ANNUAL REPORT
2012

Freightways

Freightways

New Zealand Couriers
www.nzcouriers.co.nz

Post Haste Couriers
www.posthaste.co.nz

Castle Parcels
www.castleparcels.co.nz

Now Couriers
www.nowcouriers.co.nz

SUB60
www.sub60.co.nz

Kiwi Express Couriers
www.kiwiexpress.co.nz

Security Express

DX Mail
www.dxmail.co.nz

Dataprint
www.dataprint.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

Filesaver
www.filesaver.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
Auckland 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.

TABLE OF CONTENTS

GROUP PROFILE

FREIGHTWAYS' STRATEGY

Freightways' business strategy is to develop organic growth opportunities that exist in the express package, business mail and information management industries, diversify its operations further into the information management industry, including geographically, and execute acquisition and alliance opportunities in areas that complement 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, 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, Kiwi Express and STUCK brands, and provides a secure service for valuables through Security Express.

DX Mail operates in the New Zealand postal services market. It provides a full range of domestic and international mail solutions to business customers. DX Mail is represented in all towns and cities throughout New Zealand. Its services include the processing of letters and parcels for box-to-box and street delivery. It also offers a full suite of mailhouse services for both physical and electronic transactional mail through its recently-acquired DataPrint business.

Information management

Freightways' information management division offers a complete range of archive management services for documents, computer media and document destruction throughout New Zealand and Australia. It also provides both digital conversion and online back-up services to complement the physical storage and protection of documents and other media.

In New Zealand, Online Security Services provides a nationwide service from its locations in Auckland, Hamilton, Palmerston North, Wellington and Christchurch. It operates the brands of Archive Security, Document Destruction Services and Data Security Services.

In Australia, The Information Management Group operates in all states and territories through the brands of Archive Security, Filesaver, DataBank and Shred-X.

Internal service providers

Freightways manages its road and air linehaul requirements through the Parceline Express and Fieldair businesses. Fieldair also provides a wide range of avionics and engineering services to the NZ aviation industry. Information technology systems are provided to Freightways' various businesses via Freightways Information Services.



SUB60


CASTLE
PARCELS
CASTLE
PARCELS

FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2012

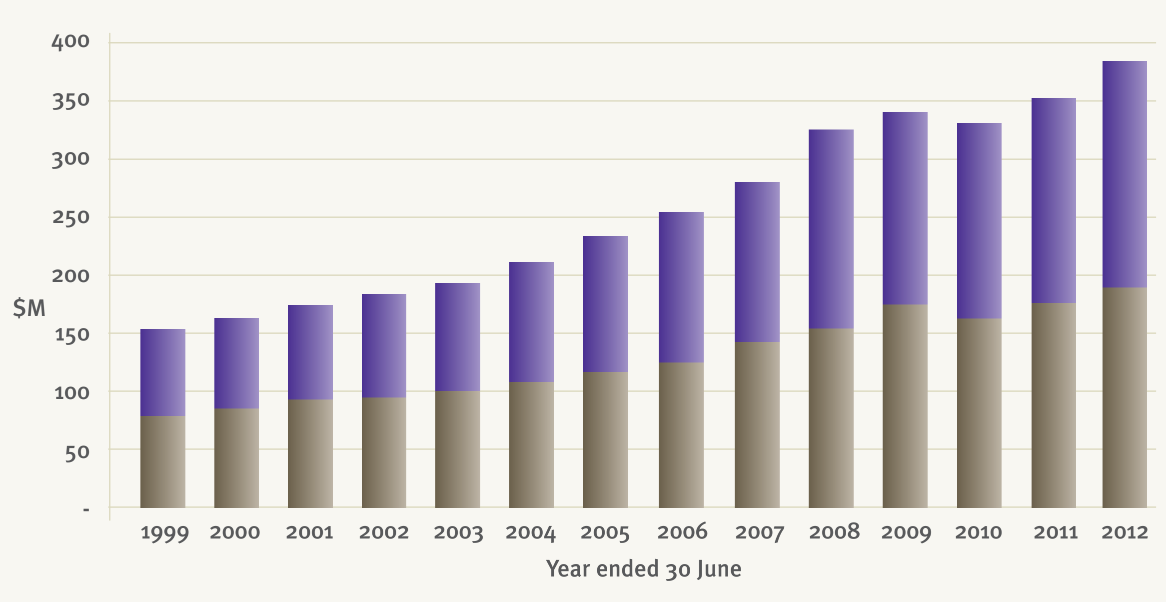
	NOTE	2012 $000	2011 $000	PERCENTAGE VARIANCE
Operating revenue		382,455	352,520	8%
EBITA, excluding non-recurring items	(i)	61,910	56,651	9%
NPAT, excluding non-recurring items	(ii)	35,955	30,801	17%
Non-recurring items:				
- income tax credit (charge) as a result of tax law changes		52	(152)	-
- net insurance claim proceeds (direct costs) arising from Christchurch earthquakes		1,372	(1,115)	-
- insurance deductible refunded (paid)		87	(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 2012

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 year ended 30 June 2012, that is above the prior year in all respects and a record result for the Company.

Highlights include the consistently strong financial performance of the Company throughout the year and the successful execution of growth strategies across both operating divisions. In addition, the integration of recent acquisitions in New Zealand and Australia has added to the depth of Freightways' presence in the Australasian information management industry and the renegotiation of Freightways' finance facilities has provided the benefit of reduced funding costs.

Operating performance

Consolidated operating revenue of $382 million for the full year was 8% higher than the prior comparative period (pcp).

EBITDA (excluding non-recurring items) of $72 million for the full year and EBITA (excluding non-recurring items) of $62 million for the full year were both 9% higher than the pcp.

Consolidated NPAT (excluding non-recurring items) of $36 million for the full year was 17% higher than the pcp.

Cash flows generated from operations were again strong at $70 million.

Earnings per share (EPS) for the full year (excluding non-recurring items) was 23.4 cents per share, an improvement of 15% over the pcp.

A one-off $1.5 million EBITA benefit ($1 million after tax) relating to proceeds from Christchurch earthquake insurance claims made in the prior year has been treated as non-recurring and has not been included in the above revenue and earnings numbers. Similarly, a one-off $1.3 million EBITA charge ($0.9 million net of tax) relating to Christchurch earthquake costs subject to insurance claims was treated as non-recurring in the prior year and is also excluded from the above pcp revenue and earnings numbers. Non-recurring items are included in the full year financial statements.

Dividend

The Directors have declared a final dividend of 9.5 cents per share, fully imputed at a tax rate of 30%. This represents a pay out of approximately $14.6 million compared with $11.2 million for the pcp final dividend of 7.25 cents per share. The final dividend will be paid on 1 October 2012. The record date for determination of entitlements to the final dividend is 14 September 2012.

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.

REVIEW OF OPERATIONS

The industry and geographical diversification strategy embarked upon by Freightways in previous years has broadened its revenue and earnings base and created a wide range of growth opportunities that are being successfully developed by the Freightways team. Within this full year result the contribution to both revenue and earnings from the express package & business mail division and the information management division was approximately 75% and 25%, respectively. Over half of the information management division's revenue and earnings contribution was generated in Australia.

Express package & business mail

The express package & business mail division operates a multi-brand strategy in the domestic market through New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express and DX Mail. Subsequent to year-end DataPrint was acquired and will operate as a separate brand alongside DX Mail.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

Operating revenue of $292 million for the full year was 5% higher than the pcp.

EBITDA of $53 million for the full year was 7% higher than the pcp and EBITA of $49 million for the full year was 8% higher than the pcp.

A particularly strong first quarter underpinned a very good first half year. As expected, revenue in the second half was comparatively not as strong as in the first half, yet revenue growth nevertheless remained positive and consistent throughout the period. Increased volumes from many existing customers, quality market share gains and price increases underpinned the revenue growth in this division. Revenue from fuel surcharges used to offset the impact of higher fuel prices is also included in this result. Revenue growth in this division came from all locations in New Zealand and from most industry sectors. Online shopping continued to generate our fastest growing source of volume. Costs continued to be prudently managed, albeit the impact of stepped increases in property insurance and road user charges relating to the linehaul of inter-city volumes will continue to be felt throughout the next financial year.

Activity levels in most of our businesses located in Christchurch have returned to pre-earthquake levels, with the exception being DX Mail that continues to be affected by relatively low tourism-related mail volume. The overall cost of doing business in Christchurch has, however, lifted due to the increased difficulty in moving around Christchurch to effect pick-ups and deliveries, and also in regards to labour and related costs.

During the year, our Hawkes Bay businesses relocated to new larger premises and work was all but completed on the redevelopment of the Post Haste and Castle Parcels depots at our main Auckland site. This redevelopment enables the accommodation of NOW Couriers that has operated from a separate Auckland location.

