interest rate risk:

Exposure to cash flow 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. Treasury Policy requires between 40% and 90% of outstanding borrowings to be effectively hedged against adverse fluctuations in market interest rates.

The 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 equity and profit after tax to a potential change in interest rates by plus or minus 100 basis points, 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.

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FOR THE YEAR ENDED 30 JUNE 2010

Sensitivity Analysis

		INTEREST RATE MOVEMENT IMPACT ON PROFIT		IMPACT ON EQUITY		NZD/AUD MOVEMENT IMPACT ON LIABILITIES & EQUITY
	CARRYING AMOUNTS	+100 BASIS POINTS	-100 BASIS POINTS	+100 BASIS POINTS	-100 BASIS POINTS	+ OR - 10% (FROM NZD1: AUD0.80)
2010 ($000)						
Financial assets						
Cash and cash equivalents	4,996	35	(35)	35	(35)	-
Trade & other receivables	45,084	-	-	-	-	-
Financial liabilities						
Borrowings	154,648	(1,083)	1,083	(1,083)	1,083	1,614/(1,972)
Derivative financial instruments	7,383	887	(887)	4,353	(4,597)	-
2009 ($000)						
Financial assets						
Cash and cash equivalents	16,970	119	(119)	119	(119)	-
Trade & other receivables	47,207	-	-	-	-	-
Financial liabilities						
Borrowings	180,078	(1,261)	1,261	(1,261)	1,261	1,614/(1,972)
Derivative financial instruments	8,727	1,348	(1,351)	5,806	(6,010)	-

NB. Certain comparative interest rate movements have been amended to provide presentation consistent with the current year disclosures.

(d) Fair value estimation

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables and payables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair values of financial instruments are estimated using discounted cash flows. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Unless otherwise stated, all other carrying amounts are assumed to equal or approximate fair value.

Effective 1 April 2009, the Group adopted the amendment to NZ IFRS 7 for financial instruments that are measured in the balance sheet at fair value, which requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

Level 1 – Quoted prices (adjusted) in active markets for identical assets or liabilities at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Inputs that are observable for the asset or liability, either directly (i.e., as prices; other than quoted prices referred to in Level 1 above) or indirectly (i.e., derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the fair value of an instrument is included in Level 2.

Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs). In these cases, the fair value of an instrument would be included in Level 3.

Specific valuation techniques used to value financial instruments include:

- In respect of interest rate swaps, the fair value is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- discounted cash flow analysis for other financial instruments.

The Company has no financial instruments carried at fair value. The amounts below are for the Group and all resulting fair value estimates are disclosed as Level 2 measurements.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
2010				
Liabilities				
Derivative financial instruments – fair value hedges	-	7,383	-	7,383
Total liabilities	-	7,383	-	7,383
2009				
Liabilities				
Derivative financial instruments – fair value hedges	-	8,727	-	8,727
Total liabilities	-	8,727	-	8,727

26.2 Capital Risk Management

Group capital (Shareholders Funds) 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 Shareholders Funds are 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 2010

NOTE 27. FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets, as per balance sheet

	LOANS AND RECEIVABLES		DERIVATIVES USED FOR HEDGING		TOTAL	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
Group:						
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables (excluding prepayments)	40,455	45,001	-	-	40,455	45,001
Cash and cash equivalents	4,996	16,970	-	-	4,996	16,970
Total	45,451	61,971	-	-	45,451	61,971
Parent:						
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables (excluding prepayments)	155,728	143,517	-	-	155,728	143,517
Cash and cash equivalents	5	3	-	-	5	3
Total	155,733	143,520	-	-	155,733	143,520

(b) Liabilities, as per balance sheet

	DERIVATIVES USED FOR HEDGING		OTHER FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
	2010 $000	2009 $000	2010 $000	2009 $000	2010 $000	2009 $000
Group:						
Borrowings (excluding finance lease liabilities)	-	-	154,648	180,078	154,648	180,078
Finance lease liabilities	-	-	189	453	189	453
Derivative financial instruments	7,383	8,727	-	-	7,383	8,727
Trade and other payables	-	-	32,839	38,195	32,839	38,195
Total	7,383	8,727	187,676	218,726	195,059	227,453
Parent:						
Borrowings (excluding finance lease liabilities)	-	-	132,134	132,134	132,134	132,134
Finance lease liabilities	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Trade and other payables	-	-	-	15	-	15
Total	-	-	132,134	132,149	132,134	132,149

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FOR THE YEAR ENDED 30 JUNE 2010

NOTE 28. 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 price is comprised of initial payments totalling $11.3 million, which were paid during the year ended 30 June 2008, and a further amount that may be payable to the Shred-X vendors based on the earnings achieved in the 2011 financial year. As at 30 June 2010, an amount of $1.8 million is recorded in the balance sheet as intangible assets and in trade and other payables in respect of this potential future obligation.

