Freightways

ANNUAL REPORT 2011

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

Pass The Parcel
www.passtheparcel.co.nz

Stuck
www.stuck.co.nz

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

Sue Sheldon (Chairman)
Dean Bracewell (Managing Director)
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 & 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 businesses 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 2011

	NOTE	2011 $000	2010 $000	PERCENTAGE VARIANCE
Operating revenue		352,520	328,469	7%
EBITA, excluding non-recurring items	(i)	56,651	53,881	5%
NPAT, excluding non-recurring items	(ii)	30,801	28,858	7%
Non-recurring items:				
- income tax charge as a result of tax law changes		(152)	(5,694)	-
- direct costs of Christchurch earthquakes, net of insurance claim proceeds received to 30 June 2011		(1,115)	-	-
- insurance deductibles		(174)	-	-

Note:

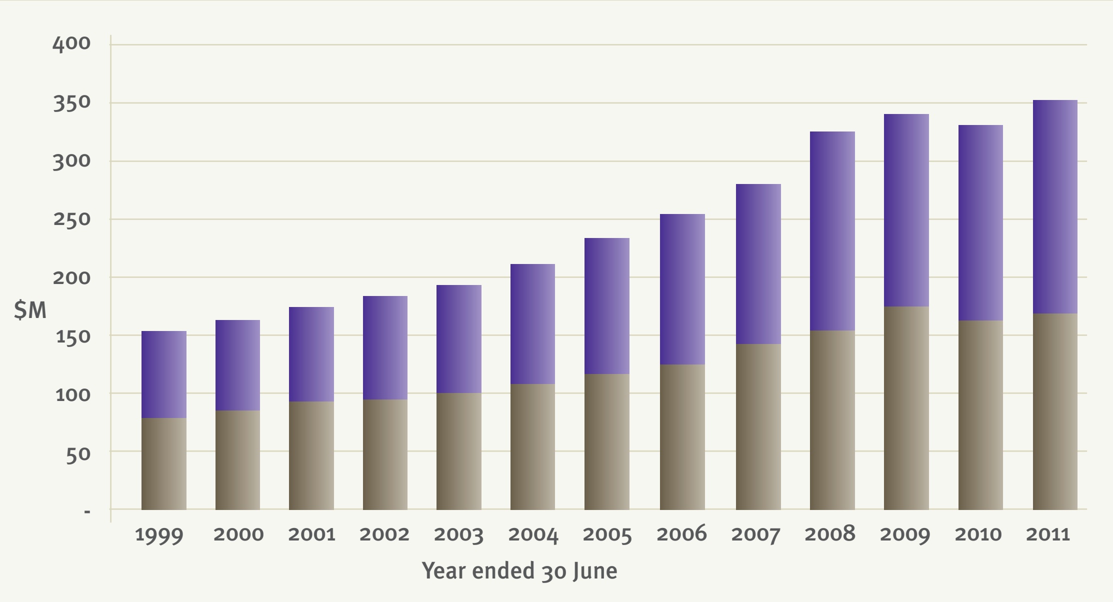
(i) Operating profit before interest, income tax and non-recurring items

(ii) Profit for the year attributable to the shareholders, excluding non-recurring items

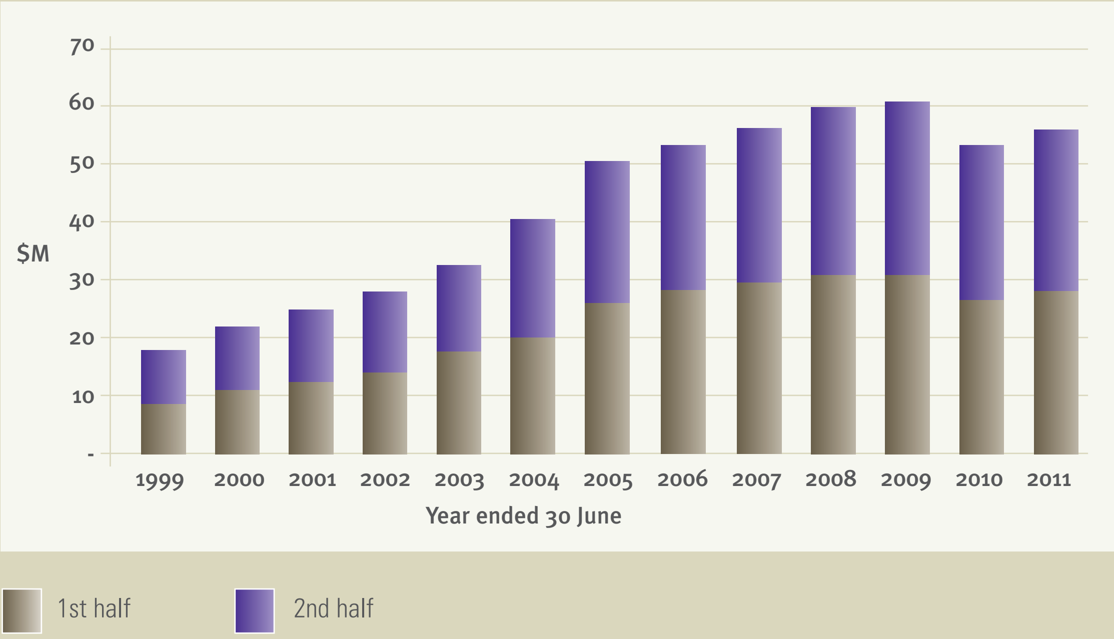
FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2011

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 2011. This result is underpinned by progressively improving performance from the core express package & business mail division and again outstanding performance from the information management division.

Operating performance

Consolidated operating revenue of $353 million for the full year was 7% higher than the prior comparative period (pcp).

EBITDA (excluding non-recurring expenses) of $66 million for the full year was 4% higher than the pcp and EBITA (excluding non-recurring expenses) of $57 million for the full year was 5% higher than the pcp.

Consolidated NPAT (excluding non-recurring expenses) of $31 million for the full year was 7% higher than the pcp, excluding the abnormal tax charge of $5.7 million in the pcp.

Cash flows generated from operations were again strong at $63 million.

It has been necessary to record a one-off expense in the income statement for the full year in respect of direct costs associated with the Christchurch earthquakes, net of insurance proceeds received up until 30 June 2011 and the associated insurance deductibles ("non-recurring expenses"). The amount recorded was $1.3 million ($0.9 million after tax).

During the year Freightways' businesses were affected by both the Christchurch earthquakes and the Queensland floods. Most importantly none of our team was seriously injured in any of these events, despite several being at work during the times of the earthquakes. Contingency plans were implemented locally and through the support of team mates in other centres to ensure minimal disruption to service, except where access was restricted. The document storage operation of our Christchurch information management business was most severely affected with collapsed racking. The project to extract archive boxes, replace and rebuild racking and return to normal service was completed during the second half of the financial year. The Christchurch earthquakes impacted Freightways firstly through reduced activity and revenue, resulting in an estimated $1.5 million loss of operating earnings, as announced to the market during March. Secondly, the earthquakes caused considerable damage to the information management business. The cost of re-establishing the Christchurch operations of this division, exclusive of insurance proceeds already received, was $1.1 million and for the express package & business mail division was $0.2 million. Insurance claims have been submitted to recover these costs. As at 30 June 2011, the claims had not been settled by the Group's insurers so it is not yet possible to determine what amount will be recovered. During all the natural disasters noted above, the Freightways team demonstrated its tremendous service ethic and team work to ensure minimal disruption to customers.

Highlights of 2011 include the core express package & business mail division returning double digit earnings growth in the second and fourth quarters; the roll out of the information management division's service capability throughout Australia; the outstanding performance of the information management division; and the overall resilience again shown by Freightways, despite the challenges of nature and the economy.

Dividend

The Directors have declared a final dividend of 7.25 cents per share, fully imputed at a tax rate of 30%. This represents a pay out of approximately $11.2 million compared with $11.1 million for the interim dividend, bringing the full year's dividend in line with the Company's dividend policy of paying out 75% of annual NPAT before goodwill amortisation. The final dividend will be paid on 30 September 2011. The record date for determination of entitlements to the final dividend is 16 September 2011.

