HALF YEAR REPORT | DECEMBER 2005

Freightways

New Zealand Couriers
www.nzcouriers.co.nz

Post Haste Couriers
www.posthaste.co.nz

Freightways

Castle Parcels
www.castleparcels.co.nz

SUB60
www.sub60.co.nz

Kiwi Express Couriers
www.kiwiexpress.co.nz

Security Express

DX Mail
www.dxmail.co.nz

Parceline Express

Online Security Services
www.onlinesec.co.nz

Document Destruction Service
www.destruction.co.nz

Data Security Services
www.datasecurity.co.nz

Archive Security
www.onlinerecords.co.nz

Air Freight NZ

Fieldair Engineering
www.fieldair.co.nz

Freightways Information Services

Registered Office:
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Penrose
DX CX10120
Telephone: (09) 571 9670
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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 2005.

Consolidated operating revenue of $130 million for the half year was 11% higher than the prior corresponding period.

Earnings Before Interest Tax and Amortisation (EBITA) of $29 million for the half year was 10% higher than the prior corresponding period.

Consolidated net profit after tax and minority interests of $14 million for the half year was 20% higher than the prior corresponding period.

The Directors have declared a dividend of $10.9 million reflecting the strong interim result. This dividend translates to 8.5 cents per share fully imputed, 13% higher than the previous interim dividend, and will be paid on 31 March 2006. The record date for determination of entitlements to the dividend is 17 March 2006.

The half year result to 31 December 2005 reflects another record period for Freightways. All Freightways businesses have delivered improved year on year performance.

REVIEW OF OPERATIONS

Express Package

The express package businesses contribute the majority of Freightways' revenue and earnings. Results from the brands of New Zealand Couriers, Post Haste Couriers, Castle Parcels, SUB60 and Security Express were all ahead of the prior half year. This performance demonstrates the underlying strength of Freightways' well recognised and strongly positioned brands in the marketplace. It also demonstrates the success with which Freightways has continued to implement its growth strategies in an environment where existing customers are not growing their express package deliveries at the same rate as they have done in recent years.

Modest growth from existing customers, good market share gains and disciplined pricing strategies have all contributed to revenue growth. Included in the express package businesses' revenue growth during this period is sales revenue achieved from the recent acquisition of Kiwi Express and pricing increases that have been introduced to offset the cost impact of the exceptionally high fuel prices during this period.

Investment has occurred in a number of areas, including increased network capacity and additional personnel to assist our service quality and growth strategies. The second year of our transition to a next generation IT operating environment has been managed to budget and timetable. Customer service initiatives further enhancing Freightways' competitive advantage will leverage this new system.

The acquisition in October 2005 of Kiwi Express, a well established point-to-point courier business operating in Auckland and Wellington, has been very successful. The Kiwi Express brand has been maintained in the marketplace and will continue to operate in its own right while leveraging the existing capability of Freightways' SUB60 business. Benefits of this acquisition are being evidenced through the delivery of improved operational performance for both SUB60 and Kiwi Express customers. This has been achieved through the ability to cross-utilise a significantly greater combined fleet of couriers for urgent across town delivery. Fleet size is the primary factor in an urgent point-to-point courier business' ability to achieve 1 hour deliveries in increasingly congested cities.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

Business Mail

DX Mail has again delivered strong revenue growth in comparison to the previous half year. Demand for DX Mail's broad suite of alternative letter delivery services is continuing to grow from its targeted market of business mail customers. The development of DX Mail's domestic street mail delivery network is also progressing to plan. Although still in its infancy, the domestic street mail delivery network is contributing positively to an overall improved result for DX Mail.

Information Management

Archive Security, Document Destruction Services, and Data Security Services have again delivered a greatly improved result. Relocation of the Auckland operations into a purpose-built facility adjacent to Freightways' main operating site in Penrose was completed in October 2005. The Archive Security business in particular is experiencing significant growth, both from existing customers and from new customers who have made the decision to outsource the management of their archived documents. Consequently we have brought forward plans to extend our facilities in Auckland and Christchurch, with Wellington to follow shortly thereafter.

Internal service providers

The internal service providers of Fieldair Holdings (air linehaul/aviation engineering), Parceline Express (road linehaul) and Freightways Information Services (IT) continue to support our front line brands with outstanding service. In addition, Fieldair Engineering, the engineering arm of Fieldair Holdings that offers design, manufacturing and maintenance services to the aviation market, has experienced particularly strong growth. Corporate costs continue to be managed within expectations. Freightways' financing structure has been adequate to accommodate the growth and development of the business during this period.

