

HALF YEAR REPORT
DECEMBER

2014



Freightways

Freightways



New Zealand Couriers
www.nzcouriers.co.nz



Post Haste Couriers
www.posthaste.co.nz



Castle Parcels
www.castleparcels.co.nz



Now Couriers
www.nowcouriers.co.nz



SUB60
www.sub60.co.nz



Kiwi Express Couriers
www.kiwixpress.co.nz



Security Express
www.securityexpress.co.nz



Pass The Parcel
www.passtheparcel.co.nz



Stuck
www.stuck.co.nz



DX Mail
www.dxmail.co.nz



Dataprint
www.dataprint.co.nz



Air Freight NZ



Fieldair Engineering
www.fieldair.co.nz



Parceline Express



Freightways Information Services



Online Security Services
www.onlinesecurity.co.nz



Archive Security
www.onlinesecurity.co.nz



Data Security Services
www.onlinesecurity.co.nz



Document Destruction Service
www.onlinesecurity.co.nz



Databank
www.databank.com.au



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



Filesaver
www.filesaver.com.au



LitSupport
www.litsupport.com.au

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

The Directors are pleased to present the consolidated financial result of Freightways Limited (Freightways) for the half year ended 31 December 2014. This report discusses the result, reflects on some of Freightways' achievements and provides an outlook for the future.

Highlights include:

- a record result and interim dividend;
- all businesses in all regions improving their performance;
- organic growth strategies rewarded through the continued support and increased activity from customers, along with increased demand for newly-introduced digital services; and
- acquisition of further Australian-based information management businesses and good performance from businesses acquired in the prior financial year.

Operating performance

Freightways' first quarter Trading Update provided a breakdown of the benefit relating to five additional trading days in that quarter compared to the prior comparative period (pcp). The second quarter had two less trading days compared to the pcp. Accordingly, this half year result includes the net total benefit of three extra trading days. Given the overall immateriality of the impact of these three days to the half year result, no additional analysis of the result excluding them is provided and the result discussed below is as reported.

Operating revenue of \$242 million was 11% higher than the pcp.

Earnings (operating profit) before interest, tax, depreciation and amortisation (EBITDA) of \$49 million and earnings (operating profit) before interest, tax and amortisation (EBITA) of \$42 million were 16% and 17% higher than the pcp, respectively.

Net profit after tax (NPAT) of \$26 million and NPAT before amortisation (NPATA) of \$27 million were both 21% higher than the pcp.

Earnings per share (EPS) was 17 cents per share, an improvement of 21% over the pcp.

Cash generated from operations was again strong at \$50 million.

Interim Dividend

The Directors have declared an interim dividend of 12 cents per share, fully imputed at a tax rate of 28%. This represents a payout of approximately \$18.5 million compared with \$15.4 million for the pcp dividend of 10 cents per share; a 20% increase. The dividend will be paid on 7 April 2015. The record date for determination of entitlements to the dividend is 20 March 2015.

The Dividend Reinvestment Plan (DRP) will not be offered in relation to this dividend. As a capital management tool, the application of the DRP will be reviewed for each future dividend.

REVIEW OF OPERATIONS

Divisional results for the half year ended 31 December 2014 are provided below for the express package & business mail division and the information management division.

Express Package & Business Mail

The express package & business mail division operates a multi-brand strategy in the domestic market through New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express, Stuck, Pass The Parcel, DX Mail and Dataprint.

Operating revenue of \$185 million was 10% higher than the pcp.

EBITDA of \$36 million and EBITA of \$33 million were 16% and 17% higher than the pcp, respectively.

A pleasing feature of this result was that all businesses improved their year-on-year performance compared to what was a strong second quarter result in the pcp. Planning and resourcing for the peak volumes experienced in the weeks leading up to Christmas occurred well in advance. These plans included anticipating the

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

continued growth of internet shopping and the many new delivery points that would require servicing. Overall service quality, while always able to be improved, held up particularly well throughout this period. Throughout the half year, activity from existing customers progressively increased. Good traction was achieved with pricing strategies to recover cost increases and new customers were introduced across the division. Variable, and recently volatile, fuel prices are managed through applying a surcharge to customers' prices to mitigate the impact of this cost as it rises and falls.

Freightways' business mail operator, DX Mail, has again grown its share of the postal services market, despite the industry's overall decline due to electronic substitution. DX Mail's growth has come from customers that still require overnight delivery for their standard-priced letters. The Dataprint business, that positions its services higher on the supply chain than DX Mail with a full suite of both physical and digital mailhouse services, has also had a strong first half. Dataprint's customers can choose between physical or digital delivery of their mail or a combination of both services, as most do.

Information Management

The information management division is established in New Zealand through the brands of Online Security Services, Archive Security, Document Destruction Services and Data Security Services and in Australia through the brands of TIMG (The Information Management Group), DataBank, Archive Security, Filesaver, LitSupport and Shred-X.

Operating revenue of \$58 million was 12% above the pcp.

EBITDA of \$14 million and EBITA of \$11 million were 15% and 18% higher than the pcp, respectively.

Growth on both sides of the Tasman has again been equally strong. Demand for physical storage services for both documents and computer media continues to increase. Newly-introduced digital information management services have gained encouraging support from within this division's existing customer base and assisted the winning of new customers. The document destruction businesses, particularly Shred-X in Australia, have seen increased demand for secure destruction services, improved prices from the sale of shredded paper and the benefit of the acquisition of Advance Security Destruction, all of which have contributed positively to performance. The businesses acquired in the prior year are performing well and, as previously announced, further information management businesses were recently acquired in Australia. Investment during this period in future capacity and capability included the establishment of a new document shredding facility in Sydney and the relocation and consolidation of multiple operational sites to a single facility in Queensland.