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 & business mail

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

Operating revenue of $278 million for the full year was 5% higher than the pcp.

EBITDA of $50 million for the full year was 2% higher than the pcp and EBITA of $45 million for the full year was 4% higher than the pcp.

Strongly improving performance at the half year, that included double digit earnings growth in the second quarter, stalled as a result of the February earthquake in Christchurch. In latter months, volumes have again recovered in most businesses and again in the fourth quarter double digit earnings growth has been achieved. Increasing volumes from many customers, positive market share gains and modest price increases underpinned the revenue growth in this division, as customers continued to recognise the premium service levels provided by the Freightways express package businesses. Revenue related to fuel surcharges that were implemented in the second half to offset the impact of higher fuel prices are also included in the revenue growth result. Management's focus will remain directed on service quality and cost containment, while continuing to innovate and execute growth initiatives to further broaden the suite of services offered by this division. During 2011, a small postal service provider was acquired, parcel products were marketed for the first time through national retail chains, growth in newly-established international services outpaced domestic growth and the brands of 'Pass the Parcel' and 'Stuck', that were established in 2010, continued to gain increasing market support.

Despite nature's challenges and the lacklustre domestic economy, Freightways express package & business mail division has been able to once again demonstrate its resilience and its growth attributes to deliver a sound full year result.

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.

Operating revenue of $76 million for the full year was 15% above the pcp.

EBITDA of $17 million for the full year was 13% above the pcp and EBITA of $14 million for the full year was 12% above the pcp.

During 2011, Freightways leased additional capacity in Auckland, Wellington, Sydney, Melbourne, Adelaide and Perth. With this increased capacity has come a stepped increase in lease costs that, as communicated in past announcements, has had some initial detrimental impact on margins. As this capacity is utilised these margins are expected to be restored. Demand for our document management services is such that our utilisation of each of these new facilities is running ahead of our initial expectations.

Strategic growth opportunities for the information management division continue to be explored and executed. During the year Shred-X started up operations in South Australia, New South Wales and Western Australia, meaning that Freightways' information management division can now offer customers a nationwide service in New Zealand and Australia in all three of its primary service lines. Initial demand for Shred-X's document destruction services in these Australian cities and for its now national service capability is strong.

Prospects for the information management division remain positive. New capacity, a national service capability throughout both New Zealand and Australia, and a highly motivated team of people will continue to drive the growth of this division.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

Internal service providers

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

Finance facilities

Freightways' finance facilities were renegotiated during the first half of the financial year to provide 5-year funding for around a third of the finance facilities until September 2015. Post balance date, Freightways' total finance facilities were renegotiated with improved pricing and a new structure, effective from 1 September 2011, subject to final documentation. Total facilities of NZD110 million and AUD70 million, spread equally between 3-year, 4-year and 5-year maturity have been approved by Freightways' banking syndicate. This new multi-currency facility, with an evenly spread maturity profile, demonstrates the support of Freightways' banking syndicate and provides important diversity of tenure and funding certainty for the company.

Corporate

Corporate overhead costs continue to be well contained. Interest costs for the full year have increased compared with the pcp due to slightly higher average bank debt levels during the period and the higher margins charged by Freightways' lenders compared with the pcp. The bank debt levels at the end of the full year are $4 million higher than at 30 June 2010. However, all of this increase is as a result of the movement in foreign exchange rates applicable to the translation of Australian-denominated borrowings, which of itself does not contribute to any increase in interest costs.

Tax expense for the full year is lower than the pcp (excluding the $5.7 million abnormal tax charge in the pcp) due to higher interest deductions compared with the pcp.

OUTLOOK

Based on our experiences in 2011 we expect to see our market segments continue to gradually improve throughout 2012. While Freightways expects it will benefit from this improvement, it will also complement any natural growth by continuing to actively manage its cost base, by striving to further improve its service quality and by continuing to execute growth initiatives wherever possible.

The express package & business mail division remains reliant on growth amongst its existing customer base to sustain its year-on-year performance improvement, albeit the market share gains and pricing improvement achieved during 2011 will contribute positively to its overall performance. Freightways has consistently demonstrated its ability to compete successfully in an openly competitive environment and it will continue to do so. Our express package brands are among the most recognised in New Zealand, our people have a depth of experience second to none and our service culture, that was so clearly demonstrated during the tough times earlier this financial year in Christchurch and Queensland, will continue to stand us apart from our competitors.

The information management division is transitioning successfully through a period of significant investment in capacity. It is expected to complete this transition while still delivering sound earnings growth, albeit margins will be lower in 2012 than they were in 2011. Already our new facilities are filling faster than we had expected.

Capital expenditure for 2012 is expected to be $17 million and includes a one-off $4 million depot refurbishment at our main Auckland site to accommodate the relocation of NOW Couriers, who are currently based off-site. Cost savings as a result of this project are expected to be achieved in the 2013 financial year. Overall, cash flows are expected to remain strong throughout the financial year.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

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 well positioned to reap the benefits of further improvement in the markets in which it operates.

CONCLUSION

Freightways has delivered a full year operating result that demonstrates good progress and is above the prior year in all respects, 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. Accordingly, the Directors have been able to declare a fully imputed 7.25 cents per share final dividend.

The Directors acknowledge the outstanding work and ongoing dedication of the Freightways team of people throughout New Zealand and Australia.

Susan Sheldon

Susan Sheldon
Chairman
15 August 2011

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 2011 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:

Sue Sheldon CHAIRMAN 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, Chorus Limited and Paymark Limited. Sue is a former President of the New Zealand Institute of Chartered Accountants.

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.

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, a trustee of the MFL and SIL Superannuation funds, a member of the Royal Bank of Scotland's Australian Advisory Council and an advisor to Forsyth Barr. 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.

Mark Verbiest LLB, M INST D

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 Financial Markets Authority.

DIRECTORS' REPORT

The Board has determined for the purposes of the NZSX Listing Rules that, as at 30 June 2011, 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 2011 were the operation of express package & business mail services and information management services.

CONSOLIDATED RESULT FOR THE YEAR

	2011 $000	2010 $000
Operating revenue	352,520	328,469
Operating profit before interest, income tax and non-recurring expenses	56,651	53,881
Non-recurring expenses before income tax	(1,289)	-
Profit before interest and income tax	55,362	53,881
Net interest and finance costs	(15,511)	(14,356)
Profit before income tax	39,851	39,525
Income tax:		
- Tax applicable to operating earnings	(9,800)	(10,667)
- Tax charge as a result of tax law changes	(152)	(5,694)
Total income tax	(9,952)	(16,361)
Profit for the year attributable to the shareholders	29,899	23,164

DIRECTORS HOLDING OFFICE DURING THE YEAR WERE:

Parent:

Sue Sheldon (Chairman)

Dean Bracewell (Managing Director)

Sir William Birch

Roger Corcoran

Kim Ellis

Mark Verbiest

Wayne Boyd (resigned 28 October 2010)

Subsidiaries:

Dean Bracewell

Mark Royle

DIRECTORS' REPORT

REMUNERATION OF DIRECTORS

	GROUP		PARENT	
	2011 $	2010 $	2011 $	2010 $
Sue Sheldon	100,000	60,000	100,000	60,000
Dean Bracewell	773,976	772,569	-	-
Sir William Birch	52,000	52,000	52,000	52,000
Roger Corcoran	71,645	64,013	71,645	64,013
Kim Ellis	52,000	47,695	52,000	47,695
Mark Verbiest	56,000	19,500	56,000	19,500
Wayne Boyd (resigned 28 October 2010)	39,205	120,000	39,205	120,000
Warwick Lewis (resigned 24 March 2010)	-	39,000	-	39,000
Mark Royle	518,372	487,621	-	-
	1,663,198	1,662,398	370,850	402,208

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2011 in respect of the two previous six-month performance periods (1 January to 30 June 2010 and 1 July to 31 December 2010). No amount was included above in respect of incentive payments for the period 1 January to 30 June 2011, as these were paid in August 2011. Remuneration of the Managing Director comprises a fixed remuneration package representing approximately 70% of his total remuneration and an 'at risk' portion representing approximately 30%, payable on achievement of short-term financial objectives. He also participates in the Freightways Senior Executive Performance Share Plan described in Note 20 of the Financial Statements on the same terms and conditions as other Freightways executives.

