HALF YEAR REPORT | DECEMBER 2004

Freightways

Freightways

New Zealand Couriers
www.nzcouriers.co.nz

Post Haste Couriers
www.posthaste.co.nz

Castle Parcels
www.castleparcels.co.nz

SUB60
www.sub60.co.nz

Security Express
www.securityexpress.co.nz

DX Mail
www.dxmail.co.nz

Parceline Express

Air Freight NZ

Fieldair Engineering
www.fieldair.co.nz

Online Security Services
www.onlinesec.co.nz

Data Security Services
www.datasecurity.co.nz

Archive Security
www.onlinerecords.co.nz

Document Destruction Service
www.destruction.co.nz

Freightways Information Services

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

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

The Directors are pleased to present the financial results for Freightways Limited (Freightways) for the half year ended 31 December 2004. These results have been subject to an independent review by our auditors, PricewaterhouseCoopers.

Consolidated operating revenue of $117 million for the half year was 10% higher than the prior corresponding period.

Earnings Before Interest Tax and Amortisation (EBITA) of $26 million for the half year was 28% higher than the prior corresponding period.

Consolidated net profit after tax and minority interests of $11 million for the half year was 46% higher than the prior corresponding period.

Cash generated from operations was $28 million, up 38% on the prior corresponding period and 25% above the projected operating cash flows stated in the August 2003 Investment Statement and Prospectus.

The Directors have declared a dividend of $9.45 million reflecting the strong interim result. This dividend translates to 7.5 cents per share fully imputed, which will be paid on 31 March 2005. The record date for determination of entitlements to the dividend is 18 March 2005.

The half year result to 31 December 2004 reflects another record period for Freightways in which all its businesses have contributed improved profitability.

REVIEW OF OPERATIONS

Express Package

The express package businesses contribute the majority of Freightways' revenue and earnings. Results from all our brands of New Zealand Couriers, Post Haste Couriers, Castle Parcels, SUB60 and Security Express were significantly ahead of the prior half year. The favourable domestic economy and the positive characteristics of the express package niche of the transport industry continue to create growth opportunities.

Volume growth through increased activity from existing customers and some market share gains have been the primary drivers of revenue growth. There has also been some small pricing and margin improvement. All express package businesses increased their earnings and benefited from the leverage that is gained by adding revenue to Freightways' established national infrastructure.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

Investment in capacity in a broad range of areas has occurred, including larger purpose-built leased facilities in key locations, the lease of an additional aircraft, new telecommunications equipment at our main Auckland site and stage one of migrating our IT system to a next-generation information systems operating environment. All these initiatives are designed to further enhance customer service and are within Freightways' expected level of expenditure.

Business Mail

DX Mail has performed very well with sound revenue growth in comparison to the previous half year. Of particular note is the development of DX Mail's domestic mail delivery network. This network is designed to offer business mail customers a competitive choice against NZ Post. Although still in its infancy the domestic street delivery network is contributing to the overall improved result of DX Mail.

Information Management

The information management brands of Document Destruction Services, Archive Security and Data Security Services have again delivered a greatly improved result. Although the prices we obtain for the sale of Document Destruction Services recycled paper are lower than last year this has been mitigated by increased activity and volumes. Further uptake of Data Security Services' offer and increased utilisation of our Archive Security facilities have also contributed to a strong result.

Our market differentiation strategies are contributing to our success in this naturally growing market. The development of a purpose-built leased facility adjacent to our main Auckland operating site will see the relocation of our Auckland operations toward the end of this financial year. This new facility will create much needed capacity for our increasing records management volumes and also secures development land for future growth.

Internal service providers

The internal service providers of Fieldair Holdings (air linehaul), Parceline Express (road linehaul) and Freightways Information Services (IT) continue to support our front line brands with outstanding service. Corporate costs have been managed within expectations.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

A refinancing was completed in December to replace the relatively expensive subordinated debt with normal commercial bank facilities on more favourable terms. The annualised benefit of $500k arising from this refinancing will flow from 1 July 2005. At the same time, additional headroom of $22 million was negotiated to enable Freightways to continue to explore and develop stepped growth opportunities.