OUTLOOK

Freightways will continue to take consistent, well-developed strategies to the market in areas where it has proven capability. Growth opportunities that exist in all three of its core markets will continue to be aggressively yet pragmatically pursued. It is expected that in the near term we will continue to see lower growth from our existing customers than has been experienced in recent years and that the business environment will remain challenging. Freightways' growth strategies are designed to lessen the impact of this slower growth, as has been evidenced in this half year result.

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 2006

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ACCOUNTANTS' REPORT

To the shareholders of Freightways Limited

We have reviewed the summary financial report ("financial statements") on pages 4 to 12. 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 2005 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on page 9.

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 2005 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 2005 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 the Company or any of its subsidiaries other than in our capacity as accountants conducting this review and as auditors under the Companies Act 1993.

Review opinion

Based on our review, 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 2005 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 2006 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants, Auckland

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

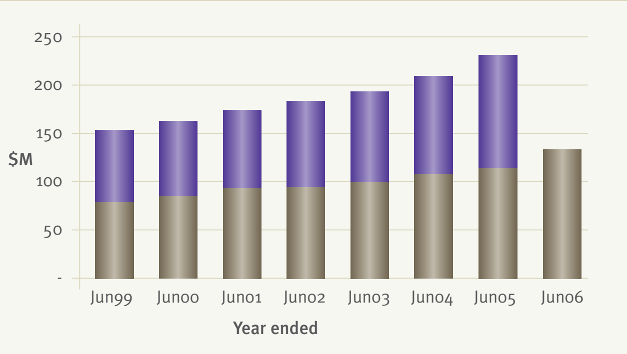
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	6 mths ended 31 Dec 2005 Unaudited $000	6 mths ended 31 Dec 2004 Unaudited $000	Variance %
Operating revenue	129,796	117,226	11%
Other revenue	105	69	
Total revenue	129,901	117,295	11%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	31,043	28,212	10%
Depreciation	(2,375)	(2,212)	7%
Earnings before interest, tax and amortisation (EBITA)	28,668	26,000	10%
Amortisation of goodwill	(2,470)	(2,547)	(3%)
Earnings before interest and tax (EBIT)	26,198	23,453	12%
Net interest expense	(4,651)	(5,278)	(12%)
Net surplus before income tax	21,547	18,175	19%
Income tax	(8,011)	(6,937)	15%
Net surplus after income tax (NPAT)	13,536	11,238	20%
Net surplus attributable to minority interest	-	-	-
Net surplus attributable to members of the Company	13,536	11,238	20%

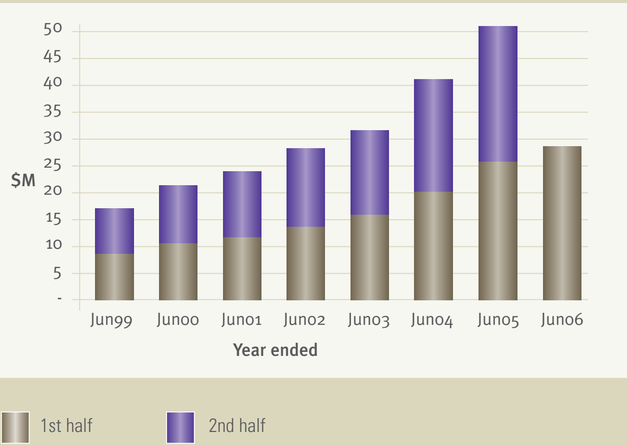
12 mths ended 30 Jun 2005 Audited $000
233,725
444
234,169
54,996
(4,457)
50,539
(4,957)
45,582
(9,893)
35,689
(13,698)
21,991
-
21,991

FINANCIAL SUMMARY

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.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	6 mths ended 31 Dec 2005 Unaudited $000 INFLOWS (OUTFLOWS)	6 mths ended 31 Dec 2004 Unaudited $000 INFLOWS (OUTFLOWS)	12 mths ended 30 Jun 2005 Audited $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers	126,918	115,925	233,371
Payments to suppliers and employees	(99,864)	(88,088)	(178,457)
Cash generated from operations	27,054	27,837	54,914
Interest received	90	68	444
Interest and other costs of finance paid	(3,964)	(4,563)	(9,506)
Income taxes paid	(5,680)	(4,151)	(14,313)
Net cash inflows from operating activities	17,500	19,191	31,539
Cash flows from investing activities			
Payments for fixed assets	(4,010)	(3,877)	(8,440)
Capitalised interest	(119)	(64)	(173)
Proceeds from sale of fixed assets	-	20	-
Payments for businesses acquired	(3,600)	(300)	(390)
Net cash outflows from investing activities	(7,729)	(4,221)	(9,003)
Cash flows from financing activities			
New bank borrowings	3,500	133,000	135,000
Repayment of bank borrowings	-	(136,000)	(139,000)
Dividends to ordinary shareholders	(10,735)	(8,553)	(18,000)
Proceeds from unpaid shares fully paid	-	-	940
Proceeds from issue of ordinary shares	107	-	-
Net cash outflows from financing activities	(7,128)	(11,553)	(21,060)
Net increase in cash held	2,643	3,417	1,476
Cash at beginning of period	2,237	761	761
Exchange rate adjustments	(2)	-	-
Cash at end of period	4,878	4,178	2,237