DIRECTORS' REPORT

REMUNERATION OF EMPLOYEES

The number of employees, not being directors, within the Group receiving annual remuneration and benefits above $100,000 are as indicated in the following table:

	GROUP		PARENT	
	2011	2010	2011	2010
$100,000 – $109,999	28	16	-	-
$110,000 – $119,999	22	14	-	-
$120,000 – $129,999	12	12	-	-
$130,000 – $139,999	14	6	-	-
$140,000 – $149,999	6	11	-	-
$150,000 – $159,999	8	11	-	-
$160,000 – $169,999	7	4	-	-
$170,000 – $179,999	2	3	-	-
$180,000 – $189,999	4	3	-	-
$190,000 – $199,999	2	-	-	-
$200,000 – $209,999	2	3	-	-
$210,000 – $219,999	1	-	-	-
$220,000 – $229,999	4	3	-	-
$230,000 – $239,999	1	2	-	-
$240,000 – $249,999	1	-	-	-
$250,000 – $259,999	2	2	-	-
$260,000 – $269,999	1	-	-	-
$280,000 – $289,999	3	3	-	-
$300,000 – $309,999	2	-	-	-
$350,000 – $359,999	-	1	-	-
$400,000 – $409,999	1	-	-	-

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
Sue Sheldon	-	121,262	-
Dean Bracewell	-	2,880,737	59,649
Sir William Birch	-	140,492	-
Roger Corcoran	-	-	-
Kim Ellis	-	20,000	-
Mark Verbiest	-	10,000	-
Mark Royle	-	678,111	40,300

DIRECTORS' REPORT

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 2011:

	NOTE	NUMBER ACQUIRED	$ COST
Mark Verbiest			
Non-beneficial ownership in shares acquired 2 September 2010		10,000	29,097
Kim Ellis			
Non-beneficial ownership in shares acquired 2 September 2010		20,000	58,400
Sir William Birch			
Non-beneficial ownership in shares acquired 2 November 2010		5,000	15,675
Non-beneficial ownership in shares acquired 22 November 2010		5,000	15,000
Dean Bracewell			
Beneficial ownership in partly paid shares acquired 10 September 2010	(ii)	59,649	596
Mark Royle			
Non-beneficial ownership in shares acquired 2 September 2010	(i)	1,198	3,594
Beneficial ownership in partly paid shares acquired 10 September 2010	(ii)	17,544	175

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

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 15th day of August 2011.

Susan Sheldon

Susan Sheldon
Chairman

Dean Bracewell
Managing Director

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the financial statements of Freightways Limited on pages 18 to 66, which comprise the statements of financial position as at 30 June 2011, the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Freightways Limited or any of its subsidiaries other than in our capacities as auditors and taxation advisors. These services have not impaired our independence as auditors of the Company and Group.

Opinion

In our opinion, the financial statements on pages 18 to 66:

(i) comply with generally accepted accounting practice in New Zealand;
(ii) comply with International Financial Reporting Standards; and
(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2011, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2011:

(i) we have obtained all the information and explanations that we have required; and
(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Restriction on Distribution or Use

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.

PricewaterhouseCoopers

Chartered Accountants, Auckland
15 August 2011

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Operating revenue	2	352,520	328,469	-	-
Dividends received from subsidiaries		-	-	24,500	23,000
		352,520	328,469	24,500	23,000
Transport and logistics expenses		(149,484)	(137,286)	-	-
Employee benefits expenses		(91,855)	(86,988)	-	-
Occupancy expenses		(13,833)	(11,720)	-	-
General and administration expenses		(30,915)	(28,733)	(509)	(532)
Operating profit before interest, income tax, depreciation, software amortisation and non-recurring expenses		66,433	63,742	23,991	22,468
Depreciation and software amortisation	3	(9,782)	(9,861)	-	-
Operating profit before interest, income tax and non-recurring expenses		56,651	53,881	23,991	22,468
Non-recurring expenses before income tax	3	(1,289)	-	-	-
Profit before interest and income tax		55,362	53,881	23,991	22,468
Net interest and finance costs	3	(15,511)	(14,356)	-	3
Profit before income tax		39,851	39,525	23,991	22,471
Income tax					
- Tax applicable to operating earnings		(9,800)	(10,667)	153	159
- Tax charge as a result of tax law changes		(152)	(5,694)	-	-
Total income tax	4	(9,952)	(16,361)	153	159
Profit for the year attributable to the shareholders		29,899	23,164	24,143	22,630
Earnings per share	23				
Basic earnings per share (cents)		19.5	15.2	-	-
Diluted earnings per share (cents)		19.4	15.2	-	-

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 2011

		GROUP		PARENT	
	NOTE	2011 $000	2010 $000	2011 $000	2010 $000
Profit for the year (NPAT)		29,899	23,164	24,143	22,630
Other comprehensive income					
Exchange differences on translation of foreign operations	19	1,040	(530)	-	-
Cash flow hedges taken directly to equity, net of tax	19	571	(170)	-	-
Total other comprehensive income after income tax		1,611	(700)	-	-
Total comprehensive income for the year attributable to the shareholders		31,510	22,464	24,143	22,630

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 2011

GROUP	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
	$000	$000	$000	$000	$000
Balance at 1 July 2009	107,624	43,615	(5,412)	228	146,055
Profit for the year	-	23,164	-	-	23,164
Exchange differences on translation of foreign operations	-	-	-	(530)	(530)
Cash flow hedges taken directly to equity, net of tax	-	-	(170)	-	(170)
Total comprehensive income	-	23,164	(170)	(530)	22,464
Dividend payments	-	(23,457)	-	-	(23,457)
Shares issued	13,144	-	-	-	13,144
Cost of share issue	(280)	-	-	-	(280)
Balance at 30 June 2010	120,488	43,322	(5,582)	(302)	157,926

	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
	$000	$000	$000	$000	$000
Balance at 1 July 2010	120,488	43,322	(5,582)	(302)	157,926
Profit for the year	-	29,899	-	-	29,899
Exchange differences on translation of foreign operations	-	-	-	1,040	1,040
Cash flow hedges taken directly to equity, net of tax	-	-	571	-	571
Total comprehensive income	-	29,899	571	1,040	31,510
Dividend payments	-	(21,892)	-	-	(21,892)
Shares issued	225	-	-	-	225
Balance at 30 June 2011	120,713	51,329	(5,011)	738	167,769

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

STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 30 JUNE 2011

PARENT	CONTRIBUTED EQUITY $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at 1 July 2009	107,651	25,863	133,514
Profit for the year	-	22,630	22,630
Total comprehensive income	-	22,630	22,630
Dividend payments	-	(23,457)	(23,457)
Shares issued	13,234	-	13,234
Cost of share issue	(280)	-	(280)
Balance at 30 June 2010	120,605	25,036	145,641

	CONTRIBUTED EQUITY $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at 1 July 2010	120,605	25,036	145,641
Profit for the year	-	24,143	24,143
Total comprehensive income	-	24,143	24,143
Dividend payments	-	(21,892)	(21,892)
Shares issued	114	-	114
Balance at 30 June 2011	120,719	27,287	148,006

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 15th day of August 2011.

