HALF YEAR REPORT | DECEMBER 2007

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

Shred-X
www.shred-x.com.au

Air Freight NZ

Fieldair Engineering
www.fieldair.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 of Freightways Limited (Freightways) for the half year ended 31 December 2007. Freightways has again achieved a record result, demonstrating the resilience of its business model and the value created by its strategic decisions. Freightways' core express package business continues to perform soundly and its emerging growth businesses in the business mail and information management markets have both delivered outstanding results. The Directors are pleased with Freightways' performance and consequently have declared an increased interim dividend.

Operating performance

The results for this half year have been prepared in accordance with NZIFRS for the first time. As there is no longer a charge for goodwill amortisation, the EBIT and NPAT for the prior corresponding period have also had goodwill amortisation excluded for comparative purposes.

Consolidated operating revenue of $162 million for the half year was 12% higher than the prior corresponding period.

Earnings before interest and tax (EBIT) of $31 million for the half year was 6% higher than the prior corresponding period.

Consolidated net profit after tax (NPAT) of $16.8 million for the half year was 2% higher than the prior corresponding period.

Cash generated from operations before interest and tax was $32 million.

Dividend

The Directors have declared an interim dividend of $12.2 million reflecting this sound half year result. This translates to 9.5 cents per share, fully imputed, which is 6% higher than the prior corresponding period and will be paid on 31 March 2008. The record date for determination of entitlements to the dividend is 14 March 2008.

REVIEW OF OPERATIONS

Express Package and Business Mail

The core express package business contributes the majority of Freightways' revenue and earnings. Freightways operates in the domestic express package market with the brands of New Zealand Couriers, Post Haste Couriers, Castle Parcels, SUB60, Security Express and Kiwi Express.

Freightways' primary objective in its core express package market is to defend and grow its business. A vast number of initiatives are implemented by a very experienced and capable team of people to achieve this objective. In the current operating environment of low organic volume growth and rising costs, Freightways has been careful to continue to make decisions for the long-term good of the business. As such, our investment in facilities, technology, customer service initiatives and most importantly in the training and development of our people has continued. It is our experience that the work we do today during these quieter times will determine our ability to reap the benefits from tomorrow's growth.

The earnings performance of Freightways' express package business has again been on a par with the prior corresponding period. The strength and flexibility of Freightways' business model and the focus of its people are evident in the delivery of this result in a challenging operating environment.

Overall Freightways' express package business has performed well.

DX Mail operates in New Zealand's postal services market. In recent years, DX Mail has developed its own street delivery network in a number of city centres around New Zealand and gained real traction in the market by winning several important new customers. This market support demonstrates the value mail customers attribute to DX Mail's provision of a competitive service to the Government-owned NZ Post.

DX Mail is closely integrated with Freightways' express package business that performs the majority of DX Mail's pick-up, linehaul and delivery services. DX Mail also operates from the premises of the express package businesses, in addition to its own network of over 250 postal exchanges located throughout New Zealand.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

While its contribution to Freightways' earnings remains at this stage relatively small, the performance of the DX Mail business during this half year has been outstanding.

DX Mail is seen as an emerging growth business within Freightways' portfolio of businesses.

Information management

Freightways also views the information management market as an emerging growth opportunity, as evidenced by the recent acquisitions it has completed, both in New Zealand and Australia. Within the information management market, Freightways provides data storage, document storage and document destruction services to a wide range of business customers.

Freightways' information management businesses are experiencing very strong growth on both sides of the Tasman. In New Zealand, the businesses of Archive Security, Data Security Services, and Document Destruction Services are based in five key locations that enable the provision of a national service. In Australia, the businesses of DataBank and Shred-X are concentrated in New South Wales, Victoria and Queensland. A further DataBank branch has been opened in South Australia during January 2008. Both businesses offer a national service, using agents in states where they have no established operations.

In July 2007, Freightways announced the acquisition of the document destruction businesses of Shred-X and Document Destruction & Paper Recyclers in Queensland. These acquisitions have delivered against Freightways' initial expectations and also enabled the closer investigation of further growth opportunities in Australia.

Increased outsourcing of the storage and management of backed-up computer data, archived documents and document destruction has contributed to the strong growth of Freightways' information management businesses. Outsourcing decisions are being driven by an increasing awareness in the market for the need to professionally and securely manage business information, and specifically in regard to document destruction, the growing market demand to securely destroy documents and recycle paper.

Freightways' information management businesses have delivered a strong contribution to its overall result.

Internal service providers

Fieldair Holdings Limited provides airfreight linehaul services, Parceline Express provides road linehaul services and Freightways Information Services provides IT support to Freightways’ front line businesses. All three internal service providers have continued to deliver outstanding service.