Our latest acquisition, DataPrint, is a full service mailhouse that provides its customers with both a physical and an electronic service for their transactional mail. DataPrint will work alongside DX Mail. Customers of both these businesses and the wider Freightways group will be offered a broader suite of services as a result of this acquisition, including the ability to send electronic invoices to their respective customers who can then also pay these invoices online.

Overall, Freightways' express package & business mail division has been able to once again demonstrate its resilience and its growth attributes to deliver a very good 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, Filesaver and Shred-X.

Operating revenue of $92 million for the full year was 21% above the pcp.

EBITDA of $21 million for the full year and EBITA of $16 million for the full year were both 18% above the pcp.

During the year, Freightways acquired Iron Mountain's New Zealand operations and the business and assets of Filesaver Pty Limited in Sydney. The Iron Mountain New Zealand business has been fully integrated into Freightways' existing New Zealand information management business. The Filesaver business is operating from within Freightways' existing information management business in Australia as a stand-alone brand. Restructuring and relocation costs relating to these acquisitions were expensed primarily within the first half of this full year result. The expected financial contribution from these acquisitions, including the value of synergies achieved under Freightways' ownership, is tracking to expectation and evident in this division's strong second half year result.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

The very strong growth experienced in this division has assisted in offsetting the increased costs associated with leasing significant additional capacity in both Australia and New Zealand and related premise relocations. Part of this growth has come from winning nationwide customers in Australia that would not have been achieved without this investment. The storage and management of archived documents continues to be our fastest growing revenue stream in this division. In our document destruction operations the reduced demand for recycled paper in the global market has not yet recovered and accordingly the price we receive for the sale of this product declined further in the second half of the year. A number of contingencies to mitigate the impact of these reduced prices were implemented, however the contribution from this particular revenue source was significantly lower than the pcp.

New service lines have been added to Freightways' suite of information management services, adding breadth to our revenue and earnings growth profile. Strategic growth opportunities continue to be explored and executed where they make commercial sense.

Overall, the performance of the information management division and its demonstrated ability to sustain high levels of growth has been outstanding.

Internal service providers

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

Corporate

Corporate overhead costs continue to be well contained.

Newly-negotiated finance facilities came into effect on 1 September 2011. These include facilities of NZD110 million and AUD70 million, spread equally between 3-year, 4-year and 5-year maturity dates. This multi-currency facility, with an evenly spread maturity profile, demonstrates the support of Freightways' banking syndicate and provides funding certainty for the Company and important diversity of duration. The reduced cost of these facilities is clearly evidenced in the decreased interest charge to the company for the full year.

Bank borrowings have increased above the pcp to fund the acquisitions completed during 2012.

Capital expenditure of $15.3 million was invested during 2012 to maintain Freightways airfreight and IT infrastructure, and to support the group's growth strategies.

OUTLOOK

We are mindful of the current issues relating to the global economy that may have a further adverse impact on the economies of New Zealand and Australia. Inevitably these global issues will influence our business performance. Against this uncertain background we do nevertheless expect to see continued overall gradual improvement in the markets that our businesses are positioned in, as has been experienced in recent times. Drivers of business success, other than the performance of the economy, have and will continue to contribute to future performance. These drivers include our ability to execute our growth initiatives, actively managing costs, striving to further improve service quality and innovating, not only in regard to our suite of services, but also in regard to our internal processes to assist productivity.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

Growth trends evident in this latest full year result within the express package & business mail division are positive. If this growth amongst our existing customer base is sustained it will contribute to further year-on-year performance improvement. Our express package and business mail teams have consistently demonstrated their ability to compete successfully in an openly-competitive environment and we expect them to 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 will continue to set us apart from our competitors.

As has occurred in 2012, we expect the information management division to deliver sound overall year-on-year earnings growth, despite stepped costs related to investment in new capacity and the impact of lower prices for the paper we sell from our document destruction operations. Within this division we expect continued good earnings growth from our document and data storage and related services businesses. Conversely, our document destruction businesses on both sides of the Tasman will continue to be impacted by the aforementioned lower global paper prices, meaning a relatively flat year ahead is forecast for this particular segment.

Capital expenditure for 2013 is expected to be $15 million to support the growth and development of both of Freightways' divisions. Overall, cash flows are expected to remain strong throughout the 2013 financial year.

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 out 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 strong full year result that is above the prior year in all respects and a record for the Company. This result again demonstrates the resilience of the Group, the positive features of the industries it operates in and the high quality of its subsidiary businesses and their teams of people. Accordingly, the Directors have been able to declare a fully imputed 9.5 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
Chairman
13 August 2012

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 2012 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 CNZM (B.COM, FCA, M INST D)

Sue was appointed a Director of Freightways in July 2003 and appointed Chairman in October 2010. She is a Chartered Accountant and full-time professional director, and is currently Chairman of Chorus Limited, Deputy Chairman of the Reserve Bank of New Zealand and a Director of Contact Energy 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 Senior Advisor to Forsyth Barr in New Zealand and the Royal Bank of Scotland in Australia. Sir William is also a director of a number of public and private companies and a trustee of the MFL and SIL Superannuation funds. 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 13 years as Managing Director of Waste Management NZ Ltd until its sale in 2006 to Transpacific Industries Pty Limited, and has developed businesses in both New Zealand and Australia. Kim is now a professional director working with both private and listed companies. His roles in the past year included Chairman of Seeka Kiwifruit Industries Ltd, Envirowaste Services Ltd and The NZ Social Infrastructure Fund Ltd, and Advisor to the Board of Ballance Agri Nutrients Ltd.

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 Chairman of Telecom Corporation of New Zealand Limited, Transpower New Zealand Limited and Willis Bond Capital Partners Limited. Mark is also a member of the Financial Markets Authority and a consultant to law firm Simpson Grierson.

DIRECTORS' REPORT

The Board has determined for the purposes of the NZSX Listing Rules that, as at 30 June 2012, 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 2012 were the operation of express package & business mail services and information management services.

CONSOLIDATED RESULT FOR THE YEAR

	2012 $000	2011 $000
Operating revenue	382,455	352,520
Operating profit before interest, income tax, non-recurring items and amortisation of intangibles	61,910	56,651
Amortisation of intangibles	(89)	-
Operating profit before interest, income tax and non-recurring items	61,821	56,651
Non-recurring income (expenses) before income tax	1,459	(1,289)
Profit before interest and income tax	63,280	55,362
Net interest and finance costs	(13,975)	(15,511)
Profit before income tax	49,305	39,851
Income tax:		
- Tax applicable to operating earnings	(12,352)	(9,800)
- Tax credit (charge) as a result of tax law changes	52	(152)
Total income tax	(12,300)	(9,952)
Profit for the year attributable to the shareholders	37,005	29,899

DIRECTORS HOLDING OFFICE DURING THE YEAR WERE:

Parent:

Sue Sheldon (Chairman)

Dean Bracewell (Managing Director)

Sir William Birch

Roger Corcoran

Kim Ellis

Mark Verbiest

Subsidiaries:

Dean Bracewell

Mark Royle

DIRECTORS' REPORT

REMUNERATION OF DIRECTORS

	GROUP		PARENT	
	2012 $	2011 $	2012 $	2011 $
Sue Sheldon	133,336	100,000	133,336	100,000
Dean Bracewell	922,273	773,976	-	-
Sir William Birch	60,668	52,000	60,668	52,000
Roger Corcoran	80,739	71,645	80,739	71,645
Kim Ellis	60,668	52,000	60,668	52,000
Mark Verbiest	70,000	56,000	70,000	56,000
Wayne Boyd (resigned 28 October 2010)	-	39,205	-	39,205
Mark Royle	594,546	518,372	-	-
	1,922,230	1,663,198	405,411	370,850

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2012 in respect of the two previous six-month performance periods (1 January to 30 June 2011 and 1 July to 31 December 2011). No amount is included above in respect of incentive payments for the period 1 January to 30 June 2012, as these were paid in August 2012. Remuneration of the Managing Director comprises a fixed remuneration package representing 70% of his total remuneration and an 'at risk' portion representing 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	
	2012	2011	2012	2011
$100,000 – $109,999	26	28	-	-
$110,000 – $119,999	21	22	-	-
$120,000 – $129,999	12	12	-	-
$130,000 – $139,999	13	14	-	-
$140,000 – $149,999	5	6	-	-
$150,000 – $159,999	9	8	-	-
$160,000 – $169,999	6	7	-	-
$170,000 – $179,999	5	2	-	-
$180,000 – $189,999	7	4	-	-
$190,000 – $199,999	6	2	-	-
$200,000 – $209,999	4	2	-	-
$210,000 – $219,999	2	1	-	-
$220,000 – $229,999	-	4	-	-
$230,000 – $239,999	2	1	-	-
$240,000 – $249,999	-	1	-	-
$250,000 – $259,999	-	2	-	-
$260,000 – $269,999	-	1	-	-
$280,000 – $289,999	2	3	-	-
$300,000 – $309,999	2	2	-	-
$310,000 – $319,999	2	-	-	-
$330,000 – $339,999	2	-	-	-
$400,000 – $409,999	-	1	-	-
$410,000 – $419,999	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	-	2,530,737	121,101
Sir William Birch	-	150,492	-
Roger Corcoran	-	-	-
Kim Ellis	-	30,000	-
Mark Verbiest	-	10,000	-
Mark Royle	-	333,994	51,921