Susan Sheldon
Chairman

Dean Bracewell
Managing Director

BALANCE SHEETS

AS AT 30 JUNE 2011

		GROUP		PARENT	
	NOTE	2011 $000	2010 $000	2011 $000	2010 $000
Current assets					
Cash and cash equivalents	6	4,325	4,996	7	5
Trade and other receivables	7	49,774	44,724	1,037	1,029
Inventories	8	7,423	7,770	-	-
Total current assets		61,522	57,490	1,044	1,034
Non-current assets					
Investments in subsidiaries	10	-	-	121,013	121,013
Trade and other receivables	7	85	360	158,087	155,728
Property, plant and equipment	11	80,193	76,754	-	-
Intangible assets	12	256,007	246,848	-	-
Deferred tax asset	13	1,362	1,034	-	-
Other non-current assets		18	22	-	-
Total non-current assets		337,665	325,018	279,100	276,741
Total assets		399,187	382,508	280,144	277,775
Current liabilities					
Trade and other payables	14	42,599	37,679	4	-
Finance lease liabilities	15	26	189	-	-
Provisions	16	246	232	-	-
Derivative financial instruments	9	174	233	-	-
Unearned income	17	14,830	15,645	-	-
Total current liabilities		57,875	53,978	4	-
Non-current liabilities					
Trade and other payables	14	1,000	1,842	-	-
Borrowings (secured)	18	158,222	154,648	132,134	132,134
Deferred tax liability	13	6,570	6,106	-	-
Provisions	16	1,217	858	-	-
Finance lease liabilities	15	93	-	-	-
Derivative financial instruments	9	6,441	7,150	-	-
Total non-current liabilities		173,543	170,604	132,134	132,134
Total liabilities		231,418	224,582	132,138	132,134
Net assets		167,769	157,926	148,006	145,641
Equity					
Contributed equity		120,713	120,488	120,719	120,605
Retained earnings		51,329	43,322	27,287	25,036
Cash flow hedge reserve		(5,011)	(5,582)	-	-
Foreign currency translation reserve		738	(302)	-	-
Total equity	19	167,769	157,926	148,006	145,641

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

	NOTE	GROUP 2011 $000 INFLOWS (OUTFLOWS)	GROUP 2010 $000 INFLOWS (OUTFLOWS)	PARENT 2011 $000 INFLOWS (OUTFLOWS)	PARENT 2010 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities					
Receipts from customers		346,557	329,078	-	-
Payments to suppliers and employees		(283,478)	(265,566)	-	-
Cash generated from operations		63,079	63,512	-	-
Interest received		141	288	-	-
Interest and other costs of finance paid		(15,520)	(18,605)	-	-
Income taxes paid		(10,277)	(11,860)	(892)	(810)
Net cash inflows (outflows) from operating activities	21	37,423	33,335	(892)	(810)
Cash flows from investing activities					
Payments for property, plant and equipment		(11,436)	(10,783)	-	-
Payments for software		(2,616)	(1,674)	-	-
Proceeds from disposal of property, plant and equipment		156	127	-	-
Payments for businesses acquired	28	(1,869)	(526)	-	-
Advances to associates repaid		-	3,764	-	-
Cash flows from other investing activities		(623)	-	-	-
Net cash outflows from investing activities		(16,388)	(9,092)	-	-
Cash flows from financing activities					
Dividends paid		(21,892)	(20,392)	(21,892)	(20,392)
Decrease in bank borrowings		-	(24,553)	-	-
Net proceeds from issue of ordinary shares		369	9,423	2	9,423
Finance lease liabilities repaid		(192)	(265)	-	-
Loans advanced from subsidiaries		-	-	22,784	11,781
Net cash inflows (outflows) from financing activities		(21,715)	(35,787)	894	812
Net increase (decrease) in cash and cash equivalents		(680)	(11,544)	2	2
Cash and cash equivalents at the beginning of year		4,996	16,970	5	3
Exchange rate adjustments		9	(430)	-	-
Cash and cash equivalents at end of year	6	4,325	4,996	7	5

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 2011

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 2011 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 cannot 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 2011

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 2011

- 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 2011

(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 2011

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 alterations	- 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 2011

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) are 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

r) Trade and other payables

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

s) Employee entitlements

(i) Wages, salaries and annual leave

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

w) Contributed equity

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

x) Goods and services tax (GST)

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

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

The accounting policies and methods of computation are consistent with those used in the prior year.

aa) Comparatives

Certain comparative numbers have been restated to provide presentation consistent with the current year disclosures.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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 2011:

	EXPRESS PACKAGE & BUSINESS MAIL $000	INFORMATION MANAGEMENT $000	CORPORATE & OTHER $000	INTER-SEGMENT ELIMINATION $000	CONSOLIDATED OPERATIONS $000
Income statement					
Sales to external customers	276,531	75,986	3	-	352,520
Inter-segment sales	1,275	73	3,478	(4,826)	-
Total revenue	277,806	76,059	3,481	(4,826)	352,520
Operating profit before interest, income tax, depreciation, software amortisation and non-recurring expenses	49,763	17,494	(824)	-	66,433
Depreciation and software amortisation	(4,845)	(3,731)	(1,206)	-	(9,782)
Operating profit before interest, income tax and non-recurring expenses	44,918	13,763	(2,030)	-	56,651
Non-recurring expenses	-	-	(1,289)	-	(1,289)
Operating profit before interest and income tax	44,918	13,763	(3,319)	-	55,362
Balance sheet					
Segment assets	228,973	128,662	41,552	-	399,187
Segment liabilities	43,585	12,661	175,172	-	231,418

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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

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 2011, external revenue from customers in the Group's New Zealand and Australian operations was $298.7 million and $53.8 million, respectively (2010: $282.8 million and $45.7 million, respectively). As at 30 June 2011, non-current assets in respect of the New Zealand and Australian operations (excluding deferred tax assets) were $261.4 million and $94.5 million, respectively (2010: $236.4 million and $87.6 million, respectively).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 3. INCOME AND EXPENSES

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

		GROUP		PARENT	
	NOTE	2011 $000	2010 $000	2011 $000	2010 $000
Income:					
Interest income		238	286	-	3
Operating expenses:					
Net loss (gain) on disposal of property, plant & equipment		331	(8)	-	-
Depreciation	11	8,788	9,011	-	-
Amortisation of software	12	994	850	-	-
Operating lease expenses		14,422	12,469	-	-
Auditors' fees:					
Audit services		273	292	-	-
Taxation services		13	11	-	-
Costs of offering credit:					
Impairment loss on trade receivables		(18)	208	-	-
Interest and finance costs:					
Interest on bank borrowings		15,695	14,730	-	-
Interest on finance leases		7	26	-	-
Derivative fair value movement		47	(114)	-	-
Other:					
Net foreign exchange loss (gain)		21	(361)	-	-
Directors' fees		371	402	371	402
Donations		63	76	-	-
Non-recurring expenses:					
Direct costs of Christchurch earthquakes, net of insurance claim proceeds received to 30 June 2011*		1,115	-	-	-
Insurance deductibles paid		174	-	-	-

*Following the Christchurch earthquakes of September 2010 and February 2011, the Group's businesses incurred costs in maintaining services and reinstating damaged storage facilities. Insurance claims have been submitted to recover these costs. As at 30 June 2011, the claims had not been settled by the Group's insurers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 4. INCOME TAX EXPENSE

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Current tax:				
Current tax on profit for the year	10,000	10,046	(153)	(159)
Adjustments in respect of prior years	-	76	-	-
Total current tax	10,000	10,122	(153)	(159)
Deferred tax (note 13):				
Reversal of temporary differences	104	6,868	-	-
Impact of reduction in NZ tax rate	(152)	(629)	-	-
Total deferred tax	(48)	6,239	-	-
Income tax expense (benefit)	9,952	16,361	(153)	(159)

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

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Profit before income tax	39,851	39,525	23,991	22,471
Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries:	11,955	11,857	7,197	6,741
Tax-effect of amounts which are treated differently when calculating taxable income:				
- Non-taxable inter-company dividends	-	-	(7,350)	(6,900)
- Non-deductible expenses	-	435	-	-
- Adjustments for changes in tax law:				
Reversal of deferred tax on building depreciation	-	6,323	-	-
Reduction in NZ tax rate	152	(629)	-	-
	152	5,694	-	-
- Additional amounts deductible	(2,085)	(1,158)	-	-
- Other	(70)	(467)	-	-
Income tax expense (benefit)	9,952	16,361	(153)	(159)

The Group has no tax losses (2010: Nil) and no unrecognised temporary differences (2010: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

	GROUP 2011 $000	GROUP 2010 $000
Imputation credits account		
Balance at beginning of year	11,824	12,138
Income tax payments made during the year, net of any refunds	9,008	10,418
Adjustments in respect of prior years	618	-
Imputation credits attaching to dividends paid during the year	(8,490)	(10,733)
Balance at end of year	12,960	11,823
Imputation credits available to shareholders of the Company for use at 30% as at balance date	12,960	11,823