Corporate costs have increased with the establishment of an office in Australia to support the development and growth of our Australian businesses. Freightways' finance facilities were re-negotiated in August 2007 for a further three-year period, with sufficient funding headroom to enable the execution of any near term incremental acquisition opportunities. During the period, Freightways has increased its borrowings to support its recent growth and capacity initiatives. While approximately 50% of total debt is hedged, the average interest cost has increased as a result of the general market increase in interest rates.

OUTLOOK

Freightways' core express package business is expected to continue to perform soundly, although growth in this market will again be influenced by the performance of the domestic economy. Freightways' emerging growth businesses in the business mail and information management markets are expected to continue their positive growth and development. Cost increases are expected to moderate in the near term, although the price of fuel continues to be volatile and remains well above historic levels.

In recent years, Freightways has successfully embarked on diversifying its activities both geographically and deeper into the information management market. Freightways will continue to seek and develop growth opportunities to support this strategy.

In the near term, management expect Freightways' performance to continue the trend shown in this and recent results announcements, continuing to grow positively, while delivering a very good dividend to its shareholders. In the medium to long-term, Freightways is exceptionally well positioned to reap the benefits of any improvement in the domestic marketplace.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

CONCLUSION

Freightways has again delivered a record result. Its core business has performed well and its emerging businesses have delivered outstanding performance. This result has enabled Directors to declare an increased interim dividend. Freightways expects to continue achieving positive performance for its shareholders and other stakeholders, subject to business factors beyond its control.

The Directors acknowledge the outstanding work and ongoing dedication of the Freightways team.

Wayne Boyd
Chairman

11 February 2008

Dean Bracewell
Managing Director

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ACCOUNTANTS' REPORT

To the shareholders of Freightways Limited

We have reviewed the interim financial statements ("financial statements") on pages 6 and 8 to 28. 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 2007 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 11 to 16.

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 2007 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 2007 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 its subsidiaries other than in our capacities as accountants conducting this review and auditors under the Companies Act 1993.

Review opinion

We have reviewed the financial performance and cash flows of the Group for the half year ended 31 December 2007 and its financial position as at that date.

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 2007 and its financial performance and cash flows for the half year ended on that date in accordance with both International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34, Interim Financial Reporting and International Financial Reporting Standard 1 and New Zealand Equivalent to International Financial Reporting Standard 1, First-time Adoption of International Financial Reporting Standards.

Our review was completed on 11 February 2008 and our review opinion is expressed as at that date.

PricewaterhouseCoopers

PricewaterhouseCoopers

Auckland

As pioneers of New Zealand's express package industry, we trace our origins back to 1964.

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2007 (UNAUDITED)

	6 mths ended 31 Dec 2007 $000	6 mths ended 31 Dec 2006 $000	Increase %
Revenue	161,897	144,273	12%
Other income	83	126	
Total revenue and other income	161,980	144,399	12%
Transport and logistics expenses	(75,441)	(68,785)	10%
Employee benefits expenses	(35,426)	(31,027)	14%
Occupancy expenses	(3,721)	(3,134)	19%
Other expenses	(12,281)	(8,477)	45%
Operating profit before interest, tax, depreciation and software amortisation	35,111	32,976	6%
Depreciation and software amortisation	(3,737)	(3,264)	14%
Operating profit before interest and income tax	31,374	29,712	6%
Net interest and finance costs	(6,837)	(5,413)	26%
Profit before income tax	24,537	24,299	1%
Income tax	(7,772)	(7,853)	(1%)
Profit for the period	16,765	16,446	2%
Earnings per share during the period:			
Basic earnings per share (cents)	13.04	12.82	
Diluted earnings per share (cents)	13.03	12.80	

NB: All revenue and earnings are from continuing operations.