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 2012:

	NOTE	NUMBER ACQUIRED / (DISPOSED)	$ COST / (SALE)
Kim Ellis			
Non-beneficial ownership in shares acquired 21 February 2012		10,000	37,893
Sir William Birch			
Non-beneficial ownership in shares acquired 1 November 2011		10,000	34,172
Dean Bracewell			
Beneficial ownership in partly paid shares acquired 13 September 2011	(ii)	61,452	615
Non-beneficial ownership in shares disposed 5 April 2012		(350,000)	(1,369,541)
Mark Royle			
Non-beneficial ownership in shares acquired 13 September 2011	(i)	5,883	17,649
Beneficial ownership in partly paid shares acquired 13 September 2011	(ii)	17,504	175
Non-beneficial ownership in shares disposed 16 February 2012		(350,000)	(1,278,165)

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 13th day of August 2012.

Susan Sheldon
Chairman

Dean Bracewell
Managing Director

INDEPENDENT AUDITORS' REPORT (TO THE SHAREHOLDERS OF FREIGHTWAYS LIMITED)

Report on the Financial Statements

We have audited the financial statements of Freightways Limited ("the Company") on pages 18 to 67, which comprise the balance sheets as at 30 June 2012, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows 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 2012 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 auditor considers 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.

Other than in our capacity as auditors we have no relationship with, or interests in, Freightways Limited or any of its subsidiaries.

Opinion

In our opinion, the financial statements on pages 18 to 67:

(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 2012, 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 2012:

(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
13 August 2012

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 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Operating revenue	2	382,455	352,520	-	-
Dividends received from subsidiaries		-	-	28,200	24,500
		382,455	352,520	28,200	24,500
Transport and logistics expenses		(156,851)	(149,484)	-	-
Employee benefits expenses		(100,079)	(91,855)	-	-
Occupancy expenses		(17,398)	(13,833)	-	-
General and administration expenses		(35,843)	(30,915)	(565)	(509)
Operating profit before interest, income tax, depreciation and software amortisation, non-recurring items and amortisation of intangibles		72,284	66,433	27,635	23,991
Depreciation and software amortisation	3	(10,374)	(9,782)	-	-
Operating profit before interest, income tax, non-recurring items and amortisation of intangibles		61,910	56,651	27,635	23,991
Amortisation of intangibles		(89)	-	-	-
Operating profit before interest, income tax and non-recurring items		61,821	56,651	27,635	23,991
Non-recurring income (expenses) before income tax	3	1,459	(1,289)	-	-
Profit before interest and income tax		63,280	55,362	27,635	23,991
Net interest and finance costs	3	(13,975)	(15,511)	-	-
Profit before income tax		49,305	39,851	27,635	23,991
Income tax					
- Tax applicable to operating earnings		(12,352)	(9,800)	158	153
- Tax credit (charge) as a result of tax law changes		52	(152)	-	-
Total income tax	4	(12,300)	(9,952)	158	153
Profit for the year attributable to the shareholders		37,005	29,899	27,793	24,143
Earnings per share	23				
Basic earnings per share (cents)		24.1	19.5	-	-
Diluted earnings per share (cents)		24.0	19.4	-	-

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 2012

		GROUP		PARENT	
	NOTE	2012 $000	2011 $000	2012 $000	2011 $000
Profit for the year (NPAT)		37,005	29,899	27,793	24,143
Other comprehensive income					
Exchange differences on translation of foreign operations	19	(1,350)	1,040	-	-
Cash flow hedges taken directly to equity, net of tax	19	(6,440)	571	-	-
Total other comprehensive income after income tax		(7,790)	1,611	-	-
Total comprehensive income for the year attributable to the shareholders		29,215	31,510	27,793	24,143

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 2012

GROUP	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
	$000	$000	$000	$000	$000
Balance at 1 July 2011	120,713	51,329	(5,011)	738	167,769
Profit for the year	-	37,005	-	-	37,005
Exchange differences on translation of foreign operations	-	-	-	(1,350)	(1,350)
Cash flow hedges taken directly to equity, net of tax	-	-	(6,440)	-	(6,440)
Total comprehensive income	-	37,005	(6,440)	(1,350)	29,215
Dividend payments	-	(24,230)	-	-	(24,230)
Shares issued	550	-	-	-	550
Balance at 30 June 2012	121,263	64,104	(11,451)	(612)	173,304

	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 2012

PARENT	CONTRIBUTED EQUITY $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
Balance at 1 July 2011	120,719	27,287	148,006
Profit for the year	-	27,793	27,793
Total comprehensive income	-	27,793	27,793
Dividend payments	-	(24,230)	(24,230)
Shares issued	583	-	583
Balance at 30 June 2012	121,302	30,850	152,152

	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 13th day of August 2012.

Susan Sheldon
Chairman

Dean Bracewell
Managing Director

BALANCE SHEETS

AS AT 30 JUNE 2012

	NOTE	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Current assets					
Cash and cash equivalents	6	9,130	4,325	9	7
Trade and other receivables	7	53,401	49,774	1,087	1,037
Inventories	8	8,129	7,423	-	-
Total current assets		70,660	61,522	1,096	1,044
Non-current assets					
Investments in subsidiaries	10	-	-	121,013	121,013
Trade and other receivables	7	674	85	162,183	158,087
Property, plant and equipment	11	90,343	80,193	-	-
Intangible assets	12	275,295	256,007	-	-
Deferred tax asset	13	563	1,362	-	-
Other non-current assets		-	18	-	-
Total non-current assets		366,875	337,665	283,196	279,100
Total assets		437,535	399,187	284,292	280,144
Current liabilities					
Trade and other payables	14	45,266	42,599	6	4
Finance lease liabilities	15	26	26	-	-
Provisions	16	363	246	-	-
Derivative financial instruments	9	345	174	-	-
Unearned income	17	13,937	14,830	-	-
Total current liabilities		59,937	57,875	6	4
Non-current liabilities					
Trade and other payables	14	3,991	1,000	-	-
Borrowings (secured)	18	178,971	158,222	132,134	132,134
Deferred tax liability	13	4,553	6,570	-	-
Provisions	16	1,479	1,217	-	-
Finance lease liabilities	15	66	93	-	-
Derivative financial instruments	9	15,234	6,441	-	-
Total non-current liabilities		204,294	173,543	132,134	132,134
Total liabilities		264,231	231,418	132,140	132,138
Net assets		173,304	167,769	152,152	148,006
Equity					
Contributed equity		121,263	120,713	121,302	120,719
Retained earnings		64,104	51,329	30,850	27,287
Cash flow hedge reserve		(11,451)	(5,011)	-	-
Foreign currency translation reserve		(612)	738	-	-
Total equity	19	173,304	167,769	152,152	148,006

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

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2012

	NOTE	GROUP 2012 $000 INFLOWS (OUTFLOWS)	GROUP 2011 $000 INFLOWS (OUTFLOWS)	PARENT 2012 $000 INFLOWS (OUTFLOWS)	PARENT 2011 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities					
Receipts from customers		378,640	346,557	-	-
Payments to suppliers and employees		(308,554)	(283,478)	-	-
Cash generated from operations		70,086	63,079	-	-
Interest received		142	141	-	-
Interest and other costs of finance paid		(13,584)	(15,520)	-	-
Income taxes paid		(11,548)	(10,277)	(928)	(892)
Net cash inflows (outflows) from operating activities	21	45,096	37,423	(928)	(892)
Cash flows from investing activities					
Payments for property, plant and equipment		(14,886)	(11,436)	-	-
Payments for software		(609)	(2,616)	-	-
Proceeds from disposal of property, plant and equipment		170	156	-	-
Payments for businesses acquired	28	(22,425)	(1,869)	-	-
Advances to associates repaid		69	-	-	-
Cash flows from other investing activities		(536)	(623)	-	-
Net cash outflows from investing activities		(38,217)	(16,388)	-	-
Cash flows from financing activities					
Dividends paid		(24,230)	(21,892)	(24,230)	(21,892)
Increase in bank borrowings		21,761	-	-	-
Net proceeds from issue of ordinary shares		314	369	2	2
Finance lease liabilities repaid		(26)	(192)	-	-
Loans advanced from subsidiaries		-	-	25,158	22,784
Net cash inflows (outflows) from financing activities		(2,181)	(21,715)	930	894
Net increase (decrease) in cash and cash equivalents		4,698	(680)	2	2
Cash and cash equivalents at the beginning of year		4,325	4,996	7	5
Exchange rate adjustments		107	9	-	-
Cash and cash equivalents at end of year	6	9,130	4,325	9	7

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 2012

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 2012 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.

