HALF YEAR REPORT | DECEMBER 2006

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

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

Databank
www.databanktech.com

Air Freight NZ

Fieldair Engineering
www.fieldair.co.nz

Freightways Information Services

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Penrose
DX CX10120
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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 2006.

Consolidated operating revenue of $144 million for the half year was 11% higher than the prior corresponding period.

Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) of $33 million for the half year was 6% higher than the prior corresponding period.

Consolidated net profit after tax and before amortisation of $16.5 million for the half year was 3% higher than the prior corresponding period.

The Directors have declared a dividend of $11.6 million reflecting this sound interim result. This dividend translates to 9.0 cents per share fully imputed and will be paid on 31 March 2007. The record date for determination of entitlements to the dividend is 16 March 2007.

The half year result to 31 December 2006 reflects another strong period for Freightways that has continued to deliver upon its strategy in spite of the challenging business environment.

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, Kiwi Express and Security Express were sound with revenue growth contributing to offset the higher cost of doing business during this period. Overall the express package consolidated earnings result is on par with the prior half year. This performance, despite lighter activity from existing customers, demonstrates the underlying strength of Freightways' well recognised and strongly positioned brands in the marketplace.

Key initiatives during this period have included the initial implementation of in-van data capture that provides customers with access to real time service information and the agreement with Qantas to market its same day domestic freight capacity on the network of services it operates in New Zealand. While New Zealand's same day market is relatively small, this new service further extends Freightways' existing suite of express package services.

Business Mail

DX Mail has continued to build its presence in its targeted business mail niche of the Postal Services market. DX Mail's focus on the service needs of business is being rewarded with growing demand for the services it provides. Revenue and earnings have again increased during this period.

In late December, DX Mail acquired the franchisor rights of the Pete's Post mail delivery business that operates in Taranaki, Manawatu, Wanganui, Hawkes Bay and the Bay of Plenty. The services provided by this business are complementary with those already offered by DX Mail in other regions of New Zealand and will contribute to the accelerated development of DX Mail's own nationwide street delivery network.

Information Management

Subsequent to the acquisition of DataBank in Australia, Freightways now operates information management businesses on both sides of the Tasman. In New Zealand we offer secure data and document storage and destruction services through our well established brands of Data Security Services, Archive Security and Document Destruction Services. All three of these services are showing sound growth as demand for the professional management of business information continues to increase. Our investment in the future of this business has recently included the purchase of our second Wellington site that houses one of our existing facilities and also provides adjacent expansion land. Upon development, this expansion land will more than double our current storage capacity at this site.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

In Australia, the acquisition of DataBank has delivered against all initial expectations. DataBank currently operates in the data storage niche of the information management market in Sydney and Melbourne. As well as delivering good quality revenue and earnings growth, it has also assisted investigation into other growth opportunities in the Australian market. This has resulted in the expansion of DataBank into the Brisbane market with a start-up operation that leverages existing data storage customers that had previously been outsourced to an agent. In addition to data storage, we have also made the decision to invest in the capacity and capability to enable the provision of document storage services in this new Brisbane operation.

Internal service providers

Fieldair Holdings, through its Air Freight New Zealand subsidiary, has continued to support Freightways' front line businesses with an outstanding service. The capacity that exists within our fleet of dedicated freighter aircraft is sufficient to accommodate the continued growth of our core express package business well into the future. Fieldair Engineering provides engineering support to our own aircraft and also to the general aviation market in New Zealand. Externally generated revenue from this business was lower than the prior year as major overhaul work was not repeated.

Freightways Corporate costs continue to be managed to expectation. During this period debt funding has been used to acquire DataBank, Pete's Post and the Wellington information management site.

OUTLOOK

The growth of Freightways' core express package businesses will continue to be influenced by the performance of New Zealand's domestic economy. In more recent times we have seen some improving of activity amongst our existing customer base that had in the previous 18 months been showing signs of slowing down. DX Mail is expected to continue to contribute growth as it realises the opportunities both in its market and as a result of its recent acquisition. Our information management businesses are also expected to continue to grow and as such we will continue to invest in their development. Cost pressures are expected to moderate in the near term, particularly in regard to fuel, although the cost of fuel is still well above historic levels.

Acquisitions and alliance opportunities will continue to be investigated in all three Freightways' market segments where we have proven capability.