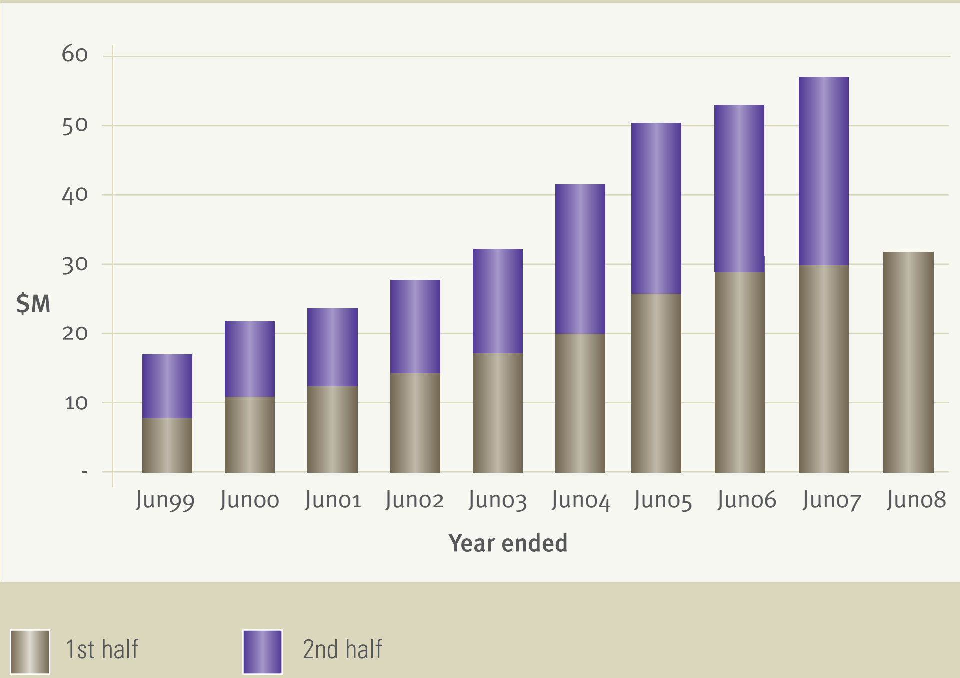
The above Income Statement should be read in conjunction with the accompanying notes.

FINANCIAL SUMMARY

12 mths ended 30 Jun 2007 $000
283,447
194
283,641
(135,800)
(62,320)
(6,161)
(16,431)
62,929
(6,398)
56,531
(10,808)
45,723
(14,818)
30,905
24.07
24.04

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.
- Current period is EBIT, which excludes goodwill amortisation (per NZ IFRS)

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2007 (UNAUDITED)

	Note	As at 31 Dec 2007 $000	As at 31 Dec 2006 $000	As at 30 Jun 2007 $000
ASSETS				
Current assets				
Cash and cash equivalents		2,170	431	1,673
Trade and other receivables		48,353	40,843	39,215
Inventories		6,290	5,892	5,809
Derivative financial instruments		210	102	299
Other current assets		113	-	110
Total current assets		57,136	47,268	47,106
Non-current assets				
Trade and other receivables		528	463	110
Property, plant & equipment		60,379	54,663	56,994
Intangible assets		211,440	180,685	194,561
Derivative financial instruments		3,687	1,623	3,292
Deferred tax asset		570	157	424
Other non-current assets		351	-	275
Total non-current assets		276,955	237,591	255,656
Total assets		334,091	284,859	302,762
LIABILITIES				
Current liabilities				
Trade and other payables		44,708	29,979	40,288
Finance lease liabilities		494	557	86
Provisions		488	504	457
Unearned income		21,057	20,304	21,129
Total current liabilities		66,747	51,344	61,960
Non-current liabilities				
Borrowings (secured)		173,643	151,047	152,904
Deferred tax liability		2,851	2,878	3,206
Finance lease liabilities		540	209	367
Total non-current liabilities		177,034	154,134	156,477
Total liabilities		243,781	205,478	218,437
NET ASSETS		90,310	79,381	84,325
EQUITY				
Contributed equity		58,351	57,717	58,117
Retained earnings		28,062	19,959	22,873
Cash flow hedge reserve		3,910	1,720	3,343
Foreign currency translation reserve		(13)	(15)	(8)
TOTAL EQUITY	4	90,310	79,381	84,325

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2007 (UNAUDITED)

	Note	6 mths ended 31 Dec 2007 $000	6 mths ended 31 Dec 2006 $000
Equity at the beginning of the period		84,325	73,061
Exchange differences on translation of foreign operations		(5)	(15)
Cash flow hedges taken directly to equity, net of tax		567	811
Net income recognised directly in equity		562	796
Profit for the period		16,765	16,446
Total recognised income and expenses for the period		17,327	17,242
Dividends paid		(11,576)	(11,255)
Issue of ordinary shares		234	333
Equity at the end of the period	4	90,310	79,381

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007 (UNAUDITED)

	Note	6 mths ended 31 Dec 2007 $000 INFLOWS (OUTFLOWS)	6 mths ended 31 Dec 2006 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers		157,230	140,124
Payments to suppliers and employees		(125,055)	(111,120)
Cash generated from operations		32,175	29,004
Interest received		84	119
Interest and other costs of finance paid		(6,587)	(4,978)
Income taxes paid		(5,484)	(4,361)
Net cash inflows from operating activities	10	20,188	19,784
Cash flows from investing activities			
Payments for property, plant & equipment		(5,517)	(11,826)
Proceeds from disposal of property, plant & equipment		141	35
Payments for business acquired		(21,397)	(22,012)
Advances to related parties		(347)	-
Payments for other investing activities		(223)	-
Net cash outflows from investing activities		(27,343)	(33,803)
Cash flows from financing activities			
Increase in bank borrowings		19,808	23,858
Finance lease liabilities repaid		(574)	(257)
Dividends paid		(11,578)	(11,255)
Net cash inflows from financing activities		7,656	12,346
Net increase (decrease) in cash and cash equivalents		501	(1,673)
Cash and cash equivalents at the beginning of the period		1,673	1,652
Cash acquired through acquisition of businesses		-	468
Exchange rate adjustments		(4)	(16)
Cash and cash equivalents at the end of the period		2,170	431

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity and Statutory Base

Freightways Limited is a profit orientated company registered in New Zealand under the Companies Act 1993, and is an issuer for the purposes of the Financial Reporting Act 1993.