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. Payment of the purchase price was staged over three years, with initial payments in total of $8.9 million being made in the year ended 30 June 2008, as disclosed in the 30 June 2008 Annual Report. Two additional payments were payable upon achievement of agreed annual earnings performance for the years ended 31 March 2009 and 2010, respectively. The first of these payments, being an amount of $2.7 million, was made to the vendors in the year ended 30 June 2009. The agreed annual earnings performance for the year ended 31 March 2010 was not met and the estimated payment of $0.6 million recorded in the balance sheet as at 30 June 2009 has been reversed. This reversal is partially offset by an estimated purchase price adjustment of $0.3 million.

Other acquisitions

During the year, the Group acquired a number of small Australian businesses which operate in the information management sector in Australia for a total of approximately $0.2 million. A final purchase price payment of $0.3 million was also made in respect of a business acquired in the prior year. A summary of these acquisitions is set out below.

The contribution of these acquisitions to the Group results for the year was revenue of $0.1 million and operating profit before interest and income tax of $0.1 million.

If these acquisitions had been acquired at the beginning of the year, the contribution to revenue and operating profit before interest and income tax for the year is estimated at $0.2 million and $0.1 million, respectively.

Details of net assets acquired and goodwill are as follows:

	GROUP $000
Purchase consideration	
Cash paid during the year	526
Estimated future earn-out payments	49
Total purchase consideration	575
Fair value of assets and liabilities arising from acquisitions	
Plant & equipment	39
Goodwill recognised in current year	184
Goodwill recognised in prior year	352
	575

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.

NOTE 29. SIGNIFICANT EVENTS AFTER BALANCE DATE

Dividend declared

On 16 August 2010, the Directors declared a fully imputed final dividend of 7 cents per share ($10.8 million) in respect of the year ended 30 June 2010. The dividend will be paid on 30 September 2010. The record date for determination of entitlements to the dividend is 17 September 2010.

For the year ended 30 June 2010, the final dividend declared above is in line with the Company's dividend policy of annually paying out 75% of NPATA. However the 75% has been applied to underlying cash earnings from operations (i.e. 75% of NPATA, excluding the non-recurring, non-cash $5.7 million tax charge arising as a result of recently announced tax law changes). The annual dividend payout, including this final dividend, will approximate 93% of the year's reported NPATA.

The syndicated facilities agreement applicable to the Group's banking contains a negative covenant effectively restricting the Company from paying a dividend that exceeds 80% of NPATA in any calendar year, without the written consent of the Facility Agent. The necessary consent was obtained by the Company on 27 July 2010.

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

NOTE 30. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

New standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) and the Accounting Standards Review Board in New Zealand (ASRB) that are mandatory for future periods and which the Group will adopt when they become mandatory. These new standards, amendments and interpretations include:

• NZ IFRS 9 Financial Instruments: Classification and Measurement (mandatory for annual periods beginning on or after 1 January 2013). The major changes under the standard are:

- NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;

- a financial asset is measured at amortised cost if two criteria are met: (a) the objective of the business model is to hold the financial assets for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent the payment of principal and interest;

- when a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;

- no bifurcation of an embedded derivative where the host is a financial asset;

- equity instruments must be measured at fair value, however an entity can elect on initial recognition to present the fair value changes on equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit and loss, however dividends from such investments will continue to be recognised in profit and loss; and

- when an entity holds a tranche in a waterfall structure it must determine the classification of that tranche by looking through to the assets ultimately underlying that portfolio and assess the credit quality of the tranche compared with the underlying portfolio. If an entity is unable to look though, then the tranche must be measured at fair value.

The Group intends to adopt NZ IFRS 9 from 1 July 2013.