The business environment, particularly in regard to the express package businesses, is expected to remain challenging in the near term.In the medium to longer term, and subject to business factors beyond its control, Freightways remains exceptionally well positioned in all aspects of its business to continue to deliver positive performance to its shareholders and all other stakeholders.

CONCLUSION

Freightways has again delivered sound financial performance in a challenging period. Growth opportunities and service enhancement initiatives continue to be developed in all three market segments. Freightways' core express package business will in the near term continue to be influenced by a challenging business environment, albeit expectations are of continued sound performance. Freightways' emerging business mail and information management operations are expected to continue to show good positive growth.

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

Wayne Boyd
Chairman
7 February 2007

Dean Bracewell
Managing Director

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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 2006 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 2006 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 2006 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.

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 2006 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 2007 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants, Auckland

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

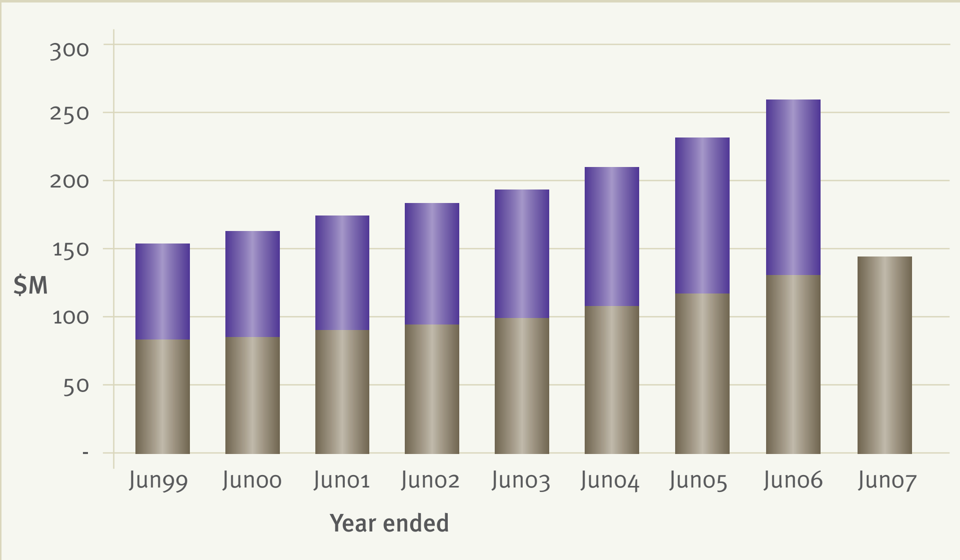
FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	6 mths ended 31 Dec 2006 Unaudited $000	6 mths ended 31 Dec 2005 Unaudited $000	Variance %
Operating revenue	144,273	129,796	11%
Other revenue	126	105	
Total revenue	144,399	129,901	11%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	32,991	31,043	6%
Depreciation	(3,264)	(2,375)	37%
Earnings before interest, tax and amortisation (EBITA)	29,727	28,668	4%
Amortisation of goodwill	(2,833)	(2,470)	15%
Earnings before interest and tax (EBIT)	26,894	26,198	3%
Net interest expense	(5,271)	(4,651)	13%
Net surplus before income tax	21,623	21,547	-
Income tax	(7,970)	(8,011)	(1%)
Net surplus after income tax attributable to shareholders	13,653	13,536	1%