The consolidated financial statements for the six months ended 31 December 2007 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.

Application of NZ IFRS 1 – First-time adoption of New Zealand Equivalents to International Financial Reporting Standards.

The consolidated financial statements have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). These are the Group's first interim financial reporting financial statements prepared in compliance with NZ IAS 34 Interim Financial Reporting. NZ IFRS 1 First-time adoption of New Zealand Equivalents to International Financial Reporting Standards has been complied with. They are also compliant with IAS 34 and IFRS 1.

In preparing these consolidated financial statements in accordance with NZ IFRS 1 the Group has applied certain optional exemptions from full retrospective application of NZ IFRS. Further details are provided in Note 13.

Historical cost convention

The interim 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

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.

(b) Basis of consolidation

Subsidiaries are entities that are controlled either directly by the Company or where the substance of the relationship between the Company and the entity indicates the Company controls it. The results of businesses acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal. In the financial statements of the Parent, investments in subsidiaries are stated at cost.

The consolidated interim financial statements include the Company and its subsidiaries accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. 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.

(c) Segment reporting

A segment is a distinguishable component of the entity that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different to those of other segments.

(d) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

calculated by dividing the profit for the period by the weighted average number of ordinary shares outstanding at the end of the period. Diluted EPS is determined by adjusting the number of ordinary shares for the effects of all dilutive potential ordinary shares, which comprised directors' unpaid shares in the comparative period.

(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 period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(iii) Foreign Operations

The results and balance sheets of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– 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); and

– 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 received and invoiced in advance, for express package and document exchange services is recognised in the income statement only when earned. Accordingly, unearned income received and invoiced is shown 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 period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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 profit or loss.

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 recognised directly in equity are also recognised directly in 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.

(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 and cash equivalents 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 debts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

(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 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.

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:

Buildings	– 25 to 50 years
Leasehold improvements	– period of the lease or estimated useful life
Motor vehicles	– 5 to 10 years
Equipment, including aircraft components	– 3 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 brands are recognised at cost, being their fair value at the date of acquisition if acquired in a business combination. Brands are carried at cost less amortisation and impairment losses. Brands 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.

Brands 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 brands.

(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

to the extent they result in additional functionality. Amortisation is charged on a straight-line basis over the estimated useful life of the software of 3 to 7 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 floors, cap 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. Derivatives financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured and re-stated to their fair value. The method of recognising the resultant gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or (2) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives 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. The gain or loss relating to the effective portion of the hedge is recognised within 'net interest & finance costs'. The ineffective portion is recognised in the income statement within 'other gains (losses) – net'.

(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 the 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 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 to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

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

(q) Fair value estimation

The fair value of financial assets and financial liabilities must be 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 valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

(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 at 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.

(t) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due only to the passage of time is recognised as an interest expense.

(u) Borrowing costs

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

(v) Capitalised interest and finance costs

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

(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.

2. TRANSITION TO NZ IFRS

Basis of transition to NZ IFRS

Application of NZ IFRS 1

The Group's financial statements for the period ended 31 December 2007 are the first interim financial statements that comply with NZ IFRS. The Group has applied NZ IFRS 1 in preparing these consolidated financial statements and has therefore restated its comparatives.

The Company's transition date is 1 July 2006 and therefore this is the effective date of adoption of NZ IFRS. The Group prepared its opening NZ IFRS Balance Sheet as at that date. The reporting date of these financial statements is 31 December 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

In preparing these consolidated financial statements in accordance with NZ IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of NZ IFRS.

Mandatory exceptions from full retrospective application followed by the Group

The Group has applied the following mandatory exceptions from full retrospective application.

(i) Hedge accounting exception

Management has claimed hedge accounting from 1 July 2006 only if the hedge relationship meets all the hedge accounting criteria under NZ IAS 39.

(ii) Estimates exception

Estimates under NZ IFRS at 1 July 2006 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

Optional exemptions from full retrospective application

The Group has elected to apply the following optional exemption from full retrospective application.