(iii) Fair value of derivatives

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of valuation methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

(iv) Customer relationships

The estimation of the useful lives of customer relationships has been based on historical experience. The useful lives are reviewed at least once per year and adjustments to useful lives are made when considered necessary.

b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities that are controlled either directly by the Company or where the substance

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 acquisition 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 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- all resulting exchange differences are recognised as a separate component of equity.

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 2012

(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 2012

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.

(iv) Customer relationships

- ***Contractual***

An intangible asset is recorded in respect of the amount of any contractual termination fees payable by customers of businesses acquired in respect of their document holdings. As it is not known when permanent retrieval fees may arise, this asset is only amortised upon the actual retrieval fee being charged to the respective customer.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

- ***Other***

  Non-contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. These customer relationships have an estimated finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship which ranges between 10 and 20 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 and are subsequently remeasured and restated to their fair value at the reporting date. The method of recognising the resultant gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates derivative financial instruments as either fair value hedges (hedges of the fair value of recognised assets or liabilities or a firm commitment) or cash flow hedges (hedges of highly probable forecast transactions).

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

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

q) Fair value estimation

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using accepted treasury valuation techniques, such as estimated discounted cash flows, by an external treasury management system provider. The carrying value of trade receivables (less provision for doubtful receivables) and payables is assumed to approximate their fair values.

r) Trade and other payables

Trade and other payables are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services. They are initially recognised at fair value and subsequently 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

u) Borrowing costs

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

v) Capitalised interest and finance costs

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

w) Contributed equity

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

x) Goods and services tax (GST)

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

y) Borrowings and inter-company balances

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

z) Changes in accounting policies

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

The Group has adopted the following new and revised standards for which application was mandatory for the first time in the financial year beginning 1 July 2011:

(i) FRS 44 New Zealand Additional Disclosures and Harmonisation Amendments

FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRS. These disclosures have been relocated from various NZ IFRS to clarify that these disclosures are additional to those required by IFRS. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify or amend some of the Group's current disclosures.

The Harmonisation Amendments amend various NZ IFRS for the purpose of harmonising with the source IFRS and Australian Accounting Standards. The significant amendments include:

- deletion of the requirement for an independent valuer to conduct the valuation of investment property and property, plant and equipment;
- inclusion of the option to account for investment property using either cost or fair value model; and
- inclusion of the option to use the indirect method of reporting cash flows.

In addition, various disclosure requirements have been deleted.

The Group adopted FRS 44 and the Harmonisation Amendments from 1 July 2011 and there has been no material impact on the financial statements.

(ii) NZ IAS 24 Related Party Disclosures

The amended standard 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 adopted the amended standard from 1 July 2011 and there has been no material impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 the Managing Director, as the chief operating decision maker, and the Board to assist strategic decision-making and allocation of resources:

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 2012:

	EXPRESS PACKAGE & BUSINESS MAIL $000	INFORMATION MANAGEMENT $000	CORPORATE & OTHER $000	INTER-SEGMENT ELIMINATION $000	CONSOLIDATED OPERATIONS $000
Income statement					
Sales to external customers	290,447	91,998	10	-	382,455
Inter-segment sales	1,484	13	3,785	(5,282)	-
Total revenue	291,931	92,011	3,795	(5,282)	382,455
Operating profit before interest, income tax, depreciation and software amortisation, non-recurring items and amortisation of intangibles	53,394	20,575	(1,685)	-	72,284
Depreciation and software amortisation	(4,908)	(4,258)	(1,208)	-	(10,374)
Operating profit before interest, income tax, non-recurring items and amortisation of intangibles	48,486	16,317	(2,893)	-	61,910
Amortisation of intangibles	-	(89)	-	-	(89)
Operating profit before interest, income tax and non-recurring items	48,486	16,228	(2,893)	-	61,821
Non-recurring income before tax	-	133	1,326	-	1,459
Profit before interest and income tax	48,486	16,361	(1,567)	-	63,280
Net interest and finance costs	(9)	(6)	(13,960)	-	(13,975)
Profit before income tax	48,477	16,355	(15,527)	-	49,305
Income tax	(13,986)	(4,626)	6,312	-	(12,300)
Profit for the year attributable to the shareholders	34,491	11,729	(9,215)	-	37,005
Balance sheet					
Segment assets	236,094	159,821	41,620	-	437,535
Segment liabilities	42,460	17,097	204,674	-	264,231

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 items	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 items	44,918	13,763	(2,030)	-	56,651
Non-recurring expenses before tax	-	-	(1,289)	-	(1,289)
Operating profit before interest and income tax	44,918	13,763	(3,319)	-	55,362
Net interest and finance costs	(5)	(789)	(14,717)	-	(15,511)
Profit before income tax	44,913	12,974	(18,036)	-	39,851
Income tax	(13,464)	(3,829)	7,341	-	(9,952)
Profit for the year attributable to the shareholders	31,449	9,145	(10,695)	-	29,899
Balance sheet					
Segment assets	228,973	128,662	41,552	-	399,187
Segment liabilities	43,585	12,661	175,172	-	231,418

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 2012, external revenue from customers in the Group's New Zealand and Australian operations was $322.8 million and $59.7 million, respectively (2011: $298.7 million and $53.8 million, respectively). As at 30 June 2012, non-current assets in respect of the New Zealand and Australian operations (excluding deferred tax assets) were $257.2 million and $106.4 million, respectively (2011: $241.8 million and $94.5 million, respectively).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 3. INCOME AND EXPENSES

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

		GROUP		PARENT	
	NOTE	2012 $000	2011 $000	2012 $000	2011 $000
Income:					
Interest income		281	238	-	-
Operating expenses:					
Net loss (gain) on disposal of property, plant & equipment		12	331	-	-
Depreciation	11	9,370	8,788	-	-
Amortisation of software	12	1,004	994	-	-
Amortisation of intangible assets	12	89	-	-	-
Operating lease expenses		18,844	14,422	-	-
Auditors' fees:					
Audit services		291	273	-	-
Other services		-	13	-	-
Costs of offering credit:					
Impairment loss on trade receivables		141	(18)	-	-
Interest and finance costs:					
Interest on bank borrowings		14,227	15,695	-	-
Interest on finance leases		9	7	-	-
Derivative fair value movement		20	47	-	-
Other:					
Net foreign exchange (gain) loss		(43)	21	-	-
Directors' fees		405	371	405	371
Donations		118	63	-	-
Non-recurring (income) expenses:					
Net insurance claim proceeds (direct costs) arising from Christchurch earthquakes*		(1,372)	1,115	-	-
Insurance deductibles (refunded) paid		(87)	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. As at 30 June 2011, insurance claims submitted to the Group's insurers to recover costs incurred in the financial year ended 30 June 2011 had not been settled by the Group's insurers and were expensed accordingly. In the current year, proceeds from insurance claims, net of further earthquake-related costs incurred, have been recognised as non-recurring income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4. INCOME TAX EXPENSE

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Current tax:				
Current tax on profit for the year	12,625	10,000	(158)	(153)
Deferred tax (Note 13):				
Reversal of temporary differences	(377)	104	-	-
Impact of reduction in NZ tax rate	52	(152)	-	-
Total deferred tax	(325)	(48)	-	-
Income tax expense (benefit)	12,300	9,952	(158)	(153)

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 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Profit before income tax	49,305	39,851	27,635	23,991
Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries:	13,857	11,955	7,738	7,197
Tax-effect of amounts which are treated differently when calculating taxable income:				
- Non-taxable intercompany dividends	-	-	(7,896)	(7,350)
- Adjustments for changes in tax law:				
Reduction in NZ tax rate	(52)	152	-	-
	(52)	152	-	-
- Additional amounts deductible	(1,457)	(2,085)	-	-
- Other	(48)	(70)	-	-
Income tax expense (benefit)	12,300	9,952	(158)	(153)

The Group has no tax losses (2011: Nil) and no unrecognised temporary differences (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

	GROUP	
	2012 $000	2011 $000
Imputation credits account		
Imputation credits available for use in subsequent reporting periods:	16,832	16,259

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

(a) Imputation credits that will arise from the payment of the amount of the provision for income tax;