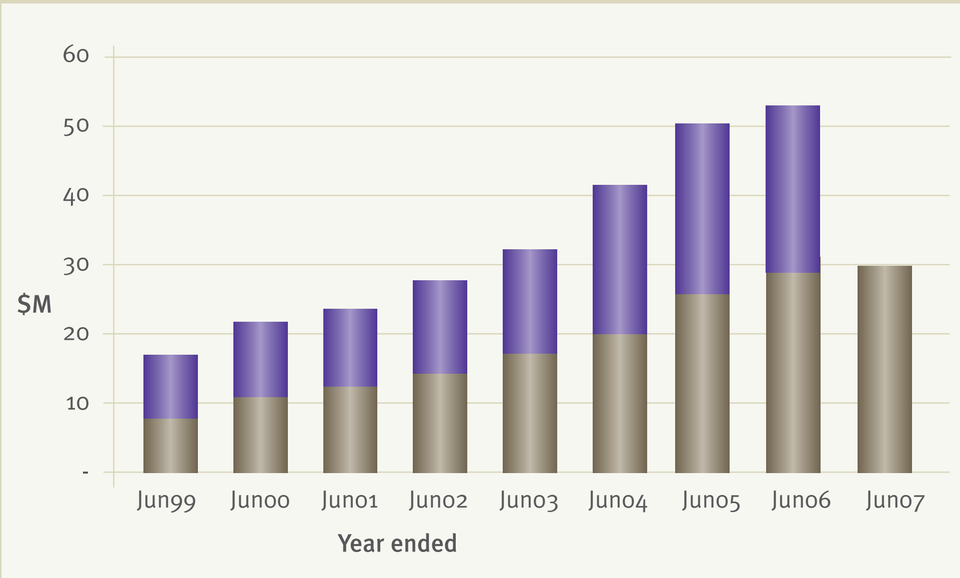
FINANCIAL SUMMARY

12 mths ended 30 Jun 2006 Audited $000
256,689
173
256,862
58,318
(4,958)
53,360
(4,970)
48,390
(9,347)
39,043
(14,737)
24,306

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 2006

	6 mths ended 31 Dec 2006 Unaudited $000 INFLOWS (OUTFLOWS)	6 mths ended 31 Dec 2005 Unaudited $000 INFLOWS (OUTFLOWS)	12 mths ended 30 Jun 2006 Audited $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers	140,124	127,025	255,797
Payments to suppliers and employees	(111,377)	(99,864)	(202,497)
Cash generated from operations	28,747	27,161	53,300
Interest received	119	90	152
Interest and other costs of finance paid	(4,978)	(3,964)	(8,786)
Income taxes paid	(4,361)	(5,680)	(14,174)
Net cash inflows from operating activities	19,527	17,607	30,492
Cash flows from investing activities			
Payments for fixed assets	(11,826)	(4,129)	(7,486)
Proceeds from disposal of fixed assets	35	-	59
Payments for businesses acquired	(22,012)	(3,600)	(3,959)
Net cash outflows from investing activities	(33,803)	(7,729)	(11,386)
Cash flows from financing activities			
Increase (decrease) in bank borrowings	23,858	3,500	1,000
Dividends to ordinary shareholders	(11,255)	(10,735)	(21,637)
Proceeds from unpaid shares fully paid	-	-	942
Net cash inflows (outflows) from financing activities	12,603	(7,235)	(19,695)
Net increase (decrease) in cash held	(1,673)	2,643	(589)
Cash at beginning of period	1,652	2,237	2,237
Cash acquired through acquisition of businesses	468	-	-
Exchange rate adjustments	(16)	(2)	4
Cash at end of period	431	4,878	1,652

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2006

	As at 31 Dec 2006 Unaudited $000	As at 31 Dec 2005 Unaudited $000	As at 30 Jun 2006 Audited $000
Current assets			
Cash and bank balances	431	4,878	1,652
Accounts receivable	40,843	34,488	33,417
Inventories	5,892	4,127	5,536
Total current assets	47,166	43,493	40,605
Non-current assets			
Accounts receivable	463	462	293
Fixed assets	58,716	47,976	49,097
Goodwill	78,196	69,284	67,356
Brand names	95,534	88,800	88,800
Deferred tax asset	-	213	-
Total non-current assets	232,909	206,735	205,546
Total assets	280,075	250,228	246,151
Current liabilities			
Payables and accruals	29,912	26,509	23,501
Provisions	350	445	167
Unearned income	20,304	18,644	19,219
Hire purchase liabilities	557	-	-
Total current liabilities	51,123	45,598	42,887
Non-current liabilities			
Borrowings (secured)	151,047	130,500	128,000
Deferred tax liability	40	-	324
Hire purchase liabilities	209	-	-
Total non-current liabilities	151,296	130,500	128,324
Total liabilities	202,419	176,098	171,211
Net assets	77,656	74,130	74,940
Shareholders' equity			
Share capital	57,717	56,442	57,384
Retained earnings	19,954	17,688	17,556
Foreign currency translation reserve	(15)	-	-
Total shareholders' equity	77,656	74,130	74,940

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

	6 mths ended 31 Dec 2006 Unaudited $000	6 mths ended 31 Dec 2005 Unaudited $000	12 mths ended 30 Jun 2006 Audited $000
Equity at beginning of period	74,940	70,498	70,498
Net surplus for the period	13,653	13,536	24,306
Distributions to shareholders			
Dividends to ordinary shareholders	(11,255)	(10,735)	(21,637)
	(11,255)	(10,735)	(21,637)
Contributions from shareholders			
Proceeds from unpaid shares fully paid	-	-	942
Issue of ordinary shares	333	831	831
	333	831	1,773
Foreign currency translation reserve	(15)	-	-
Movement in equity for the period	2,716	3,632	4,442
Equity at end of period	77,656	74,130	74,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

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 2006.