(i) Business combinations exemption

The Group has applied the business combinations exemption in NZ IFRS 1. Business combinations that took place prior to the 1 July 2006 transition date have not been restated.

Reconciliations between NZ IFRS and previous NZ GAAP

The reconciliations in Note 13 provide a quantification of the effect of the transition to NZ IFRS. The first set of reconciliations provide an overview of the impact on equity of the transition at 1 July 2006, 31 December 2006 and 30 June 2007 and the second set of reconciliations provide an overview of the impact on profit for the period ended 31 December 2006 and year ended 30 June 2007.

3. SEGMENT INFORMATION

(a) Description of segments

The Group is organised into the following main business segments:

Express Package and 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.

(b) Segment Analysis

	EXPRESS PACKAGE & BUSINESS MAIL	INFORMATION MANAGEMENT	CORPORATE AND OTHER	INTER SEGMENT ELIMINATION	CONSOLIDATED OPERATIONS
Half year ended 31 December 2007					
Total Revenue	140,102	22,418	1,559	(2,182)	161,897
Operating profit before interest and income tax	27,250	4,750	(626)	-	31,374
Half year ended 31 December 2006					
Total Revenue	131,251	13,601	1,322	(1,901)	144,273
Operating profit before interest and and income tax	26,868	3,234	(390)	-	29,712

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. EQUITY

	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
Balance at 1 July 2007	58,117	22,873	3,343	(8)	84,325
Profit for the period	-	16,765	-	-	16,765
Dividend payment	-	(11,576)	-	-	(11,576)
Shares issued	234	-	-	-	234
Cash flow hedges taken directly to equity, net of tax	-	-	567	-	567
Foreign currency translation reserve	-	-	-	(5)	(5)
Balance at 31 December 2007	58,351	28,062	3,910	(13)	90,310
Balance at 1 July 2006	57,384	14,768	909	-	73,061
Profit for the period	-	16,446	-	-	16,446
Dividend payment	-	(11,255)	-	-	(11,255)
Shares issued	333	-	-	-	333
Cash flow hedges taken directly to equity, net of tax	-	-	811	-	811
Foreign currency translation reserve	-	-	-	(15)	(15)
Balance at 31 December 2006	57,717	19,959	1,720	(15)	79,381

5. POST BALANCE DATE EVENTS

On 11 February 2008, the directors declared an interim dividend of 9.5 cents per share or $12.2 million to be paid on 31 March 2008 to the shareholders of record as at 14 March 2008. A supplementary dividend of 1.6 cents per share will be paid to overseas shareholders when the interim dividend is paid.

6. SHARES ISSUED DURING THE PERIOD

On 30 August 2007, the Company issued 67,000 fully paid ordinary shares at $3.56 to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan. In total, participating employees were provided with interest-free loans of $0.2 million to fund their purchase of the shares in the Share Plan. The loans are repayable over three years and repayment commenced in September 2007.

7. CONTINGENT LIABILITIES

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

8. CAPITAL COMMITMENTS

Capital commitments entered into but not accrued at balance date totalled approximately $3 million. These commitments relate to various projects within the Group, including the development of a purpose-built facility, mail scooters and equipment.

9. SHARES ON ISSUE

As at 31 December 2007, 128,621,935 fully paid ordinary shares were on issue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

10. RECONCILIATION OF PROFIT FOR THE PERIOD WITH CASH FLOWS FROM OPERATING ACTIVITIES

	6 mths ended 31 Dec 2007 $000	6 mths ended 31 Dec 2006 $000
Profit for the period	16,765	16,446
Add non-cash items:		
Depreciation and amortisation	3,737	3,264
Movement in provision for doubtful debts	18	(77)
Movement in deferred income tax	(433)	(350)
Net loss (gain) on sale and write-off of fixed assets	(7)	(4)
Net foreign exchange loss (gain)	-	(3)
Other non-cash movements	176	26
Movement in working capital:		
(Increase) Decrease in trade and other receivables	(5,408)	(6,047)
(Increase) Decrease in inventories	(471)	(356)
Increase (Decrease) in trade and other payables	2,893	3,325
Increase (Decrease) in income taxes payable	2,918	3,560
Net cash inflows from operating activities	20,188	19,784

11. OPERATING LEASE COMMITMENTS

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

	As at 31 Dec 2007 $000	As at 31 Dec 2006 $000	As at 30 Jun 2007 $000
– Payable not later than one year	8,094	7,287	7,407
– Payable between one and two years	5,770	5,271	4,706
– Payable between two and five years	11,423	10,207	9,951
– Payable later than five years	13,611	13,879	12,408
	38,898	36,644	34,472

12. 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 consideration recognised to date is $11.1 million, as set out below. A further amount may be payable to the Shred-X vendors based on the earnings achieved in the 2011 financial year. No amount has been included below in respect of this contingent consideration, as the amount can not be reliably estimated at this time.