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2005

	As at 31 Dec 2005 Unaudited $000	As at 31 Dec 2004 Unaudited $000	As at 30 Jun 2005 Audited $000
Current assets			
Cash and bank balances	4,878	4,178	2,237
Accounts receivable	34,950	30,132	30,312
Inventories	4,127	2,473	3,524
Total current assets	43,955	36,783	36,073
Non-current assets			
Fixed assets	47,976	44,139	46,744
Goodwill	69,284	71,932	69,612
Brand names	88,800	87,400	87,400
Deferred tax asset	213	937	1,032
Total non-current assets	206,273	204,408	204,788
Total assets	250,228	241,191	240,861
Current liabilities			
Payables and accruals	26,509	27,198	24,461
Provisions	445	1,050	958
Unearned income	18,644	16,691	17,944
Total current liabilities	45,598	44,939	43,363
Non-current liabilities			
Borrowings (secured)	130,500	128,000	127,000
Other	-	-	-
Total non-current liabilities	130,500	128,000	127,000
Total liabilities	176,098	172,939	170,363
Net assets	74,130	68,252	70,498
Shareholders' equity			
Share capital	56,442	54,671	55,611
Retained earnings	17,688	13,581	14,887
Total shareholders' equity	74,130	68,252	70,498

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	6 mths ended 31 Dec 2005 Unaudited $000	6 mths ended 31 Dec 2004 Unaudited $000	12 mths ended 30 Jun 2005 Audited $000
Equity at beginning of period	70,498	65,567	65,567
Net surplus for the period	13,536	11,238	21,991
Distributions to owners			
Dividends to ordinary shareholders	(10,735)	(8,553)	(18,000)
	(10,735)	(8,553)	(18,000)
Contributions from owners			
Proceeds from unpaid shares fully paid	-	-	940
Issue of ordinary shares	831	-	-
	831	-	940
Movement in equity for the period	3,632	2,685	4,931
Equity at end of period	74,130	68,252	70,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

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 the Freightways Limited Annual Report for the year ended 30 June 2005.

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 2005 and the unaudited interim financial statements for the half year ended 31 December 2004.

2. POST BALANCE DATE EVENTS

On 7 February 2006, the directors declared an interim dividend of 8.5 cents per share or $10.9 million to be paid on 31 March 2006 to the shareholders of record as at 17 March 2006. A supplementary dividend of 1.5 cents per share will be paid to overseas shareholders when the interim dividend is paid.

As at the date of this report, 927,392 unpaid shares had been converted to fully paid ordinary shares subsequent to balance date.

3. SHAREHOLDERS' EQUITY

On 3 August 2005, the Company issued 320,000 fully paid ordinary shares at $2.70 to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan. In total, participating employees were provided with interest-free loans of $0.8 million to fund their purchase of the shares in the Share Plan. The loans are repayable over three years and repayment commenced in September 2005.

4. CONTINGENT LIABILITIES

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

5. CAPITAL COMMITMENTS

Capital commitments entered into but not accrued at balance date were $451,000. These commitments relate to various projects within the Group, including the migration of the Group's Information Systems to a next generation platform.

6. EARNINGS PER SHARE

The basic earnings per share for the period were 10.72 cents (2004: 9.07 cents) and diluted earnings per share were 10.54 cents (2004: 8.76 cents)

7. SHARES ON ISSUE

As at 31 December 2005, 126,291,065 fully paid ordinary shares were on issue. In addition, 2,163,870 unpaid shares were on issue, of which 1,970,631 are expected to be paid up in full by 17 March 2006.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

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

	6 mths ended 31 Dec 2005 Unaudited $000	6 mths ended 31 Dec 2004 Unaudited $000	12 mths ended 30 Jun 2005 Audited $000
Net surplus after income tax	13,536	11,238	21,991
Add non-cash items:			
Depreciation	2,375	2,212	4,457
Amortisation of goodwill	2,470	2,547	4,957
Movement in provision for doubtful debts	49	69	75
Movement in deferred income tax	(819)	146	241
Net loss (gain) on sale and write off of fixed assets	-	10	30
Exchange loss	2	-	-
Movement in working capital:			
(Increase) Decrease in receivables	(4,800)	(929)	(1,113)
(Increase) Decrease in inventories	(603)	199	(851)
Increase (Decrease) in trade and other creditors	3,705	913	2,127
Increase (Decrease) in income taxes payable	1,585	2,786	(375)
Net cash inflows from operating activities	17,500	19,191	31,539