(b) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 5. DIVIDENDS

	PARENT 2012 $000	PARENT 2011 $000
Recognised amounts		
Fully imputed dividends declared and paid during the year:		
Final dividend for 2011 at 7.25 cents per share (2010: 7.00 cents)	11,153	10,754
Interim dividend for 2012 at 8.50 cents per share (2011: 7.25 cents)	13,077	11,138
	24,230	21,892
Unrecognised amounts		
Final dividend for 2012 at 9.5 cents per share (2011: 7.25 cents)	14,632	11,163

Subsequent to balance date the above unrecognised dividend was approved by a directors' resolution dated 13 August 2012. 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 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Comprises:				
- Cash at bank	7,743	3,245	9	7
- Overnight deposit	1,387	1,080	-	-
Cash and cash equivalents in statement of cash flows	9,130	4,325	9	7

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 7. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Current:				
Trade receivables	47,389	42,927	-	-
Provision for doubtful receivables	(1,049)	(793)	-	-
	46,340	42,134	-	-
Other debtors and prepayments	6,891	7,404	-	-
Share plan loans receivable from employees	170	163	-	-
Due from associates (Note 25)	-	73	-	-
Income tax receivable	-	-	1,087	1,037
	53,401	49,774	1,087	1,037
Non-current:				
Share plan loans receivable from employees	236	85	-	-
Other debtors	438	-	-	-
Due from subsidiary (Note 25)	-	-	162,183	158,087
	674	85	162,183	158,087

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	
	2012 $000	2011 $000
Opening balance	793	1,176
Provision for doubtful receivables	226	94
Receivables written off	(93)	(489)
Provisions added from acquired businesses	126	-
Exchange rate movement	(3)	12
Closing balance (Note 26.1(b))	1,049	793

NOTE 8. INVENTORIES

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

	GROUP	
	2012 $000	2011 $000
Finished goods	6,068	5,628
Ticket stocks, uniforms and consumables	2,061	1,795
	8,129	7,423

The cost of inventories recognised as an expense and included in 'general and administration expenses' amounted to $9.2 million (2011: $8.7 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

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

	GROUP	
	2012 $000 Asset (Liability)	2011 $000 Asset (Liability)
Current:		
Interest rate swaps	(345)	(173)
Interest rate collars	-	(1)
	(345)	(174)
Non-current:		
Interest rate swaps	(15,234)	(6,441)
Interest rate collars	-	-
	(15,234)	(6,441)

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

	INTEREST RATE DERIVATIVES			
	NZD		AUD	
	2012 $000	2011 $000	2012 $000	2011 $000
Interest rate swaps	126,000	119,000	82,000	56,000
Interest rate collars	-	-	-	5,000
	126,000	119,000	82,000	61,000

The interest rate derivatives are 100% effective as cash flow hedges against the future interest payments of the Group (2011: 100%).

An expense of $20,000, 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 (2011: $47,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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
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
Information Management Group Limited	Information management	New Zealand
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
The Information Management Group Pty Limited (formerly Databank Technologies 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 2012

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
2012 ($000)						
Opening net book value	13,090	26,130	2,672	3,849	34,452	80,193
Additions	-	2,122	598	1,495	10,930	15,145
Acquisitions through business combinations	-	-	1,096	26	3,775	4,897
Disposals	-	-	(7)	(88)	(91)	(186)
Depreciation expense	-	(1,310)	(481)	(1,049)	(6,530)	(9,370)
Exchange rate movement	(22)	(27)	(9)	(54)	(224)	(336)
Closing net book value	13,068	26,915	3,869	4,179	42,312	90,343
As at end of year						
Cost	13,068	35,228	7,296	9,713	89,251	154,556
Accumulated depreciation	-	(8,313)	(3,427)	(5,534)	(46,939)	(64,213)
Net book value	13,068	26,915	3,869	4,179	42,312	90,343
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

Included in the cost of buildings is an amount of $2.1 million (2011: $0.04 million) in respect of assets under construction for which depreciation has not commenced. This amount also includes capitalised borrowing costs of $0.1 million (2011: $0.01 million).

The latest independent valuations of land and buildings (performed in June 2012) assess these assets to have a total value of $51.4 million. These valuations did not include any buildings under construction, which are included at cost.

Finance leases: Equipment includes items capitalised under finance leases with a cost of $0.1 million (2011: $0.1 million), together with accumulated depreciation of $0.02 million (2011: $0.01 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 2012

Compensation for equipment damaged by earthquake: Following the Christchurch earthquakes of September 2010 and February 2011, the Group's businesses incurred costs in maintaining services and reinstating damaged storage facilities. An insurance recovery relating to the earthquakes of $1.5 million has been recognised in non-recurring income (refer Note 3). Of this insurance recovery, $0.5 million was compensation for damaged equipment.

NOTE 12. INTANGIBLE ASSETS

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

	GOODWILL	BRAND NAMES	SOFTWARE	CUSTOMER RELATIONSHIPS	OTHER	TOTAL
2012 ($000)						
Opening net book value	138,034	109,569	7,596	-	808	256,007
Additions	-	-	609	-	541	1,150
Acquisition through business combinations	10,884	2,191	-	7,213	-	20,288
Amortisation expense	-	-	(1,004)	(82)	(7)	(1,093)
Exchange rate movement	(702)	(296)	(16)	(35)	(8)	(1,057)
Closing net book value	148,216	111,464	7,185	7,096	1,334	275,295
As at end of year						
Cost	148,216	111,464	11,828	7,178	1,341	280,027
Accumulated amortisation	-	-	(4,643)	(82)	(7)	(4,732)
Net book value	148,216	111,464	7,185	7,096	1,334	275,295
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

Included in the cost of software is work in progress of $0.7 million (2011: $4.1 million) for which amortisation has not commenced. There are no capitalised borrowing costs included in software work in progress as at 30 June 2012 (2011: $0.4 million).

An independent valuation of the brand names was conducted by Deloitte in July 2012. This independent report assessed the fair market value of the brand names as at 30 June 2012 to be between $187 million and $211 million.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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	
	2012 $000	2011 $000	2012 $000	2011 $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	9,315	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	70,033	87,895	87,895
Online Security Services	14,862	10,338	4,400	4,400
The Information Management Group (formerly Databank Technologies)	42,203	36,566	15,230	13,282
Shred-X	21,118	21,097	3,939	3,992
Total Information Management	78,183	68,001	23,569	21,674
Total	148,216	138,034	111,464	109,569

(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 2013. Cash flows beyond June 2013 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 5 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 2012

NOTE 13. DEFERRED TAX ASSET (LIABILITY)

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

	2012 $000	2011 $000
Deferred tax asset		
Deferred tax asset to be recovered within 12 months	-	-
Deferred tax asset to be recovered after more than 12 months	563	1,362
Balance at end of year	563	1,362

	2012 $000	2011 $000
Deferred tax liabilities		
Deferred tax liabilities to be recovered within 12 months	30	-
Deferred tax liabilities to be recovered after more than 12 months	4,523	6,570
Balance at end of year	4,553	6,570

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	INTANGIBLE ASSETS	TOTAL
2012 ($000)						
Balance at beginning of year	(9,847)	1,849	938	1,852	-	(5,208)
Transfer to income statement:						
- reduction in New Zealand tax rate	67	(2)	(13)	-	-	52
- other	1	188	98	6	-	293
Amounts relating to business combinations (Note 28)	192	20	861	-	(2,712)	(1,639)
Transferred to cash flow hedge reserve	-	-	-	2,504	-	2,504
Exchange rate movement	(3)	(13)	(7)	-	31	8
Balance at end of year	(9,590)	2,042	1,877	4,362	(2,681)	(3,990)

	PROPERTY, PLANT & EQUIPMENT	EMPLOYEE ENTITLEMENTS	ACCRUALS & PROVISIONS	DERIVATIVE FINANCIAL INSTRUMENTS	INTANGIBLE ASSETS	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)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 14. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Current:				
Trade creditors	23,958	23,218	6	4
Employee entitlements	10,572	8,567	-	-
Acquisition earn-out payments	-	2,517	-	-
Other creditors and accruals	7,388	6,892	-	-
Income tax payable	3,348	1,405	-	-
	45,266	42,599	6	4
Non-current:				
Acquisition earn-out payments	2,884	1,000	-	-
Other non-current payables	1,107	-	-	-
	3,991	1,000	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15. LEASES

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

(a) Finance lease commitments

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

	2012 $000	2011 $000
Within one year	19	17
After one year but not more than five years	59	79
After five years	-	-
Minimum lease payments	78	96
Less: future finance charges	14	23
	92	119
Classified in the balance sheet:		
Current liabilities	26	26
Non-current liabilities	66	93
	92	119

(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:

	2012 $000	2011 $000
Within one year	18,281	15,155
After one year but not more than five years	41,167	33,095
After five years	31,232	27,217
	90,680	75,467

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16. PROVISIONS

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

	2012 $000 CUSTOMER CLAIMS	2011 $000 CUSTOMER CLAIMS
Current		
Balance at beginning of year	246	232
Current year provision, net of claims paid	117	14
Balance at end of year	363	246