Also, the acquired business and assets of Document Destruction & Paper Recyclers (DD&PR) (refer to 'Other acquisitions' below) were integrated into the operations of Shred-X upon acquisition. The purchase consideration and fair value of the net assets acquired for DD&PR have been included in 'Other acquisitions' on page 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

The combined contribution of Shred-X and DD&PR to the Group results for the half year was revenue of $6.5 million and operating profit before interest and income tax of $1.3 million.

Details of net assets acquired and goodwill for Shred-X are as follows:

	$000
Purchase consideration	
Cash paid in June 2007	924
Cash paid during the half year	5,647
Direct costs relating to the acquisition, paid during the half year	954
Estimated future earn-out payments	3,610
Total purchase consideration	11,135
Fair value of net identifiable assets acquired (refer below)	4,568
Goodwill	6,567
	11,135

The goodwill is attributable to Shred-X having strong profitability and a strong trading position in the information management market.

The assets and liabilities arising from the acquisition are as follows:

	FAIR VALUE $000
Trade and other receivables	1,660
Inventories	10
Property, plant & equipment	1,345
Brand name	3,536
Net deferred tax assets	55
Trade and other payables	(702)
Finance lease liabilities	(1,139)
Unearned income	(197)
	4,568

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

The fair value for the brand name was determined at the time of acquisition.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Databank Technologies Pty Limited

In July 2006, the Group acquired 100% of the Australian information management company, Databank Technologies Pty Limited (Databank). Payment of the purchase price was staged over two years, with initial payments of $23.7 million being made in the year ended 30 June 2007, as disclosed in the Company's 2007 Annual Report. Two additional payments were payable upon achievement of agreed annual earnings performance for the years ended 30 June 2007 and 2008, respectively. Following the finalisation of the results for the year ended 30 June 2007, a further payment of $9 million was paid to the vendors during the half year ended 31 December 2007 and was treated as an increase to intangible assets. Estimated additional purchase consideration of $5.7 million, expected to be paid during the half year ended 31 December 2008, has also been recorded in the balance sheet as at 31 December 2007 as an increase in intangible assets and included in trade and other payables.

Other acquisitions

During the half year, the Group acquired the businesses and assets of Document Destruction & Paper Recyclers (DD&PR) and MSS Christchurch (MSS). DD&PR operates in the document destruction and paper recycling sector in Australia, while MSS operates in the document storage sector in New Zealand. The purchase consideration in respect of these acquisitions was $6.6 million, as set out below.

MSS contributed revenue of $0.2 million and operating profit before interest and income tax of $0.1 million to the Group for the half year. The contribution of revenue and operating profit before interest and income tax from DD&PR is included within the contribution from Shred-X above, as DD&PR was integrated with Shred-X immediately upon acquisition.

Details of net assets acquired and goodwill are as follows:

	$000
Purchase consideration	
Cash paid in June 2007	719
Cash paid during the half year	5,564
Direct costs relating to the acquisition, paid during the half year	221
Estimated future earn-out payments	57
Total purchase consideration	6,561
Asset and liabilities arising on acquisition	
Property, plant & equipment	603
Trade and other payables	(80)
Goodwill	6,038
	6,561

The acquirees' carrying amounts were deemed to be an accurate reflection of their fair value at the date of the acquisitions.

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

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13. EXPLANATION OF TRANSITION TO NZ IFRS

(1) Reconciliation of equity reported under previous New Zealand Financial Reporting Standards (NZ GAAP or NZ FRS) to equity reported under NZ IFRS.

(a) At the date of transition to NZ IFRS; 1 July 2006.

	Transition Notes	NZ FRS $000	Effect of transition to NZ IFRS $000	NZ IFRS $000
ASSETS				
Current assets				
Cash and cash equivalents		1,652	-	1,652
Trade and other receivables		33,417	-	33,417
Inventories		5,536	-	5,536
Derivative financial instruments	(b)	-	11	11
Total current assets		40,605	11	40,616
Non-current assets				
Trade and other receivables		293	-	293
Property, plant & equipment	(c),(d)	49,097	(3,762)	45,335
Intangible assets	(a),(c)	156,156	3,838	159,994
Derivative financial instruments	(b)	-	927	927
Total non-current assets		205,546	1,003	206,549
Total assets		246,151	1,014	247,165
LIABILITIES				
Current liabilities				
Trade and other payables		23,501	-	23,501
Provisions	(d)	167	146	313
Unearned income		19,219	-	19,219
Total current liabilities		42,887	146	43,033
Non-current liabilities				
Borrowings (secured)		128,000	-	128,000
Deferred tax liability	(e)	324	2,747	3,071
Total non-current liabilities		128,324	2,747	131,071
Total liabilities		171,211	2,893	174,104
NET ASSETS		74,940	(1,879)	73,061
EQUITY				
Contributed equity		57,384	-	57,384
Retained earnings	(f)	17,556	(2,788)	14,768
Cash flow hedge reserve	(b)	-	909	909
TOTAL EQUITY		74,940	(1,879)	73,061

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

(b) At the end of the last interim reporting period under previous NZ FRS; 31 December 2006.