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 5. DIVIDENDS

	PARENT	
	2011 $000	2010 $000
Recognised amounts		
Fully imputed dividends declared and paid during the year:		
Final dividend for 2010 at 7.00 cents per share (2009: 8.50 cents)	10,754	12,706
Interim dividend for 2011 at 7.25 cents per share (2010: 7.00 cents)	11,138	10,751
Supplementary dividends	892	790
Foreign investor tax credits	(892)	(790)
	21,892	23,457
Unrecognised amounts		
Final dividend for 2011 at 7.25 cents per share (2010: 7.00 cents)	11,163	10,759

Subsequent to balance date the above unrecognised dividend was approved by a directors' resolution dated 15 August 2011. 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		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Comprises:				
- Cash at bank	3,245	2,523	7	5
- Overnight deposit	1,080	2,473	-	-
Cash and cash equivalents in statement of cash flows	4,325	4,996	7	5

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 7. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Current:				
Trade receivables	42,927	38,587	-	-
Provision for doubtful receivables	(793)	(1,176)	-	-
	42,134	37,411	-	-
Other debtors and prepayments	7,404	7,093	-	60
Share plan loans receivable from employees	163	220	-	-
Due from associates (note 25)	73	-	-	-
Income tax receivable	-	-	1,037	969
	49,774	44,724	1,037	1,029
Non-current:				
Share plan loans receivable from employees	85	195	-	-
Due from subsidiary (note 25)	-	-	158,087	155,728
Due from associates (note 25)	-	165	-	-
	85	360	158,087	155,728

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	
	2011 $000	2010 $000
Opening balance	1,176	1,304
Provision for doubtful receivables	94	250
Receivables written off	(489)	(402)
Provisions added from acquired businesses	-	25
Exchange rate movement	12	(1)
Closing balance (note 26.1(b))	793	1,176

NOTE 8. INVENTORIES

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

	GROUP	
	2011 $000	2010 $000
Finished goods	5,628	6,417
Ticket stocks, uniforms and consumables	1,795	1,353
	7,423	7,770

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

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

	GROUP	
	2011 $000	2010 $000
	Asset (Liability)	Asset (Liability)
Current:		
Interest rate swaps	(173)	(182)
Interest rate collars	(1)	(51)
	(174)	(233)
Non-current:		
Interest rate swaps	(6,441)	(7,054)
Interest rate collars	-	(96)
	(6,441)	(7,150)

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

	INTEREST RATE DERIVATIVES			
	NZD		AUD	
	2011 $000	2010 $000	2011 $000	2010 $000
Interest rate swaps	119,000	79,000	56,000	45,000
Interest rate collars	-	5,000	5,000	5,000
	119,000	84,000	61,000	50,000

The interest rate derivatives are 100% effective as cash flow hedges against the future interest payments of the Group (2010: 99%).

An expense of $47,000, representing the amortisation of the ineffective portion of the derivative financial instruments terminated in prior years, was recognised in the income statement during the year. In 2010 the ineffective portion recognised in the income statement was an income amount of $114,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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 2011

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
2011 ($000)						
Opening net book value	13,009	27,036	2,681	4,247	30,138	77,111
Additions	-	288	456	726	9,819	11,289
Acquisitions through business combinations	-	-	-	9	215	224
Disposals	-	-	(32)	(69)	(384)	(485)
Depreciation expense	-	(1,300)	(502)	(1,243)	(5,743)	(8,788)
Exchange rate movement	81	106	69	179	407	842
Closing net book value	13,090	26,130	2,672	3,849	34,452	80,193
As at end of year						
Cost	13,090	33,130	5,650	8,525	74,997	135,392
Accumulated depreciation	-	(7,000)	(2,978)	(4,676)	(40,545)	(55,199)
Net book value	13,090	26,130	2,672	3,849	34,452	80,193
2010 ($000)						
Opening net book value	13,025	26,395	2,787	4,017	28,994	75,218
Additions	-	1,817	390	1,457	7,467	11,131
Acquisitions through business combinations	-	-	-	-	39	39
Disposals	-	-	(21)	(62)	(403)	(486)
Depreciation expense	-	(1,155)	(472)	(1,133)	(6,251)	(9,011)
Exchange rate movement	(16)	(21)	(3)	(32)	(65)	(137)
Closing net book value	13,009	27,036	2,681	4,247	29,781	76,754
As at end of year						
Cost	13,009	32,736	5,157	7,827	64,991	123,720
Accumulated depreciation	-	(5,700)	(2,476)	(3,580)	(35,210)	(46,966)
Net book value	13,009	27,036	2,681	4,247	29,781	76,754

Included in the cost of buildings is an amount of $0.04 million (2010: $0.9 million) in respect of assets under construction for which depreciation has not commenced. This amount also includes capitalised borrowing costs of $0.01 million (2010: $0.1 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: There were no motor vehicles capitalised under finance leases (2010: $0.1 million with accumulated depreciation of $0.1 million). Equipment includes items capitalised under finance leases with a cost of $0.1 million (2010: $0.1 million), together with accumulated depreciation of $0.01 million (2010: $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 2011

NOTE 12. INTANGIBLE ASSETS

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

	GOODWILL	BRAND NAMES	SOFTWARE	OTHER	TOTAL
2011 ($000)					
Opening net book value	131,852	108,715	5,924	357	246,848
Additions	3,062	-	2,616	442	6,120
Acquisition through business combinations	310	-	-	-	310
Amortisation expense	-	-	(994)	-	(994)
Exchange rate movement	2,810	854	50	9	3,723
Closing net book value	138,034	109,569	7,596	808	256,007
As at end of year					
Cost	138,034	109,569	11,237	892	259,732
Accumulated amortisation	-	-	(3,641)	(84)	(3,725)
Net book value	138,034	109,569	7,596	808	256,007
2010 ($000)					
Opening net book value	132,352	108,883	5,033	171	246,439
Additions	146	-	1,675	271	2,092
Reversal of accrued earn-out payment	(262)	-	-	-	(262)
Acquisition through business combinations	184	-	-	-	184
Amortisation expense	-	-	(766)	(84)	(850)
Exchange rate movement	(568)	(168)	(18)	(1)	(755)
Closing net book value	131,852	108,715	5,924	357	246,848
As at end of year					
Cost	131,852	108,715	8,571	441	249,579
Accumulated amortisation	-	-	(2,647)	(84)	(2,731)
Net book value	131,852	108,715	5,924	357	246,848

Included in the cost of software is work in progress of $4.1 million (2010: $2.7 million) for which amortisation had not commenced. This amount also includes capitalised borrowing costs of $0.4 million (2010: $0.3 million).

An independent valuation of the brand names was conducted by Deloitte in July 2011. This independent report assessed the fair market value of the brand names as at 30 June 2011 to be between $167 million and $188 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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	
	2011 $000	2010 $000	2011 $000	2010 $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	9,315	6,323	5,900	5,900
Post Haste and Castle Parcels	14,730	14,730	14,900	14,900
NOW Couriers	7,278	7,278	3,495	3,495
Total Express Package & Business Mail	70,033	67,041	87,895	87,895
Online Security Services	10,338	10,338	4,400	4,400
Databank Technologies	33,692	32,007	13,282	12,625
Shred-X	23,971	22,466	3,992	3,795
Total Information Management	68,001	64,811	21,674	20,820
Total	138,034	131,852	109,569	108,715

(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 2012. Cash flows beyond June 2012 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 6%. For the Information Management segment, the compound annual earnings growth rate for the last 4 years of approximately 11% 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 2011

NOTE 13. DEFERRED TAX ASSET (LIABILITY)

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

	ASSET		LIABILITY	
	2011 $000	2010 $000	2011 $000	2010 $000
Deferred tax	1,362	1,034	(6,570)	(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
2011 ($000)					
Balance at beginning of year	(9,736)	1,559	890	2,215	(5,072)
Transfer to income statement:					
- reduction in New Zealand tax rate	92	(80)	(32)	(132)	(152)
- other	(213)	334	71	14	206
Transferred to cash flow hedge reserve	-	-	-	(245)	(245)
Exchange rate movement	10	36	9	-	55
Balance at end of year	(9,847)	1,849	938	1,852	(5,208)