	LONG SERVICE LEAVE	LEASE OBLIGATIONS	TOTAL
Non-current			
2012 ($000)			
Balance at beginning of year	666	551	1,217
Current year provision	276	12	288
Amounts relating to business combinations	29	-	29
Expenses incurred	(22)	(20)	(42)
Movement in exchange rate	(11)	(2)	(13)
Balance at end of year	938	541	1,479
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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 17. UNEARNED INCOME

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

	GROUP	
	2012 $000	2011 $000
Unearned income	13,937	14,830

NOTE 18. BORROWINGS

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Non-current:				
Bank borrowings	178,971	158,222	-	-
Loans from subsidiaries (Note 25)	-	-	132,134	132,134
	178,971	158,222	132,134	132,134

(a) Security for borrowings

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

(b) Finance facilities

The following finance facilities existed at the reporting date:

	NEW ZEALAND DOLLARS		AUSTRALIAN DOLLARS	
	2012 $000	2011 $000	2012 $000	2011 $000
BNZ				
- total bank overdraft facility available	8,000	8,000	-	-
- amount of overdraft facility unused	8,000	8,000	-	-
- total loan facilities available	15,000	20,000	17,000	5,000
- maturing 9 September 2012	-	7,500	-	5,000
- maturing 1 September 2014	5,000	-	7,500	-
- maturing 1 September 2015	5,000	-	7,500	-
- maturing 9 September 2015	-	12,500	-	-
- maturing 1 September 2016	5,000	-	2,000	-
- amount of loan facilities used	13,222	14,333	14,200	3,550
- amount of loan facilities unused	1,778	5,667	2,800	1,450

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

(b) Finance facilities (continued)

	NEW ZEALAND DOLLARS 2012 $000	NEW ZEALAND DOLLARS 2011 $000	AUSTRALIAN DOLLARS 2012 $000	AUSTRALIAN DOLLARS 2011 $000
Westpac				
- total loan facilities available	55,000	35,000	36,000	60,000
- maturing 9 September 2012	-	13,125	-	60,000
- maturing 1 September 2014	19,000	-	12,000	-
- maturing 1 September 2015	18,000	-	12,000	-
- maturing 9 September 2015	-	21,875	-	-
- maturing 1 September 2016	18,000	-	12,000	-
- amount of loan facilities used	48,600	25,083	34,247	41,925
- amount of loan facilities unused	6,400	9,917	1,753	18,075
ANZ National				
- total loan facilities available	40,000	65,000	-	-
- maturing 9 September 2012	-	24,375	-	-
- maturing 1 September 2014	13,000	-	-	-
- maturing 1 September 2015	14,000	-	-	-
- maturing 9 September 2015	-	40,625	-	-
- maturing 1 September 2016	13,000	-	-	-
- amount of loan facilities used	35,378	46,584	-	-
- amount of loan facilities unused	4,622	18,416	-	-
ANZ (Australia)				
- total loan facilities available	-	-	17,000	-
- maturing 1 September 2014	-	-	4,000	-
- maturing 1 September 2015	-	-	4,000	-
- maturing 1 September 2016	-	-	9,000	-
- amount of loan facilities used	-	-	15,686	-
- amount of loan facilities unused	-	-	1,314	-
NAB (Australia)				
- total bank overdraft facility available	-	-	20	20
- amount of overdraft facility unused	-	-	20	20
- total loan facilities available	-	-	-	15,000
- maturing 9 September 2012	-	-	-	15,000
- amount of loan facilities used	-	-	-	10,425
- amount of loan facilities unused	-	-	-	4,575
Effective interest rate at 30 June as amended for interest rate hedges	8.23%	9.75%	8.17%	9.71%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

(b) Finance facilities (continued)

During August 2011, the Group negotiated a restructuring and re-pricing of its bank facilities. The new facilities, with improved pricing compared to the previous facilities, are spread equally between 3-year, 4-year and 5-year maturity, and became effective from 1 September 2011.

The Group was in compliance with all of its banking covenants throughout the year ended 30 June 2012.

In respect of the dividend paid on 30 September 2010 (during the year ended 30 June 2011), the Group obtained the written consent from its banking syndicate to exceed a distribution limitation. 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.

NOTE 19. EQUITY

	GROUP			
	2012 ORDINARY SHARES	2011 ORDINARY SHARES	2012 $000	2011 $000
Balance at beginning of year	153,628,758	153,547,484	120,713	120,488
Partly-paid ordinary shares issued	-	-	2	2
Partly-paid shares, fully paid up to ordinary shares	38,212	7,787	115	23
Employee share-based payment (Note 20)	-	-	(16)	12
Shares issued for employee share plan	170,000	30,000	483	77
(Increase) decrease in employee share plan unallocated shares	(12,240)	43,487	(34)	111
Balance at end of year	153,824,730	153,628,758	121,263	120,713

	PARENT			
	2012 ORDINARY SHARES	2011 ORDINARY SHARES	2012 $000	2011 $000
Balance at beginning of year	153,629,947	153,592,160	120,719	120,605
Partly-paid ordinary shares issued	-	-	2	2
Partly-paid shares, fully paid up to ordinary shares	38,212	7,787	115	23
Employee share-based payment (Note 20)	-	-	(17)	12
Shares issued for employee share plan	170,000	30,000	483	77
Balance at end of year	153,838,159	153,629,947	121,302	120,719

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Contributed equity

(i) Fully paid ordinary shares

As at 30 June 2012 there were 153,838,159 shares issued and fully paid (2011: 153,629,947). 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 13 September 2011, 183,716 partly-paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2011: 173,685). The issue price per share was $3.15 (2011: $2.85) 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). In May 2012, 17,211 partly-paid shares were cancelled (2011: Nil). As at 30 June 2012 there were 449,892 partly-paid shares on issue, paid up to one cent per share (2011: 321,599). 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 13 September 2011, 38,212 (2011: 7,787) 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 (2011: $3.01).

(iv) Employee Share Plan

On 13 September 2011, the Company issued 170,000 fully paid ordinary shares at $2.84 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2011: 30,000 fully paid ordinary shares at $2.56 each). In total, participating employees were provided with interest-free loans of $0.5 million to fund their purchase of the shares in the Share Plan (2011: $0.2 million). The loans are repayable over three years and repayment commenced in October 2011.

As at 30 June 2012 the Trustee held 546,955 (2011: 468,260) fully paid ordinary shares (representing 0.4% (2011: 0.3%) of all issued ordinary shares) of which 13,429 (2011: 1,189) were unallocated. These shares are held for allocation in the future.

The Employee Share Plan operates in accordance with section DC13 of the New Zealand Income Tax Act 2007 and the Trustees are appointed by the Freightways Limited Board of Directors.

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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 20. SHARE-BASED PAYMENTS

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

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

Payment of any benefit is dependent upon the achievement of agreed performance targets. Partly-paid shares (paid up to one cent per share) 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 made annually in August or September 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.

Details of allocations are as follows:

Share allocation date	1 Jan 2009	25 Aug 2009	10 Sept 2010	13 Sept 2011
Number of partly-paid shares allocated	64,784	103,357	173,685	183,716
Market price per share at date of allocation	$3.01	$2.83	$2.85	$3.15
Amount paid up per share upon allocation	$0.01	$0.01	$0.01	$0.01
Total amount paid-up upon allocation	$648	$1,034	$1,737	$1,837
Total amount paid-up upon vesting:				
- year ended 30 June 2010	$37,320	-	-	-
- year ended 30 June 2011	$23,361	-	-	-
- year ended 30 June 2012	$114,636	-	-	-
Escrow periods ended 30 June:	2009 (20%) 2010 (30%) 2011 (50%)	2012 (100%)	2013 (100%)	2014 (100%)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Total number of partly-paid shares on issue:

	2012	2011
Balance at beginning of the year	321,599	155,701
Issued during the year	183,716	173,685
Cancelled during the year	(17,211)	-
Fully paid-up during the year	(38,212)	(7,787)
Balance at end of the year	449,892	321,599
Partly-paid shares eligible to be paid-up at the end of the year	Nil	Nil

	2012 $000	2011 $000
Total amount expensed during the year for the senior executive performance share plan	158	114
Liability recognised at year end for bonuses payable to facilitate the paying-up of vested partly-paid shares	198	130

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 2012

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

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Profit for the year	37,005	29,899	27,793	24,143
Add non-cash items:				
Depreciation & software amortisation	10,463	9,782	-	-
Movement in provision for doubtful debts	133	(299)	-	-
Movement in deferred income tax	(3,899)	188	-	-
Net loss on disposal of fixed assets	12	331	-	-
Net foreign exchange loss (gain)	(43)	21	-	-
Movement in derivative fair value	20	47	-	-
Transactions settled through loans from subsidiary	-	-	(28,672)	(25,032)
Items not included in profit for the year:				
Cash flow hedges taken directly to equity	6,440	(571)	-	-
Movement in working capital, net of effects of acquisitions of businesses:				
Decrease (increase) in trade and other receivables	(4,420)	(4,111)	-	60
Decrease (increase) in inventories	(706)	354	-	-
Increase (decrease) in trade and other payables	(1,852)	2,032	1	5
Increase (decrease) in income taxes payable	1,943	(250)	(50)	(68)
Net cash inflows (outflows) from operating activities	45,096	37,423	(928)	(892)

NOTE 22. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had made capital commitments to purchase or construct buildings and equipment for $1.7 million at 30 June 2012 (2011: $5.1 million), principally relating to the refurbishment of operating facilities in Auckland.