	Transition Notes	NZ FRS $000	Effect of transition to NZ IFRS $000	NZ IFRS $000
ASSETS				
Current assets				
Cash and cash equivalents		431	-	431
Trade and other receivables		40,843	-	40,843
Inventories		5,892	-	5,892
Derivative financial instruments	(b)	-	102	102
Total current assets		47,166	102	47,268
Non-current assets				
Trade and other receivables		463	-	463
Property, plant & equipment	(c),(d)	58,716	(4,053)	54,663
Intangible assets	(a),(c)	173,730	6,955	180,685
Derivative financial instruments	(b)	-	1,623	1,623
Deferred tax asset		157	-	157
Total non-current assets		233,066	4,525	237,591
Total assets		280,232	4,627	284,859
LIABILITIES				
Current liabilities				
Trade and other payables	(b),(e)	29,912	67	29,979
Finance lease liabilities		557	-	557
Provisions	(d)	350	154	504
Unearned income		20,304	-	20,304
Total current liabilities		51,123	221	51,344
Non-current liabilities				
Borrowings (secured)		151,047	-	151,047
Deferred tax liability	(e)	197	2,681	2,878
Finance lease liabilities		209	-	209
Total non-current liabilities		151,453	2,681	154,134
Total liabilities		202,576	2,902	205,478
NET ASSETS		77,656	1,725	79,381
EQUITY				
Contributed equity		57,717	-	57,717
Retained earnings	(f)	19,954	5	19,959
Cash flow hedge reserve	(b)	-	1,720	1,720
Foreign currency translation reserve		(15)	-	(15)
TOTAL EQUITY		77,656	1,725	79,381

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(c) At the end of the last reporting period under previous NZ FRS; 30 June 2007.

	Transition Notes	NZ FRS $000	Effect of transition to NZ IFRS $000	NZ IFRS $000
ASSETS				
Current assets				
Cash and cash equivalents		1,673	-	1,673
Trade and other receivables		39,215	-	39,215
Inventories		5,809	-	5,809
Derivative financial instruments	(b)	-	299	299
Other current assets		110	-	110
Total current assets		46,807	299	47,106
Non-current assets				
Trade and other receivables		110	-	110
Property, plant & equipment	(c),(d)	61,124	(4,130)	56,994
Intangible assets	(a),(c)	184,552	10,009	194,561
Derivative financial instruments	(b)	-	3,292	3,292
Deferred tax asset		424	-	424
Other non-current assets		275	-	275
Total non-current assets		246,485	9,171	255,656
Total assets		293,292	9,470	302,762
LIABILITIES				
Current liabilities				
Trade and other payables	(b),(d)	39,941	347	40,288
Finance lease liabilities		86	-	86
Provisions	(d)	317	140	457
Unearned income		21,129	-	21,129
Total current liabilities		61,473	487	61,960
Non-current liabilities				
Borrowings (secured)		152,904	-	152,904
Deferred tax liability	(d)	591	2,615	3,206
Finance lease liabilities		367	-	367
Total non-current liabilities		153,862	2,615	156,477
Total liabilities		215,335	3,102	218,437
NET ASSETS		77,957	6,368	84,325
EQUITY				
Contributed equity		58,117	-	58,117
Retained earnings	(f)	19,848	3,025	22,873
Cash flow hedge reserve	(b)	-	3,343	3,343
Foreign currency translation reserve		(8)	-	(8)
TOTAL EQUITY		77,957	6,368	84,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(2) Reconciliation of profit under previous NZ FRS to profit under NZ IFRS.

(a) Reconciliation of profit for the half-year period ended 31 December 2006.

	Transition Notes	NZ FRS $000	Effect of transition to NZ IFRS $000	NZ IFRS $000
Revenue		144,273	-	144,273
Other income		126	-	126
Total revenue and other income		144,399	-	144,399
Transport and logistics expenses		(68,785)	-	(68,785)
Employee benefits expenses		(31,027)	-	(31,027)
Occupancy expenses		(3,134)	-	(3,134)
Other expenses	(d)	(8,462)	(15)	(8,477)
Operating profit before interest, tax, depreciation and software amortisation (and goodwill amortisation)		32,991	(15)	32,976
Depreciation and software amortisation		(3,264)	-	(3,264)
Operating profit before interest and income tax (and goodwill amortisation)		29,727	(15)	29,712
Goodwill amortisation	(a)	(2,833)	2,833	-
Operating profit before interest and income tax		26,894	2,818	29,712
Net interest and finance costs	(b)	(5,271)	(142)	(5,413)
Profit before income tax		21,623	2,676	24,299
Income tax	(b),(e)	(7,970)	117	(7,853)
Profit for the period		13,653	2,793	16,446

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

(b) Reconciliation of profit for the year ended 30 June 2007.