OUTLOOK

Freightways is a strong successful business that is well positioned to deliver continuing earnings growth. Freightways will continue to take consistent, well-developed strategies to the market in areas where we have proven capability. The domestic economy from Freightways' viewpoint remains favourable, as does our general operating environment. Likewise we do not expect material changes to the underlying characteristics of the express package industry that will negatively impact performance as a result of the recently announced ownership change at our major competitor.

At this stage of Freightways' annual business cycle, and subject to economic and business factors beyond our control, the outlook for Freightways, its shareholders and all other stakeholders remains positive and is expected to deliver a strong result for the full year to 30 June 2005.

The Directors acknowledge the outstanding work and dedication that continues to be shown by management and staff throughout Freightways.

Wayne Boyd
Chairman

Dean Bracewell
Managing Director

7 February 2005

PRICEWATERHOUSECOOPERS

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ACCOUNTANTS' REPORT

To the shareholders of Freightways Limited

We have reviewed the summary financial report ("financial statements") on pages 6 to 13. The financial statements provide information about the past financial performance and cash flows of the Group, comprising Freightways Limited and its subsidiaries for the half year ended 31 December 2004 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 11.

Directors' responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 31 December 2004 and its financial performance and cash flows for the half year ended on that date.

Accountants' responsibilities

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

Basis of opinion

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the half year ended 31 December 2004 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand.

We have no relationship with or interests in Freightways Limited or any of its subsidiaries other than in our capacities as accountants conducting this review and as auditors under the Companies Act 1993.

PRICEWATERHOUSECOOPERS

ACCOUNTANTS' REPORT

Review opinion

We have not reviewed the financial performance and cash flows of the Group for the half year ended 31 December 2003 and its financial position as at that date.

Based on our review, except for adjustments to the comparative figures for the half year ended 31 December 2003, if any, that might have been found to be necessary had we been able to review these figures, nothing has come to our attention that causes us to believe that the financial statements do not present fairly the financial position of the Group as at 31 December 2004 and its financial performance and cash flows for the half year ended on that date in accordance with Financial Reporting Standard No. 24.

Our review was completed on 7 February and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants, Auckland

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

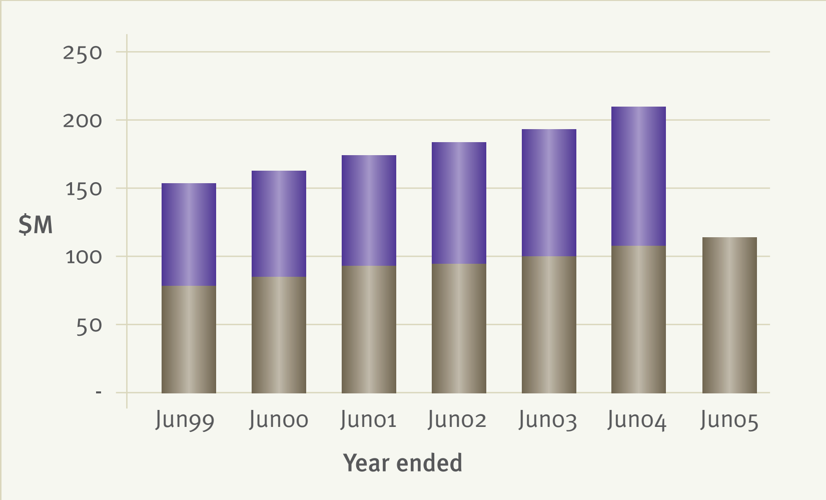
FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	6 mths ended 31 Dec 2004 Unaudited $000	6 mths ended 31 Dec 2003 Unaudited $000	Variance %
Operating revenue	117,226	106,358	10%
Other revenue	69	508	
Total revenue	117,295	106,866	10%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	28,212	22,791	24%
Depreciation	(2,212)	(2,436)	(9%)
Earnings before interest, tax and amortisation (EBITA)	26,000	20,355	28%
Amortisation of goodwill	(2,547)	(2,412)	6%
Earnings before interest and tax (EBIT)	23,453	17,943	31%
Interest	(5,278)	(3,906)	35%
Net surplus before income tax and unusual items	18,175	14,037	29%
Income tax	(6,937)	(5,516)	26%
Net surplus after income tax and before unusual items	11,238	8,521	32%
Unusual items (loss of aircraft), net of tax	-	(36)	-
Net surplus after income tax and unusual items (NPAT)	11,238	8,485	32%
Net surplus attributable to minority interest	-	(789)	-
Net surplus attributable to members of the Company	11,238	7,696	46%