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 2006 and the unaudited interim financial statements for the six months ended 31 December 2005.

2. POST BALANCE DATE EVENTS

On 7 February 2007, the directors declared an interim dividend of 9.0 cents per share or $11.6 million to be paid on 2 April 2007 to the shareholders of record as at 16 March 2006. A supplementary dividend of 1.6 cents per share will be paid to overseas shareholders when the interim dividend is paid.

3. SHAREHOLDERS' EQUITY

On 30 August 2006, the Company issued 100,000 fully paid ordinary shares at $3.33 to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan. In total, participating employees were provided with interest-free loans of $0.4 million to fund their purchase of the shares in the Share Plan. The loans are repayable over three years and repayment commenced in September 2006.

4. ACQUISITION OF DATABANK TECHNOLOGIES PTY LIMITED

In July 2006, Freightways Limited acquired 100% of the Australian information management company, Databank Technologies Pty Limited (DataBank).

Payment of the purchase price is staged over two years. Initial payments totalling approximately A$17.5 million were made during the half year. Two subsequent payments are expected to become payable after finalisation of the results for the years ended 30 June 2007 and 2008, respectively, but only if agreed annual earnings performance has been achieved in those years.

To facilitate this acquisition, the Company arranged additional banking facilities with its existing lenders.

5. CONTINGENT LIABILITIES

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

6. CAPITAL COMMITMENTS

Capital commitments entered into but not accrued at balance date totalled approximately $2.1m. These commitments relate to various projects within the Group, including property fit-out and enhancements to the Information Systems.

7. EARNINGS PER SHARE

The basic earnings per share for the period were 10.64 cents (2005: 10.72 cents) and diluted earnings per share were 10.62 cents (2005: 10.54 cents).

8. SHARES ON ISSUE

As at 31 December 2006, 128,361,696 fully paid ordinary shares were on issue. In addition, 193,239 unpaid shares were on issue and expected to be paid up in full by 16 March 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

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

	6 mths ended 31 Dec 2006 Unaudited $000	6 mths ended 31 Dec 2005 Unaudited $000	12 mths ended 30 Jun 2006 Audited $000
Net surplus after income tax	13,653	13,536	24,306
Add non-cash items:			
Depreciation	3,264	2,375	4,958
Amortisation of goodwill	2,833	2,470	4,970
Movement in provision for doubtful debts	(77)	49	14
Movement in deferred income tax	(155)	(819)	1,356
Net loss (gain) on sale and write off of fixed assets	(4)	-	(4)
Net foreign exchange loss (gain)	(3)	2	(10)
Other non-cash movements	(120)	-	-
Movement in working capital:			
(Increase) Decrease in receivables	(6,047)	(4,693)	(2,488)
(Increase) Decrease in inventories	(356)	(603)	(2,012)
Increase (Decrease) in trade and other creditors	2,862	3,705	196
Increase (Decrease) in income taxes payable	3,677	1,585	(794)
Net cash inflows from operating activities	19,527	17,607	30,492

10. LEASING COMMITMENTS

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

	As at 31 Dec 2006 Unaudited $000	As at 31 Dec 2005 Unaudited $000	As at 30 Jun 2006 Audited $000
- Payable not later than one year	7,287	6,810	7,212
- Payable between one and two years	5,271	5,213	5,295
- Payable between two and five years	10,207	7,924	10,174
- Payable later than five years	13,879	8,648	12,391
	36,644	28,595	35,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2006

11. 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 will 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 2006, the amount of that increase would have been $2.8 million. As at 31 December 2006, 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 $2.8 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 2006

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 2006 would result in both Total Assets and Equity increasing by $1.9 million. As the Groups interest rate hedging instruments are all considered effective hedges as at 31 December 2006, there would be no impact on the Statement of Financial Performance for the period 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 2006 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 period 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.

DIRECTORY

For enquiries in relation to Freightways' services and products contact the offices listed below or refer to Freightways' website at www.freightways.co.nz.

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www.sub60.co.nz
www.kiwiexpress.co.nz

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

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