	Transition Notes	NZ FRS $000	Effect of transition to NZ IFRS $000	NZ IFRS $000
Revenue		283,447	-	283,447
Other income		194	-	194
Total revenue and other income		283,641	-	283,641
Transport and logistics expenses		(135,800)	-	(135,800)
Employee benefits expenses		(62,320)	-	(62,320)
Occupancy expenses		(6,161)	-	(6,161)
Other expenses		(16,431)	-	(16,431)
Operating profit before interest, tax, depreciation and software amortisation (and goodwill amortisation)		62,929	-	62,929
Depreciation and software amortisation		(6,398)	-	(6,398)
Operating profit before interest and income tax (and goodwill amortisation)		56,531	-	56,531
Goodwill amortisation	(a)	(5,810)	5,810	-
Operating profit before interest and income tax		50,721	5,810	56,531
Net interest and finance costs	(b)	(10,617)	(191)	(10,808)
Profit before income tax		40,104	5,619	45,723
Income tax	(b),(e)	(15,013)	195	(14,818)
Profit for the period		25,091	5,814	30,905

(3) Reconciliation of cash flow statement for the year ended 30 June 2007

The adoption of NZ IFRS has not resulted in any material adjustments to the cash flow statement.

(4) Transition notes to the reconciliations

(a) Goodwill and amortisation

Goodwill is no longer amortised under NZ IFRS but is reviewed on an annual basis for impairment and when an indicator of impairment exists. The Group has reviewed its goodwill balances and determined there is no indication of impairment. The effect of the transition adjustment to goodwill amortisation is shown at (f) below.

(b) Derivative financial instruments

Under NZ IFRS, all derivative financial instruments, whether used as hedging instruments or otherwise have been recognised at fair value in the balance sheet.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured and restated to their fair value. The method of recognising the resultant gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives 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 accumulated in equity are transferred to the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(c) Reclassification of property, plant & equipment

Under NZ IFRS, software assets are classified as intangible assets rather than property, plant & equipment. This has resulted in reclassifications between intangible assets and property, plant & equipment. While the amount previously depreciated on these assets is unchanged, it is now classified as amortisation.

(d) Provision for lease obligations

A provision has been recognised for future estimated payments to reinstate leased buildings to an appropriate condition upon expiry of the lease term. The provision has been 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.

(e) Deferred tax

Under previous NZ GAAP income tax expense was calculated with reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of NZ IFRS has resulted in a change in accounting policy. The application of NZ IAS 12 – Income Taxes has resulted in the recognition of deferred tax assets and liabilities on the items listed in the table below.

Under NZ IAS 12, an additional deferred tax liability has been recognised in respect of items of property, plant & equipment that had an associated revaluation increment under previous NZ GAAP. On the basis that those assets were held for use (rather than sale), no deferred tax liability was recorded on the revaluation increment. NZ IAS 12 requires a deferred tax liability to be recognised to reflect the future taxable income embodied in the asset's carrying value.

The effect on deferred tax from the adoption of NZ IFRS is as follows:

	1 July 2006 $000	31 Dec 2006 $000	30 June 2007 $000
Property, plant & equipment	2,747	2,681	2,615

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(f) Retained earnings

The effect on retained earnings from the changes set out above are as follows:

	1 July 2006 $000	31 Dec 2006 $000	30 June 2007 $000
Goodwill amortisation	-	2,833	5,810
Derivative financial instruments	29	(67)	(99)
Provision for lease obligations	(70)	(80)	(71)
Deferred tax	(2,747)	(2,681)	(2,615)
	(2,788)	5	3,025

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.

Messenger Services Limited
161 Station Road
Penrose
DX EX10911
AUCKLAND
Telephone: 09 526 3680
www.sub60.co.nz
www.kiwiexpress.co.nz

New Zealand Document Exchange Limited
32 Botha Road
Penrose
DX CR59901
AUCKLAND
Telephone: 09 526 3150
www.dxmail.co.nz

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

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

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

Databank Technologies Pty Limited
PO Box 984
Chatswood
NSW 2067
AUSTRALIA
Telephone: +61 2 9882 3420
www.databanktech.com

Shred-X Pty Limited
PO Box 2848
Southport BC
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Telephone: +61 1 300 667 555
www.shred-x.com.au