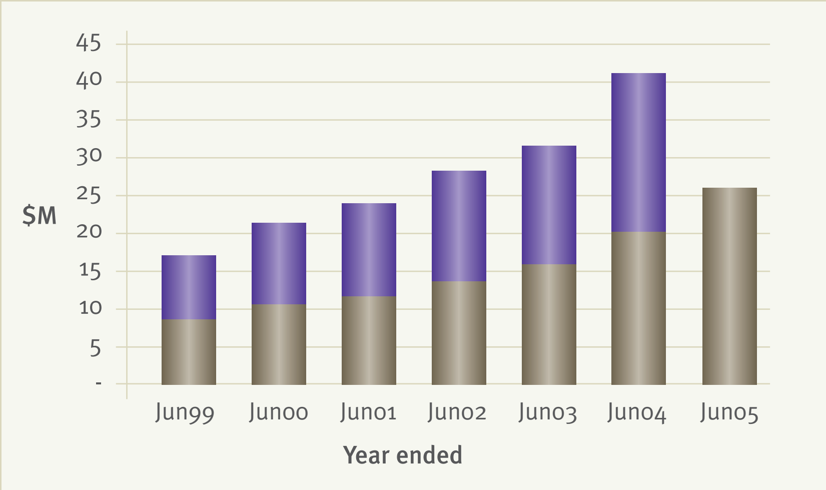
FINANCIAL SUMMARY

12 mths ended 30 Jun 2004 Audited $000
214,498
589
215,087
45,618
(4,904)
40,714
(4,944)
35,770
(8,477)
27,293
(11,156)
16,137
-
16,137
(786)
15,351

FREIGHTWAYS OPERATING REVENUE



FREIGHTWAYS EBITA



1st half   2nd half

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	6 mths ended 31 Dec 2004 Unaudited $000 INFLOWS (OUTFLOWS)	6 mths ended 31 Dec 2003 Unaudited $000 INFLOWS (OUTFLOWS)	12 mths ended 30 Jun 2004 Audited $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers	115,925	102,709	213,700
Payments to suppliers and employees	(88,088)	(82,516)	(165,517)
Cash generated from operations	27,837	20,193	48,183
Dividends received	-	1	-
Interest received	68	172	255
Interest and other costs of finance paid	(4,563)	(4,079)	(10,045)
Income taxes paid	(4,151)	(3,146)	(10,754)
Net cash inflows from operating activities	19,191	13,141	27,639
Cash flows from investing activities			
Payments for fixed assets	(3,877)	(1,528)	(4,475)
Capitalised interest	(64)	-	-
Insurance proceeds arising on loss of aircraft	-	2,381	2,381
Proceeds from sale of fixed assets	20	2	10
Proceeds from sale of business	-	385	685
Payment for business acquired	(300)	-	(7,500)
Net cash (outflows) inflows from investing activities	(4,221)	1,240	(8,899)
Cash flows from financing activities			
New bank borrowings	133,000	135,000	135,000
Repayment of bank borrowings	(136,000)	(109,955)	(109,955)
Costs of share issue	-	(499)	(499)
Dividends to minority interest	-	(1,469)	(1,466)
Distributions to minority interest on redemption of preference shares	-	(42,978)	(42,978)
Dividends to ordinary shareholders	(8,553)	-	(7,251)
Proceeds from shares fully paid	-	-	626
Net cash outflows from financing activities	(11,553)	(19,901)	(26,523)
Net increase (decrease) in cash held	3,417	(5,520)	(7,783)
Cash at beginning of period	761	8,544	8,544
Cash at end of period	4,178	3,024	761