The Company had no commitments for property, plant and equipment at 30 June 2012 (2011: Nil).

As at 30 June 2012, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $1.8 million (2011: $1.8 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 2012 (2011: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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	
	2012	2011
Profit for the year ($000)	37,005	29,899
Weighted average number of ordinary shares ('000):	153,796	153,622
Basic earnings per share (cents)	24.1	19.5

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	
	2012	2011
Profit for the year ($000)	37,005	29,899
Weighted average number of ordinary shares ('000):	153,796	153,622
Effect of dilution	450	322
Diluted weighted average number of ordinary shares ('000):	154,246	153,944
Diluted earnings per share (cents)	24.0	19.4

* Basic and diluted earnings per share calculated on the profit for the year, excluding non-recurring Christchurch earthquake insurance claim proceeds and direct costs incurred, are 23.4 cents and 23.3 cents, respectively (2011: 20.3 cents for both basic and diluted earnings).

NOTE 24. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 30 June 2012 was ($0.62) (2011: ($0.52)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 25. TRANSACTIONS WITH RELATED PARTIES

Loan to subsidiary: During the year net advances of $24 million were made to the Company by FEL (2011: $23 million), which together with $28 million (2011: $25 million) of dividends receivable from FEL, resulted in a loan to subsidiary balance as at year end of $162 million (2011: $158 million). The receivable balance is set out in Note 7. This loan is repayable on demand upon receipt of at least 12 months' notice. 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. This loan is repayable on demand upon receipt of at least 12 months' notice. There is no interest payable on this loan.

Intra-group transactions: During the year the Company received $28 million (2011: $25 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 and Contact Energy Limited.

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. During the period, the other JV partners repaid the $0.1 million balance of their outstanding advances. As at 30 June 2012 there were no amounts due from associates (2011: $0.1 million).

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	
	2012 $000	2011 $000	2012 $000	2011 $000
Short-term employee benefits	4,908	4,590	405	371
Long-term employee benefits	-	-	-	-
Post-employment benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments (Note 20)	198	130	198	130

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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-month 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
2012 ($000)						
Bank borrowings	6,489	6,489	12,978	217,906	-	243,862
Trade & other payables	38,753	8,747	1,199	546	-	49,245
Finance lease liabilities	13	13	26	40	-	92
Derivative financial instruments*	2,361	2,310	3,983	6,656	2,136	17,446
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

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 2012

(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	
	2012 $000	**2011 $000**
Cash and cash equivalents	9,130	4,325
Trade and other receivables	50,323	46,432
	59,453	50,757

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:

	2012 $000	**2011 $000**
Current	37,732	36,096
31-60 days over standard terms	7,068	5,048
60-90 days over standard terms	1,210	1,014
91+ days over standard terms	1,379	769
	47,389	42,927

The Group has $8.6 million (2011: $6.0 million) of financial assets that are overdue and not impaired.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

(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 2012 the Group had Australian dollar denominated bank borrowings of AUD64,133,000 (2011: AUD55,900,000). Of these borrowings, AUD14,200,000 (2011: 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 re-priced 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 year's 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Sensitivity Analysis

		INTEREST RATE MOVEMENT				NZD/AUD MOVEMENT
		IMPACT ON PROFIT		IMPACT ON EQUITY		IMPACT ON LIABILITIES & EQUITY
	CARRYING AMOUNTS	+100 BASIS POINTS	-100 BASIS POINTS	+100 BASIS POINTS	-100 BASIS POINTS	+ OR - 10% (FROM NZD1: AUD0.80)
2012 ($000)						
Financial assets						
Cash and cash equivalents	9,130	66	(66)	66	(66)	-
Trade & other receivables	53,513	-	-	-	-	-
Financial liabilities						
Borrowings	178,971	(1,289)	1,289	(1,289)	1,289	1,614/(1,972)
Derivative financial instruments	15,579	1,076	(1,076)	6,184	(6,508)	-
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)	-

(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.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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
2012				
Liabilities				
Derivative financial instruments – interest rate swaps	-	15,579	-	15,579
Total liabilities	-	15,579	-	15,579
2011				
Liabilities				
Derivative financial instruments – interest rate swaps	-	6,615	-	6,615
Total liabilities	-	6,615	-	6,615

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 prior year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 27. FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets, as per balance sheet

	LOANS AND RECEIVABLES		DERIVATIVES USED FOR HEDGING		TOTAL	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Group:						
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables (excluding prepayments)	50,558	46,664	-	-	50,558	46,664
Cash and cash equivalents	9,130	4,325	-	-	9,130	4,325
Total	59,688	50,989	-	-	59,688	50,989
Parent:						
Derivative financial instruments	-	-	-	-	-	-
Trade and other receivables (excluding prepayments)	162,183	158,087	-	-	162,183	158,087
Cash and cash equivalents	9	7	-	-	9	7
Total	162,192	158,094	-	-	162,192	158,094

(b) Liabilities, as per balance sheet

	DERIVATIVES USED FOR HEDGING		OTHER FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Group:						
Borrowings (excluding finance lease liabilities)	-	-	178,971	158,222	178,971	158,222
Finance lease liabilities	-	-	92	119	92	119
Derivative financial instruments	15,579	6,615	-	-	15,579	6,615
Trade and other payables	-	-	45,909	42,193	45,909	42,193
Total	15,579	6,615	224,972	200,534	240,551	207,149
Parent:						
Borrowings (excluding finance lease liabilities)	-	-	132,134	132,134	132,134	132,134
Finance lease liabilities	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Trade and other payables	-	-	5	4	5	4
Total	-	-	132,139	132,138	132,139	132,138

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 was comprised of initial payments totalling $11.3 million, which were paid during the year ended 30 June 2008, and a further amount payable to the Shred-X vendors based on the earnings achieved for the year ended 30 June 2011. The final earn-out payment of approximately $2.3 million was made to the Shred-X vendors in September 2011.

Iron Mountain New Zealand Limited ('IMNZ')

During October 2011, the Group acquired 100% of IMNZ, a company operating in the New Zealand information management market, for a total of approximately $13 million. This acquired subsidiary is now operating within the Group's information management division. A summary of this acquisition is set out below.

The goodwill of $4.5 million arising from the acquisition is attributable to intellectual property obtained and economies of scale expected from integrating IMNZ into the operations of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The contribution of IMNZ to the Group results for the year ended 30 June 2012 was revenue of $7.3 million and operating profit before interest and income tax of $1.2 million, after expensing integration costs of $0.4 million for the year.

If IMNZ had been acquired at the beginning of the year, the contribution to revenue and operating profit for the period before interest and income tax is estimated at $10 million and $2.1 million, respectively, excluding integration costs of $0.4 million for the year.

Details of net assets acquired are as follows:

	$000
Purchase consideration	
Cash paid during the period	13,041
Fair value of assets and liabilities arising from the acquisition	
Cash and cash equivalents	262
Trade receivables and prepayments	1,458
Inventories	6
Leasehold alterations, plant & equipment	4,858
Customer relationships	5,444
Goodwill	4,524
Trade payables, other payables and provisions	(2,937)
Deferred tax liability	(574)
	13,041

Filesaver

During December 2011, the Group acquired the business and assets of Filesaver, a specialist document storage, archiving and imaging business in Australia. This acquired business has been integrated into the Group's information management division. The purchase price of up to $8.4 million will be paid over three years. An initial payment of $6 million was made and an earn-out of up to $2.4 million may be payable in September 2014, subject to the achievement of specific earnings targets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

The goodwill of $6.1 million arising from the acquisition is attributable to intellectual property obtained and economies of scale expected from integrating Filesaver into the operations of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The contingent consideration arrangement requires the Group to pay the former owners of Filesaver a further payment based on the financial performance for the 2014 financial year, up to a maximum discounted amount of $1.9 million.

The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between nil and $2.4 million.

The contribution of Filesaver to the Group results for the year ended 30 June 2012 was revenue of $1.0 million and operating profit before interest and income tax of $0.3 million, after expensing integration and acquisition costs of $0.2 million for the year.