	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)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 14. TRADE AND OTHER PAYABLES

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Current:				
Trade creditors	23,218	20,850	4	-
Employee entitlements	8,567	8,108	-	-
Acquisition earn-out payments	2,517	61	-	-
Other creditors and accruals	6,892	6,621	-	-
Income tax payable	1,405	2,039	-	-
	42,599	37,679	4	-
Non-current:				
Acquisition earn-out payments	1,000	1,842	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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:

	2011 $000	2010 $000
Within one year	26	191
After one year but not more than five years	93	-
After five years	-	-
Minimum lease payments	119	191
Less: future finance charges	-	(2)
	119	189
Classified in the balance sheet:		
Current	26	189
Non-current	93	-
	119	189

(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:

	2011 $000	2010 $000
Within one year	15,155	11,747
After one year but not more than five years	33,095	25,350
After five years	27,217	20,509
	75,467	57,606

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 16. PROVISIONS

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

	2011 $000 CUSTOMER CLAIMS	2010 $000 CUSTOMER CLAIMS
Current		
Balance at beginning of year	232	244
Current year provision	14	(9)
Expenses incurred	-	(3)
Movement in exchange rate	-	-
Balance at end of year	246	232

	LONG SERVICE LEAVE	LEASE OBLIGATIONS	TOTAL
Non-current			
2011 ($000)			
Balance at beginning of year	468	390	858
Current year provision	204	205	409
Expenses incurred	(30)	(53)	(83)
Movement in exchange rate	24	9	33
Balance at end of year	666	551	1,217
2010 ($000)			
Balance at beginning of year	345	326	671
Current year provision	129	71	200
Expenses incurred	-	(3)	(3)
Movement in exchange rate	(6)	(4)	(10)
Balance at end of year	468	390	858

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 2011 $000	GROUP 2010 $000
Unearned income	14,830	15,645

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 18. BORROWINGS

	GROUP 2011 $000	GROUP 2010 $000	PARENT 2011 $000	PARENT 2010 $000
Non-current:				
Bank borrowings	158,222	154,648	-	-
Loans from subsidiaries (note 25)	-	-	132,134	132,134
	158,222	154,648	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 2011 $000	NEW ZEALAND DOLLARS 2010 $000	AUSTRALIAN DOLLARS 2011 $000	AUSTRALIAN DOLLARS 2010 $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	20,000	5,000	5,000
- maturing 9 September 2012	7,500	20,000	5,000	5,000
- maturing 9 September 2015	12,500	-	-	-
- amount of loan facilities used	14,333	14,333	3,550	3,550
- amount of loan facilities unused	5,667	5,667	1,450	1,450
Westpac				
- total loan facilities available	35,000	35,000	60,000	60,000
- maturing 9 September 2012	13,125	35,000	60,000	60,000
- maturing 9 September 2015	21,875	-	-	-
- amount of facilities used	25,083	25,083	41,925	41,825
- amount of facilities unused	9,917	9,917	18,075	18,175
ANZ				
- total loan facilities available	65,000	65,000	-	-
- maturing 9 September 2012	24,375	65,000	-	-
- maturing 9 September 2015	40,625	-	-	-
- amount of facilities used	46,584	46,584	-	-
- amount of facilities unused	18,416	18,416	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

(b) Finance facilities (continued)

	NEW ZEALAND DOLLARS 2011 $000	NEW ZEALAND DOLLARS 2010 $000	AUSTRALIAN DOLLARS 2011 $000	AUSTRALIAN DOLLARS 2010 $000
NAB (Australia)				
- total bank overdraft facility	-	-	20	20
- amount of overdraft facility unused	-	-	20	20
- total loan facilities available	-	-	15,000	15,000
- maturing 9 September 2012	-	-	15,000	15,000
- amount of facilities used	-	-	10,425	10,525
- amount of loan facilities unused	-	-	4,575	4,475
Effective interest rate at 30 June as amended for interest rate hedges	9.75%	9.28%	9.71%	9.55%

On 10 September 2010 a renegotiation was completed to extend the term to maturity of NZ$75 million of the then existing debt facility by 5 years. This tranche of the debt facility is available until 9 September 2015. The remainder of the debt facility will mature on 9 September 2012.

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 banking syndicate. For the year ended 30 June 2010, the final dividend paid on 30 September 2010 was in line with the Company's dividend policy of annually paying out 75% of NPATA. However the 75% was applied to the 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 tax law changes). This meant that the annual dividend payout for the 2010 calendar year, including the final dividend paid on 30 September 2010, was approximately 93% of the year's reported NPATA. The necessary consent to distribute over 80% in 2010 was obtained from the banking syndicate on 27 July 2010 in advance of the final dividend being declared and paid.

The Group was in compliance with all its other banking covenants throughout the year ended 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 19. EQUITY

	GROUP			
	2011 ORDINARY SHARES	2010 ORDINARY SHARES	2011 $000	2010 $000
Balance at beginning of year	153,547,484	149,306,668	120,488	107,624
Partly-paid ordinary shares issued	-	-	2	1
Partly-paid shares, fully paid up to ordinary shares	7,787	12,440	23	37
Employee share-based payment (note 20)	-	-	12	21
Shares issued for employee share plan	30,000	150,000	77	401
(Increase) decrease in employee share plan unallocated shares	43,487	(32,069)	111	(88)
Shares issued for dividend reinvestment plan	-	4,110,445	-	12,772
Cost of share issue	-	-	-	(280)
Balance at end of year	153,628,758	153,547,484	120,713	120,488

	PARENT			
	2011 ORDINARY SHARES	2010 ORDINARY SHARES	2011 $000	2010 $000
Balance at beginning of year	153,592,160	149,319,275	120,605	107,651
Partly-paid ordinary shares issued	-	-	2	1
Partly-paid shares, fully paid up to ordinary shares	7,787	12,440	23	37
Employee share-based payment (note 20)	-	-	12	21
Shares issued for employee share plan	30,000	150,000	77	401
Shares issued for dividend reinvestment plan	-	4,110,445	-	12,774
Cost of share issue	-	-	-	(280)
Balance at end of year	153,629,947	153,592,160	120,719	120,605

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Contributed equity

(i) Fully paid ordinary shares

As at 30 June 2011 there were 153,629,947 shares issued and fully paid (2010: 153,592,160). 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 10 September 2010, 173,685 partly-paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2010: 103,357). The issue price per share was $2.85 (2010: $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 2011 there were 321,599 partly-paid shares on issue, paid up to one cent per share (2010: 155,701). 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 2 September 2010, 7,787 (2010: 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 (2010: $3.01).

(iv) Employee Share Plan

On 17 September 2010, the Company issued 30,000 fully paid ordinary shares at $2.56 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2010: 150,000 fully paid ordinary shares at $2.67 each). In total, participating employees were provided with interest-free loans of $0.2 million to fund their purchase of the shares in the Share Plan (2010: $0.4 million). The loans are repayable over three years and repayment commenced in October 2010.

As at 30 June 2011 the Trustee held 468,260 (2010: 525,397) fully paid ordinary shares (representing 0.3% (2010: 0.3%) of all issued ordinary shares) of which 1,189 (2010: 44,676) 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

The Freightways Dividend Reinvestment Plan (DRP) did not operate during the period.

In the prior period, 985,691 fully paid ordinary shares were issued at $3.1071 to shareholders participating in the 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 $0.3 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

Nature and Purpose of Reserves

(i) Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on a hedging instrument within a cash flow hedge. The amounts are recognised in the income statement when the associated hedged transactions affect profit or loss, as described in note 1(p).

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into New Zealand dollars, as described in note 1(e).