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2004

	As at 31 Dec 2004 Unaudited $000	As at 31 Dec 2003 Unaudited $000	As at 30 Jun 2004 Audited $000
Current assets			
Cash and bank balances	4,178	3,024	761
Accounts receivable	30,132	30,857	29,274
Inventories	2,473	2,804	2,672
Total current assets	36,783	36,685	32,707
Non-current assets			
Fixed assets	44,139	40,770	43,027
Goodwill	71,932	71,236	74,179
Brand names	87,400	86,000	87,400
Deferred tax asset	937	1,050	791
Total non-current assets	204,408	199,056	205,397
Total assets	241,191	235,741	238,104
Current liabilities			
Payables and accruals	27,198	24,782	23,758
Provisions	1,050	354	947
Unearned income	16,691	15,068	16,832
Total current liabilities	44,939	40,204	41,537
Non-current liabilities			
Borrowings (secured)	128,000	131,000	131,000
Other	-	-	-
Total non-current liabilities	128,000	131,000	131,000
Total liabilities	172,939	171,204	172,537
Net assets	68,252	64,537	65,567
Shareholders' equity			
Share capital	54,671	54,045	54,671
Retained earnings	13,581	10,492	10,896
Total shareholders' equity	68,252	64,537	65,567

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2004

	6 mths ended 31 Dec 2004 Unaudited $000	6 mths ended 31 Dec 2003 Unaudited $000	12 mths ended 30 Jun 2004 Audited $000
Equity at beginning of period, comprising:			
- Ordinary shareholders' interest	65,567	40,318	40,318
- Minority interest	-	60,000	60,000
	65,567	100,318	100,318
Net surplus for the period, comprising:			
- Ordinary shareholders' interest	11,238	7,696	15,351
- Minority interest	-	789	786
Total recognised revenues and expenses	11,238	8,485	16,137
Dividends to ordinary shareholders	(8,553)	-	(7,251)
Dividends to minority interest	-	(789)	(786)
Distributions to minority interest on redemption of preference shares	-	(42,978)	(42,978)
Reduction in minority interest upon issue of ordinary shares	-	(17,499)	(17,499)
Issue of ordinary shares	-	17,499	17,499
Issue costs arising on issue of ordinary shares	-	(499)	(499)
Proceeds from unpaid shares fully paid	-	-	626
Movement in equity for the period	2,685	(35,781)	(34,751)
Equity at end of period, comprising:			
- Ordinary shareholders' interest	68,252	64,537	65,567
- Minority interest	-	-	-
	68,252	64,537	65,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2004

1. STATEMENT OF ACCOUNTING POLICIES

These unaudited interim financial statements are presented in accordance with the Companies Act 1993, the Financial Reporting Act 1993 and Financial Reporting Standard 24 and should be read in conjunction with Freightways Limited Annual Report for the year ended 30 June 2004.

The accounting policies that materially affect the recognition and measurement of financial performance, financial position and cash flows have been applied on a basis consistent with those used in the audited financial statements for the year ended 30 June 2004 and the unaudited interim financial statements for the six months ended 31 December 2003.

2. POST BALANCE DATE EVENTS

On 7 February 2005, the directors declared an interim dividend of 7.5 cents per share or $9.45 million to be paid on 31 March 2005 to the shareholders of record as at 18 March 2005. A supplementary dividend of 1.3 cents per share will be paid to overseas shareholders when the interim dividend is paid.

As at the date of this report, 977,392 unpaid shares had been converted to fully paid ordinary shares subsequent to balance date.

3. CONTINGENT LIABILITIES

There are no significant contingent liabilities relating to the Group at the date of this interim report.

4. CAPITAL COMMITMENTS

At 31 December 2004, the Group has committed to capital expenditure in relation to the restructure of its Auckland Online Security Services operations and also to the migration of its Information Systems to a next generation platform. These projects will result in a step up in capital expenditure of approximately $2 million in the 2005 financial year above Freightways' 5-year average historical capital expenditure spend of approximately $6 million. It is expected that capital expenditure will return to average historical levels in the 2006 financial year.

The Group had no other capital commitments at 31 December 2004 (2003: $nil).

5. EARNINGS PER SHARE

The basic earnings per share for the period were 9.07 cents (2003: 7.60 cents) and diluted earnings per share were 8.76 cents (2003: 7.16 cents).