SHAREHOLDER INFORMATION

Stock exchange listing

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

Distribution of shareholders and shareholdings as at 31 July 2010

	NUMBER OF HOLDERS	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
Size of shareholding			
1 to 1,999	1,883	2,208,066	1.43
2,000 to 4,999	2,457	7,621,265	4.96
5,000 to 9,999	1,550	10,275,200	6.69
10,000 to 49,999	1,139	18,948,633	12.34
50,000 to 99,999	40	2,616,934	1.70
100,000 to 499,999	36	6,681,489	4.35
500,000 to 999,999	10	7,128,450	4.64
1,000,000 and over	9	98,112,123	63.89
Total shareholders	7,124	153,592,160	100.00
Geographic distribution			
New Zealand	7,008	152,432,966	99.25
Australia	64	952,136	0.62
Other	52	207,058	0.13
	7,124	153,592,160	100.00

Substantial security holders as at 31 July 2010

Based upon notices received, the following persons are deemed to be substantial security holders in accordance with Section 26 of the Securities Markets Act 1988:

	VOTING SECURITIES	
	NUMBER	%
Harris Associates LP	15,358,400	10.00%
AMP Capital Investors (New Zealand) Limited	10,240,002	6.67%
ANZ National Bank, ING (NZ) Holdings Limited & ING (NZ) Limited	8,822,567	5.74%
Accident Compensation Corporation	8,290,915	5.40%

The total number of issued voting securities of the Company as at 31 July 2010 was 153,592,160.

SHAREHOLDER INFORMATION

Top twenty registered shareholders of listed shares as at 31 July 2010

	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
HSBC Nominees (New Zealand) Limited <HKBN45> *	19,882,718	12.95
National Nominees New Zealand Limited <NNLZ90> *	10,388,468	6.76
TEA Custodians Limited <TEAC40> *	7,333,570	4.77
Accident Compensation Corporation <ACCI40> *	6,526,454	4.25
FNZ Custodians Limited	5,654,773	3.68
New Zealand Superannuation Fund Nominees Limited <SUPR40> *	5,076,133	3.30
AMP Investments Strategic Equity Growth Fund *	5,012,612	3.26
Citibank Nominees (New Zealand) Limited <CNOM90> *	4,625,577	3.01
Private Nominees Limited <Residents A/C>	4,281,526	2.79
ANZ Nominees Limited <ANOM40> *	4,131,760	2.69
Premier Nominees Ltd – ING Wholesale Australasian Share Fund *	3,481,846	2.27
Custodial Services Limited <A/C 3>	3,057,576	1.99
Premier Nominees Limited - ING Wholesale Equity Select *	2,132,519	1.39
NZGT Nominees Limited - AIF Equity Fund - A/C *	2,052,334	1.34
Lucerne Road Investments Limited	2,002,896	1.30
Investment Custodial Services Limited <A/C C>	1,939,587	1.26
FNZ Custodians Limited <DTA Non Resident A/C>	1,734,621	1.13
Westpac NZ Shares 2002 Wholesale Trust *	1,433,667	0.93
Forsyth Barr Custodians Limited <Account 1 M>	1,182,106	0.77
Custodial Services Limited <A/C 1>	1,099,933	0.72
	93,030,676	60.56

* 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 of Directors. 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 Directors of Freightways Limited (the Board) 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's 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 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 seven Directors: the non-executive Chairman, the Managing Director and five non-executive directors. Key executives attend board meetings by invitation. Freightways' Board includes six independent directors.

BOARD MEETINGS

The following table outlines the number of board meetings attended by Directors during the course of the 2010 financial year:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Wayne Boyd	10	10
Dean Bracewell	10	10
Sue Sheldon	10	10
Sir William Birch	10	10
Roger Corcoran	10	10
Kim Ellis (appointed 25 August 2009)	8	8
Warwick Lewis (resigned 24 March 2010)	8	8
Mark Verbiest (appointed 15 February 2010)	3	3

CORPORATE GOVERNANCE STATEMENT

BOARD COMMITTEES

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

Audit & 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 are Sue Sheldon (Chair), Sir William Birch, Kim Ellis and Mark Verbiest. All members are independent non-executive Directors. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sue Sheldon	4	4
Sir William Birch	4	4
Kim Ellis (appointed to Committee 24 March 2010)	2	2
Mark Verbiest (appointed to Committee 24 March 2010)	2	2
Warwick Lewis (resigned 24 March 2010)	2	2

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), Wayne Boyd and Roger Corcoran. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sir William Birch	2	2
Wayne Boyd	2	2
Roger Corcoran (appointed to Committee 24 March 2010)	-	-

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 the 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, Sue Sheldon, Roger Corcoran, Kim Ellis, Mark Verbiest and Dean Bracewell. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Wayne Boyd	4	4
Dean Bracewell	4	4
Sue Sheldon	4	4
Sir William Birch	4	4
Roger Corcoran	4	4
Kim Ellis (appointed 25 August 2009)	3	3
Mark Verbiest (appointed 15 February 2010)	1	1
Warwick Lewis (resigned 24 March 2010)	3	3

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; they are not used for speculative purposes.


CASTLE
PARCELS



POST HASTE

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
www.stuck.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
www.passtheparcel.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
www.shred-x.com.au

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