9. LEASING COMMITMENTS

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

	As at 31 Dec 2005 Unaudited $000	As at 31 Dec 2004 Unaudited $000	As at 30 Jun 2005 Audited $000
- Payable not later than one year	6,810	6,685	6,697
- Payable between one and two years	5,213	5,258	5,364
- Payable between two and five years	7,924	8,098	7,967
- Payable later than five years	8,648	10,724	9,764
	28,595	30,765	29,792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

10. TRANSITION TO NEW ZEALAND EQUIVALENTS OF IFRS

It will be mandatory for the Group to comply with the New Zealand equivalents of International Financial Reporting Standards (IFRS) for its first reporting period commencing after 1 January 2007. For the Group this period will be the half year ended 31 December 2007.

Managing the transition to IFRS

In September 2004, a project was commenced to plan for the transition to IFRS. This project involved an initial assessment of the impact of IFRS on the Group's consolidated financial statements. The key differences between NZ GAAP and IFRS were identified and considered. The likely impact of implementing IFRS was determined and quantified where possible. Developments in IFRS will continue to be monitored and evaluated during the period leading up to implementation and this may identify further key differences.

Adoption of IFRS

The Group intends to adopt IFRS for the first time when reporting its interim results for the half year ended 31 December 2007. The first annual financial statements prepared under IFRS will be for the year ended 30 June 2008. In adopting IFRS, the Group will need to restate the comparatives presented in these reports. Adjustments required to restate comparatives upon adoption of IFRS will be made retrospectively against opening retained earnings.

Key differences to accounting policies

Based on the Group's current analysis of the implications of adopting IFRS, the key differences expected to arise in accounting policies are set out below, together with an estimate of the effect these changes would have on the financial statements.

Key difference identified	Potential impact
Goodwill	
The current accounting policy is to systematically amortise goodwill over the period of time, not exceeding 20 years, during which the benefits are expected to arise and to subject the carrying amount of goodwill to an annual impairment test. Under IFRS, goodwill will no longer be systematically amortised, but will remain subject to an annual impairment test.	Goodwill amortisation will not be charged to the Statement of Financial Performance and therefore net surplus before and after tax will increase. For the half year ended 31 December 2005, the amount of that increase would have been $2.4 million. As at 31 December 2005, there had been no impairment of the carrying amount of goodwill on the Statement of Financial Position. Accordingly, the recorded intangible asset of goodwill under IFRS would have been $2.4 million higher, as there would have been no amortisation and there was no impairment loss applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2005

Key difference identified	Potential impact
Financial instruments	
Under current accounting policy, the Group's derivative financial instruments, which are all interest rate hedging instruments, are not carried on the Statement of Financial Position. Their current market value is disclosed by way of note only. IFRS requires all financial instruments, including derivatives, to be recognised in the Statement of Financial Position.	Under IFRS, recording the fair value of the interest rate hedging instruments on the Statement of Financial Position as at 31 December 2005 would result in both Total Assets and Equity increasing by $814,118. As the Group's interest rate hedging instruments are all considered effective hedges as at 31 December 2005, there would be no impact on the Statement of Financial Performance for the year ending on that date.
Income tax	
Currently the accounting policy for income tax is to calculate income tax expense in the Statement of Financial Performance based on the accounting surplus adjusted for permanent differences between accounting and tax rules. The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset on the Statement of Financial Position. IFRS requires the comparison of the Statement of Financial Position carrying values with the tax base values to determine the deferred tax liability or asset to be recorded on the Statement of Financial Position. The movement in the deferred tax balances for the period will be recorded as the tax expense in the Statement of Financial Performance.	A comparison of the Statement of Financial Position carrying values with the tax base values as at 31 December 2005 indicated that if IFRS had been applied as at balance date there would be no additional deferred tax balances to be recognised. As the current movement in the deferred tax balances for the year would be unchanged under IFRS, the tax expense would also be unchanged and therefore there would be no impact on the Statement of Financial Performance.

The actual effect of adopting IFRS may vary from the information presented, and that variation may be material.

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

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

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

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

Online Security Services Limited
33 Botha Road
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DX EX10975
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www.onlinesec.co.nz

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PALMERSTON NORTH
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www.fieldair.co.nz