6. SHARES ON ISSUE

As at 31 December 2004, 123,950,434 fully paid ordinary shares were on issue. In addition, 4,234,501 unpaid shares were on issue, of which 2,020,631 are expected to be paid up in full by 18 March 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2004

7. RECONCILIATION OF NET SURPLUS AFTER INCOME TAX WITH CASH FLOWS FROM OPERATING ACTIVITIES

	6 mths ended 31 Dec 2004 Unaudited $000	6 mths ended 31 Dec 2003 Unaudited $000	12 mths ended 30 Jun 2004 Audited $000
Net surplus after income tax	11,238	8,485	16,137
Add non-cash items:			
Depreciation	2,212	2,436	4,904
Amortisation of goodwill	2,547	2,412	4,944
Movement in employee entitlements	222	298	251
Movement in provision for doubtful debts	69	6	93
Movement in deferred income tax	146	(518)	259
Net loss (gain) on sale and write off of fixed assets	10	(332)	29
Movement in working capital:			
(Increase) Decrease in receivables	(929)	(5,233)	(3,355)
(Increase) Decrease in inventories	199	(337)	(205)
Increase (Decrease) in trade and other creditors	691	2,668	3,867
Increase (Decrease) in income taxes payable	2,786	3,256	715
Net cash inflows from operating activities	19,191	13,141	27,639

8. LEASING COMMITMENTS

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

	6 mths ended 31 Dec 2004 Unaudited $000	6 mths ended 31 Dec 2003 Unaudited $000	12 mths ended 30 Jun 2004 Audited $000
- Payable not later than one year	6,685	3,938	5,584
- Payable between one and two years	5,258	2,627	4,578
- Payable between two and five years	8,098	3,589	7,781
- Payable later than five years	10,724	1,446	9,863
	30,765	11,600	27,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2004

9. COMPARISON TO PROSPECTIVE INFORMATION

The Company issued an Investment Statement and Prospectus in August 2003 that contained a Projected Statement of Cash Flows for the six months ended 31 December 2004. The projected Statement of Cash Flows is presented below in comparison with the actual results for the half year.

	NOTE	ACTUAL $000 Inflows (Outflows)	PROJECTED $000 Inflows (Outflows)	VARIANCE $000
Cash flows from operating activities				
Receipts from customers		115,925	121,246	(5,321)
Payments to suppliers and employees		(88,088)	(98,923)	10,835
Cash generated from operations	(i)	27,837	22,323	5,514
Interest received		68	-	68
Interest and other costs of finance paid	(ii)	(4,563)	(4,304)	(259)
Income taxes paid	(iii)	(4,151)	(3,597)	(554)
Net cash inflows from operating activities		19,191	14,422	4,769
Cash flows from investing activities				
Payments for fixed assets	(iv)	(3,941)	(3,480)	(461)
Payment for business acquired	(v)	(300)	-	(300)
Proceeds from sales of fixed assets		20	-	20
Net cash outflows from investing activities		(4,221)	(3,480)	(741)
Cash flows from financing activities				
Dividends to ordinary shareholders	(vi)	(8,553)	(7,250)	(1,303)
Repayment of bank borrowings	(vii)	(3,000)	(4,000)	1,000
Net cash outflows from financing activities		(11,553)	(11,250)	(303)
Net increase (decrease) in cash held		3,417	(308)	3,725
Cash at beginning of period		761	1,680	(919)
Cash at end of period		4,178	1,372	2,806

(i) Variance in cash flows from operations reflects a net improvement against the level projected due to stronger performance.

(ii) Actual interest expense was higher than projected due to a greater increase in interest rates than anticipated during the period.

(iii) Income taxes paid have been higher than projected due to the higher level of taxable profits achieved.

(iv) As signalled in the 2004 Annual Report, specific investment in infrastructure was expected to be made in the first half of the year ended 30 June 2005 above historic levels. The projection had been closer to historical levels.

(v) A small acquisition was made in December 2004 which had not been anticipated in preparing the projection.

(vi) As a result of profits above forecast levels during the year ended 30 June 2004, a higher dividend was paid during the half year ended 31 December 2004 than projected.

(vii) As a function of slightly higher capital expenditure and a larger dividend payout in the period, the surplus cash available for repayment of bank borrowings was $1 million lower than projected.