If Filesaver had been acquired at the beginning of the year, the contribution to revenue and operating profit for the year before interest and income tax is estimated at $1.6 million and $0.6 million, respectively.

Details of net assets acquired are as follows:

	$000
Purchase consideration	
Cash paid during the period	6,021
Fair value of future earn-out payment	1,941
Total purchase consideration	7,962
Fair value of assets and liabilities arising from the acquisition	
Other assets	22
Plant & equipment	39
Brand name	2,191
Customer relationships	839
Goodwill	6,081
Trade and other payables	(424)
Deferred tax liability	(786)
	7,962

Metrofile

During February 2012, the Group acquired the business and assets of Metrofile, a document storage business in Australia, for a total of $0.9 million. A summary of this acquisition is set out below.

The goodwill of $0.3 million arising from the acquisition is attributable to intellectual property obtained and economies of scale expected from integrating Metrofile into the operations of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The contribution of Metrofile to the Group results for the year ended 30 June 2012 was revenue of $0.3 million and operating loss before interest and income tax of $0.4 million, after expensing integration and acquisition costs of $0.4 million for the year.

If Metrofile had been acquired at the beginning of the year, the contribution to revenue and operating profit for the year before interest and income tax is estimated at $0.8 million and $0.2 million, respectively, excluding integration costs of $0.4 million for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

Details of net assets acquired for Metrofile are as follows:

	$000
Purchase consideration	
Cash paid during the period	930
Fair value of assets and liabilities arising from the acquisition	
Customer relationships	930
Goodwill	279
Deferred tax liability	(279)
	930

Universal Mail

In November 2010, the Group acquired the business and assets of Universal Mail, a small New Zealand domiciled international postal service provider. This acquired business has been integrated into the Group's express package & business mail division. Payment of the purchase price is staged over three years, with initial payments in total of $1.9 million being made in the year ended 30 June 2011, as disclosed in the 30 June 2011 Annual Report. Two additional earn-out payments were payable upon achievement of agreed annual earnings performance for the periods ended 31 December 2011 and 30 June 2013. The agreed annual earnings performance for the period ended 31 December 2011 was not met and the estimated payment of $0.3 million recorded in the balance sheet as at 30 June 2011 for the first earn-out payment has been reversed during the year ended 30 June 2012. The second potential earn-out payment of $1m payable upon achievement of agreed annual earnings performance for the year ended 30 June 2013 is still expected to be paid and remains in the balance sheet as an accrual.

The acquisition accounting for IMNZ, Filesaver and Metrofile acquisitions has been determined on a provisional basis. The fair value of assets and liabilities acquired, including identified intangible assets, will be finalised within 12 months from acquisition and upon confirmation of certain determinants.

NOTE 29. SIGNIFICANT EVENTS AFTER BALANCE DATE

Dividend declared

On 13 August 2012, the Directors declared a fully imputed final dividend of 9.5 cents per share (approximately $14.6 million) in respect of the year ended 30 June 2012. The dividend will be paid on 1 October 2012. The record date for determination of entitlements to the dividend is 14 September 2012.

Acquisition of Dataprint

On 2 July 2012, Freightways acquired the business and assets of Dataprint NZ Limited (Dataprint), a full-service, New Zealand-based mailhouse that provides its customers with both physical and digital solutions for their transactional and marketing mail. The initial purchase price paid for Dataprint was $3 million, with a further $3.5 million payable over a three-year period, subject to performance targets being achieved. Incremental annual EBITDA of $1 million is expected to be generated in the first full year of Freightways' ownership. The initial accounting for the business combination is incomplete at the time these financial statements are authorised for issue, given the short period of ownership. The fair value of assets and liabilities acquired, including identifiable intangible assets, will be disclosed in the financial statements for the half year ending 31 December 2012 on a provisional basis and finalised by 30 June 2013.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 External Reporting Board (XRB) 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 2015). The major changes under the standard are:

- NZ IFRS 9 replaces the multiple classification and measurement models in NZ IAS 39 *Financial Instruments: Recognition and Measurement* with a single model that has two classification categories: amortised cost and fair value;
- a financial asset is measured at amortised cost if two criteria are met: (a) the objective of the business model is to hold the financial assets for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent the payment of principal and interest;
- when a financial asset is eligible for amortised cost measurement, an entity can elect to measure it at fair value if it eliminates or significantly reduces an accounting mismatch;
- no bifurcation of an embedded derivative where the host is a financial asset;
- equity instruments must be measured at fair value, however an entity can elect on initial recognition to present the fair value changes on equity investments directly in other comprehensive income. There is no subsequent recycling of fair value gains and losses to profit and loss, however dividends from such investments will continue to be recognised in profit and loss; and
- when an entity holds a tranche in a waterfall structure it must determine the classification of that tranche by looking through to the assets ultimately underlying that portfolio and assess the credit quality of the tranche compared with the underlying portfolio. If an entity is unable to look though, then the tranche must be measured at fair value.

The Group intends to adopt NZ IFRS 9 from 1 July 2015.

- 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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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.

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 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 XRB 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 2012

	NUMBER OF HOLDERS	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
Size of shareholding			
1 to 1,999	1,996	2,324,823	1.51
2,000 to 4,999	2,510	7,802,486	5.07
5,000 to 9,999	1,607	10,641,639	6.92
10,000 to 49,999	1,137	19,127,031	12.43
50,000 to 99,999	42	2,747,889	1.79
100,000 to 499,999	35	6,608,040	4.30
500,000 to 999,999	9	6,230,211	4.05
1,000,000 and over	12	98,356,040	63.93
Total shareholders	7,348	153,838,159	100.00
Geographic distribution			
New Zealand	7,220	151,518,767	98.49
Australia	75	2,088,104	1.36
Other	53	231,288	0.15
	7,348	153,838,159	100.00

Substantial security holders as at 31 July 2012

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	9,615,901	6.25%
Fisher Funds Management Limited	7,877,245	5.12%
AMP Capital Investors (New Zealand) Limited	8,878,460	5.77%

The total number of issued voting securities of the Company as at 31 July 2012 was 153,838,159.

SHAREHOLDER INFORMATION

Top twenty registered shareholders of listed shares as at 31 July 2012

	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
HSBC Nominees (New Zealand) Limited <HKBN45> *	12,912,570	8.39
TEA Custodians Limited <TEAC40> *	10,654,109	6.93
JPMorgan Chase Bank <CHAM24> *	8,394,678	5.46
Accident Compensation Corporation <ACCI40> *	7,097,959	4.61
FNZ Custodians Limited	6,774,053	4.40
Private Nominees Limited <PBNK90> *	6,022,221	3.91
Custody And Investment Nominees Limited <A/C TEAC65> *	4,820,541	3.13
New Zealand Superannuation Fund Nominees Limited <SUPR40> *	4,775,569	3.10
AMP Investments Strategic Equity Growth Fund *	3,501,009	2.28
Port Devon Limited	3,453,469	2.24
Custodial Services Limited <A/C 3>	3,165,851	2.06
National Nominees New Zealand Limited <NNLZ90> *	2,310,261	1.50
Premier Nominees Ltd – Onepath Wholesale Australasian Shr Fund <PNAS90> *	2,263,352	1.47
Citibank Nominees (New Zealand) Limited <CNOM90> *	2,136,244	1.39
Investment Custodial Services Limited <A/C C>	1,856,038	1.21
Forsyth Barr Custodians Limited <1-33>	1,815,096	1.18
Lucerne Road Investments Limited	1,652,896	1.07
NZGT Nominees Limited - AIF Equity Fund - A/C *	1,538,501	1.00
Cogent Nominees (NZ) Limited *	1,394,669	0.91
Custodial Services Limited <A/C 1>	1,323,654	0.86
	87,862,740	57.10

* held through NZ Central Securities Depository Limited

Waiver granted by NZX, applicable as at 30 April 2012:

The Company obtained a waiver from NZX from the application of Listing Rule 7.6.1 to allow the Company to redeem its own shares where, under the terms of the Freightways Senior Executive Performance Share Plan, it is obliged or entitled to do so.

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 2012 financial year:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sue Sheldon	11	11
Dean Bracewell	11	11
Sir William Birch	11	11
Roger Corcoran	11	11
Kim Ellis	11	11
Mark Verbiest	11	11

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	5	5
Sir William Birch	5	5
Kim Ellis	5	5
Sue Sheldon	5	5

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	3	3
Roger Corcoran	3	3
Sue Sheldon	3	3

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

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.

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
www.dataprint.co.nz

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

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

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

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

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

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

Shred-X Pty Limited
PO Box 1184
Oxenford
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AUSTRALIA
Telephone: +61 1 300 667 555
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PO Box 984
Chatswood
New South Wales 2057
AUSTRALIA
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