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 Earnings Per Share and Total Shareholder Return performance targets. Partly-paid shares (paid up to one cent per share) are issued at the discretion of the Board, 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 was made on 1 January 2009 and 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 2011

Details of allocations are as follows:

Share allocation date	1 January 2009	25 August 2009	10 September 2010
Number of partly-paid shares allocated	155,701	103,357	173,685
Market price per share at date of allocation	$3.01	$2.83	$2.85
Amount paid-up per share upon allocation	$0.01	$0.01	$0.01
Total amount paid-up upon allocation	$1,557	$1,034	$1,737
Total amount paid-up upon vesting:			
- year ended 30 June 2010	$37,320	-	-
- year ended 30 June 2011	$23,361	-	-
Escrow periods:	30 June 2009 (20%)	30 June 2012 (100%)	30 June 2013 (100%)
	30 June 2010 (30%)		
	30 June 2011 (50%)		

Total number of partly-paid shares on issue:

	2011	2010
Balance at beginning of the year	155,701	64,784
Issued during the year	173,685	103,357
Cancelled during the year	-	-
Fully paid-up during the year	(7,787)	(12,440)
Balance at end of the year	321,599	155,701
Partly-paid shares eligible to be paid-up at the end of the year	Nil	Nil

	2011 $000	2010 $000
Total amount expensed during the year for the senior executive performance share plan	114	105
Liability recognised at year end for bonuses payable to facilitate the paying-up of vested partly-paid shares	130	80

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 2011

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

	GROUP		PARENT	
	2011 $000	2010 $000	2011 $000	2010 $000
Profit for the year	29,899	23,164	24,143	22,630
Add non-cash items:				
Depreciation and software amortisation	9,782	9,861	-	-
Movement in provision for doubtful debts	(299)	(87)	-	-
Movement in deferred income tax	188	6,168	-	-
Net loss (gain) on disposal of fixed assets	331	(8)	-	-
Net foreign exchange loss (gain)	21	(361)	-	-
Movement in derivative fair value	47	(114)	-	-
Transactions settled through loans from subsidiary	-	-	(25,032)	(23,300)
Items not included in profit for the year:				
Cash flow hedges taken directly to equity	(571)	170	-	-
Movement in working capital, net of effects of acquisitions of businesses:				
Decrease (increase) in trade and other receivables	(4,111)	(2,472)	60	(12)
Decrease (increase) in inventories	354	(1,007)	-	-
Increase (decrease) in trade and other payables	2,032	(242)	5	(15)
Increase (decrease) in income taxes payable	(250)	(1,737)	(68)	(113)
Net cash inflows (outflows) from operating activities	37,423	33,335	(892)	(810)

NOTE 22. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had made capital commitments to purchase or construct buildings and equipment for NZ$5.1 million at 30 June 2011 (2010: NZ$0.3 million), principally relating to the refurbishment of operating facilities in Auckland.

The Company had no commitments for property, plant and equipment at 30 June 2011 (2010: Nil).

As at 30 June 2011, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $1.8 million (2010: $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 2011 (2010: Nil).

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 2011	GROUP 2010
Profit for the year ($000)	29,899	23,164
Weighted average number of ordinary shares ('000)	153,622	152,542
Basic earnings per share (cents)	19.5	15.2

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 2011	GROUP 2010
Profit for the year ($000)	29,899	23,164
Weighted average number of ordinary shares ('000)	153,622	152,542
Effect of dilution	322	157
Diluted weighted average number of ordinary shares ('000)	153,944	152,699
Diluted earnings per share (cents)	19.4	15.2

* Basic and diluted earnings per share calculated on the profit for the year, excluding the non-recurring Christchurch earthquake direct costs, net of insurance claim proceeds received to 30 June 2011, of $1.1 million and insurance deductibles of $0.2 million, is 20.3 cents (2010: 18.9 cents using the 2010 profit for the year, excluding the non-recurring tax charge of $5.7 million).

NOTE 24. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 30 June 2011 was ($0.52) (2010: ($0.54)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 25. TRANSACTIONS WITH RELATED PARTIES

Loan to subsidiary: During the year net advances of $23 million were made to the Company by FEL (2010: $12 million), which together with $25 million (2010: $23 million) of dividends receivable from FEL, resulted in a loan to subsidiary balance as at year end of $158 million (2010: $156 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 $25 million (2010: $23 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 previous Freightways Limited director, Wayne Boyd, was the Chairman.

Due from associates: During 2007, 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 $0.1 million (2010: $0.2 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	
	2011 $000	2010 $000	2011 $000	2010 $000
Short-term employee benefits	4,590	4,390	371	402
Long-term employee benefits	-	-	-	-
Post-employment benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments (note 20)	130	80	130	80

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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, except for interest rate swaps.

GROUP	LESS THAN 6 MONTHS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS	TOTAL
2011 ($000)						
Bank borrowings	7,374	7,374	97,969	119,241	-	231,958
Trade & other payables	36,911	5,688	1,000	-	-	43,599
Finance lease liabilities	13	13	26	67	-	119
Derivative financial instruments*	1,781	1,556	2,474	1,922	-	7,733
2010 ($000)						
Bank borrowings	7,505	7,505	15,011	199,680	-	229,701
Trade & other payables	31,586	6,093	1,842	-	-	39,521
Finance lease liabilities	189	-	-	-	-	189
Derivative financial instruments*	1,770	1,201	1,866	2,665	240	7,742

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.

* The amounts expected to be payable in relation to the interest rate swaps have been estimated using forward interest rates applicable at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

(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	
	2011 $000	2010 $000
Cash and cash equivalents	4,325	4,996
Trade and other receivables	46,432	39,931
Derivative financial instruments	-	-
	50,757	44,927

Trade receivables analysis

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

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

	2011 $000	2010 $000
Current	36,096	32,675
31 - 60 days over standard terms	5,048	4,063
61 - 90 days over standard terms	1,014	820
91 + days over standard terms	769	1,029
	42,927	38,587

The Group has $6.0 million (2010: $4.7 million) of financial assets that are overdue and not impaired.

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(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 2011 the Group had Australian dollar denominated bank borrowings of AUD55,900,000 (2010: AUD55,900,000). Of these borrowings, AUD14,200,000 (2010: 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 following 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.

Significant assumptions used in the interest rate sensitivity analysis include:

(i) reasonably possible movements in interest rates were determined based on the Group's current mix of debt in New Zealand and Australia, the level of debt that is expected to be renewed and a review of the last two years' historical movements.

(ii) price sensitivity of derivatives has been based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.

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FOR THE YEAR ENDED 30 JUNE 2011

Sensitivity Analysis

		INTEREST RATE MOVEMENT IMPACT ON PROFIT		INTEREST RATE MOVEMENT 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)
2011 ($000)						
Financial assets						
Cash and cash equivalents	4,325	30	(30)	30	(30)	-
Trade & other receivables	49,859	-	-	-	-	-
Financial liabilities						
Borrowings	158,222	(1,108)	1,108	(1,108)	1,108	1,614/(1,972)
Derivative financial instruments	6,615	1,029	(1,029)	5,532	(5,859)	-
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)	-

(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 2011

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
2011				
Liabilities				
Derivative financial instruments – fair value hedges	-	6,615	-	6,615
Total liabilities	-	6,615	-	6,615
2010				
Liabilities				
Derivative financial instruments – fair value hedges	-	7,383	-	7,383
Total liabilities	-	7,383	-	7,383

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. Refer Note 18 for consent received from the banking syndicate during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 27. FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets, as per balance sheet

	LOANS AND RECEIVABLES		DERIVATIVES USED FOR HEDGING		TOTAL	
	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000
Group:						
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables (excluding prepayments)	46,664	40,455	-	-	46,664	40,455
Cash and cash equivalents	4,325	4,996	-	-	4,325	4,996
Total	50,989	45,451	-	-	50,989	45,451
Parent:						
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables (excluding prepayments)	158,087	155,728	-	-	158,087	155,728
Cash and cash equivalents	7	5	-	-	7	5
Total	158,094	155,733	-	-	158,094	155,733

(b) Liabilities, as per balance sheet

	DERIVATIVES USED FOR HEDGING		OTHER FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
	2011 $000	2010 $000	2011 $000	2010 $000	2011 $000	2010 $000
Group:						
Borrowings (excluding finance lease liabilities)	-	-	158,222	154,648	158,222	154,648
Finance lease liabilities	-	-	119	189	119	189
Derivative financial instruments	6,615	7,383	-	-	6,615	7,383
Trade and other payables	-	-	34,190	32,839	34,190	32,839
Total	6,615	7,383	192,531	187,676	199,146	195,059
Parent:						
Borrowings (excluding finance lease liabilities)	-	-	132,134	132,134	132,134	132,134
Finance lease liabilities	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Trade and other payables	-	-	4	-	4	-
Total	-	-	132,138	132,134	132,138	132,134

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

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 will be payable to the Shred-X vendors based on the earnings achieved in the 2011 financial year. As at 30 June 2011, an amount of $2.3 million is recorded in the balance sheet as intangible assets and in trade and other payables in respect of this future obligation.

Other acquisition

In November 2010, the Group acquired the business and assets of Universal Mail, a small New Zealand domiciled international postal service provider, for a total of approximately $3 million. A summary of this acquisition is set out below.

The contribution of this acquisition to the Group results for the year was revenue of $1.0 million and operating profit before interest and income tax of $0.6 million.

If this acquisition had occurred at the beginning of the year, the contribution to revenue and operating profit before interest and income tax for the year is estimated at $1.3 million and $0.7 million, respectively.

Details of net assets acquired and goodwill are as follows:

	GROUP $000
Purchase consideration	
Cash paid during the year	1,946
Estimated future earn-out payments	1,250
Total purchase consideration	3,196
Fair value of assets and liabilities arising from the acquisition	
Plant & equipment	204
Goodwill recognised in current year	2,992
	3,196

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

NOTE 29. SIGNIFICANT EVENTS AFTER BALANCE DATE

Dividend declared

On 15 August 2011, the Directors declared a fully imputed final dividend of 7.25 cents per share ($11.2 million) in respect of the year ended 30 June 2011. The dividend will be paid on 30 September 2011. The record date for determination of entitlements to the dividend is 16 September 2011.

Restructure and repricing of bank facilities

During August, the Group negotiated a restructuring and repricing of its bank facilities. On 9 August 2011, the Group received notification from its banking syndicate that total facilities of NZD110 million and AUD70 million, spread equally between 3-year, 4-year and 5-year maturity, effective from 1 September 2011, had been approved with improved pricing compared to the existing facilities, subject to final documentation.

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 through, then the tranche must be measured at fair value.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

- NZ IAS 24 Related Party Disclosures (mandatory for annual reporting periods beginning on or after 1 January 2011). The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group intends to adopt the amended standard from 1 July 2011. It is not expected to have any effect on the Group's or the Company's related party disclosures.
- NZ IFRS 10 Consolidated Financial Statements, NZ IFRS 11 Joint Arrangements, NZ IFRS 12 Disclosure of Interests in Other Entities and revised NZ IAS 27 Separate Financial Statements and NZ IAS 28 Investments in Associates and Joint Ventures (mandatory for annual reporting periods beginning on or after 1 January 2013). The major changes under the standards are:

- NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 *Consolidated and Separate Financial Statements* and NZ SIC-12 *Consolidation – Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.
- NZ IFRS 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. NZ IFRS 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. While the Group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance.
- NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.
- NZ IAS 27 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group and Company will not affect any of the amounts recognised in the financial statements, but may impact the type of information disclosed in relation to the Parent's investments in the separate parent entity financial statements.
- Amendments to NZ IAS 28 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate and vice versa. The amendments also introduce a “partial disposal” concept. The Group is still assessing the impact of these amendments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

The Group intends to adopt the new standards from 1 July 2013.

- NZ IFRS 13 Fair Value Measurement (mandatory for annual reporting periods beginning on or after 1 January 2013). NZ IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group intends to adopt the new standard from 1 July 2013.
- Revised IAS 19 Employee Benefits (mandatory for annual reporting periods beginning on or after 1 January 2013). In June 2011, the IASB released a revised standard on accounting for employee benefits. The ASRB is expected to issue an equivalent revised NZ IAS 19 *Employee Benefits* shortly. The revised standard requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. The Group is still assessing the impact of these amendments. The Group intends to adopt the new standard from 1 July 2013.
- Revised IAS 1 Presentation of Financial Statements (mandatory for annual reporting periods beginning on or after 1 July 2012). In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The ASRB is expected to make equivalent changes to NZ IAS 1 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

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 2011

	NUMBER OF HOLDERS	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
Size of shareholding			
1 to 1,999	1,944	2,275,633	1.48
2,000 to 4,999	2,494	7,730,314	5.03
5,000 to 9,999	1,572	10,416,638	6.78
10,000 to 49,999	1,134	18,643,356	12.14
50,000 to 99,999	43	2,848,229	1.85
100,000 to 499,999	35	6,882,461	4.48
500,000 to 999,999	10	8,010,861	5.21
1,000,000 and over	11	96,822,455	63.03
Total shareholders	7,243	153,629,947	100.00
Geographic distribution			
New Zealand	7,121	150,967,195	98.27
Australia	72	2,417,578	1.57
Other	50	245,174	0.16
	7,243	153,629,947	100.00

Substantial security holders as at 31 July 2011

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 2011 was 153,629,947.

SHAREHOLDER INFORMATION

Top twenty registered shareholders of listed shares as at 31 July 2011

	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
HSBC Nominees (New Zealand) Limited <HKBN45> *	21,605,106	14.06
National Nominees New Zealand Limited <NNLZ90> *	10,828,999	7.05
TEA Custodians Limited <TEAC40> *	7,694,053	5.01
FNZ Custodians Limited	6,275,652	4.08
Private Nominees Limited <Residents A/C>	5,207,903	3.39
New Zealand Superannuation Fund Nominees Limited <SUPR40> *	4,915,358	3.20
AMP Investments Strategic Equity Growth Fund *	4,686,583	3.05
Accident Compensation Corporation <ACCI40> *	4,333,288	2.82
Port Devon Limited	3,453,469	2.25
Custodial Services Limited <A/C 3>	2,794,086	1.82
Custody And Investment Nominees Limited <A/C TEAC65>	2,593,201	1.69
Premier Nominees Ltd – Onepath Wholesale Australasian Shr Fund <PNAS90>	2,553,290	1.66
Lucerne Road Investments Limited	2,002,896	1.30
NZGT Nominees Limited - AIF Equity Fund - A/C *	1,893,358	1.23
Citibank Nominees (New Zealand) Limited <CNOM90> *	1,879,688	1.22
Investment Custodial Services Limited <A/C C>	1,750,154	1.14
Forsyth Barr Custodians Limited <1-33>	1,565,026	1.02
Westpac NZ Shares 2002 Wholesale Trust *	1,474,143	0.96
Custodial Services Limited <A/C 1>	1,181,636	0.77
Custodial Services Limited <A/C 2>	1,053,569	0.69
	89,741,458	58.41

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

BOARD MEETINGS

The following table outlines the number of board meetings attended by Directors during the course of the 2011 financial year:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sue Sheldon	10	10
Dean Bracewell	10	10
Sir William Birch	10	10
Roger Corcoran	10	10
Kim Ellis	10	10
Mark Verbiest	10	10
Wayne Boyd (resigned 28 October 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 Mark Verbiest (Chairman), Sir William Birch, Kim Ellis and Sue Sheldon. All members are independent non-executive Directors. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Mark Verbiest	4	4
Sir William Birch	4	4
Kim Ellis	4	4
Sue Sheldon	4	4

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), Roger Corcoran and Sue Sheldon. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sir William Birch	2	2
Roger Corcoran	2	2
Sue Sheldon (appointed to the Committee 22 November 2010)	1	1
Wayne Boyd (resigned 28 October 2010)	1	1

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 Sue Sheldon (Chairman), Sir William Birch, Roger Corcoran, Kim Ellis, Mark Verbiest and Dean Bracewell. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sue Sheldon	2	2
Dean Bracewell	2	2
Sir William Birch	2	2
Roger Corcoran	2	2
Kim Ellis	2	2
Mark Verbiest	2	2
Wayne Boyd (resigned 28 October 2010)	-	-

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.

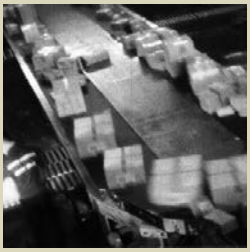
SHARE TRADING BY DIRECTORS AND MANAGEMENT

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

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PO Box 1184
Oxenford
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AUSTRALIA
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www.shred-x.com.au

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PO Box 984
Chatswood
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