Internal service providers

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

Corporate

Corporate overhead costs continue to be well-contained. Acquisitions during the half year have been funded from a combination of operating cash flows and borrowings from existing finance facilities.

Capital expenditure of \$7 million was invested during the half year, primarily to provide capacity for growth, including expenditure on facilities and related equipment, IT infrastructure and airfreight capability.

OUTLOOK

Both the express package & business mail and information management markets remain positive and Freightways' businesses remain well-positioned to benefit from the opportunities that exist in these markets.

The express package market is expected to continue to expand due to increasing activity amongst existing users and due to new volume created by online retailers. Within the business mail market, increasing demand is expected from businesses who still value overnight delivery of standard-priced letters and from businesses seeking alternative or new digital mailhouse services.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

The information management market is expected to continue to grow due to the lower cost to businesses of outsourcing their document and computer media storage requirements. Privacy of business information will continue to be a primary driver of demand for secure document destruction services. Customers will increasingly seek complementary and substitute electronic services relating to the creation and management of business information.

Capital expenditure for the full year is expected to be approximately \$17 million to support the growth and development of both Freightways operating divisions. Overall, cash flows are expected to remain strong throughout the 2015 financial year.

Freightways will continue to seek out and develop strategic growth opportunities, including acquisitions and alliances that complement its core capabilities.

CONCLUSION

The positive features of the markets it operates in, the resilience of its business models to accommodate growth and adapt to changing market circumstances and the successful execution of its growth strategies by a very experienced and capable team are evident in this record result. Accordingly, the Directors have been able to declare a fully imputed, 12 cents per share interim dividend.

The Directors acknowledge the outstanding work and ongoing dedication of the Freightways team of people throughout New Zealand and Australia.



Susan Sheldon
Chairman

Dean Bracewell
Managing Director

23 February 2015



INDEPENDENT REVIEW REPORT

To the shareholders of Freightways Limited

Report on the Interim Financial Statements

We have reviewed the accompanying Group financial statements of Freightways Limited ("the Company"), which comprise the balance sheet as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes of the Group. The Group comprises the Company and the entities it controlled at 31 December 2014 or from time to time during the financial period.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting ('NZ IAS 34') and for such internal controls as the directors determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on Use of Our Report

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

A stylized, handwritten signature of 'PricewaterhouseCoopers' in black ink.

Chartered Accountants
Auckland
23 February 2015

CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

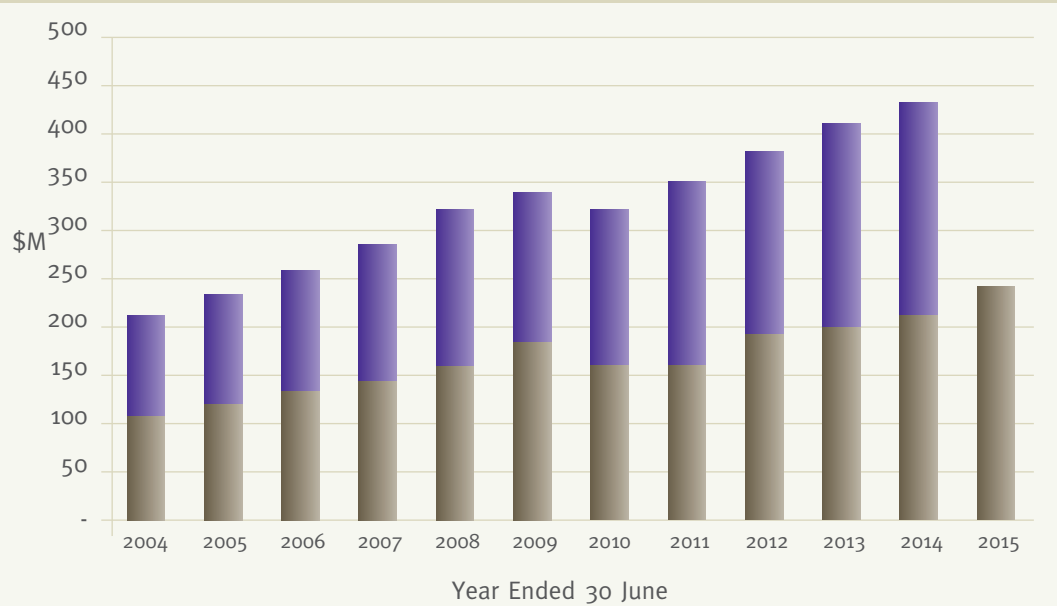
	Note	6 mths ended 31 Dec 2014 \$000	6 mths ended 31 Dec 2013 \$000	Variance %
Operating revenue	3	241,760	218,282	11%
Transport and logistics expenses		(99,404)	(91,916)	8%
Employee benefits expenses		(62,236)	(55,490)	12%
Occupancy expenses		(10,107)	(9,454)	7%
General and administrative expenses		(21,407)	(19,389)	10%
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles		48,606	42,033	16%
Depreciation and software amortisation		(6,197)	(5,869)	6%
Operating profit before interest, income tax and amortisation of intangibles		42,409	36,164	17%
Amortisation of intangibles		(607)	(478)	27%
Operating profit before interest and income tax	3	41,802	35,686	17%
Net interest and finance costs		(5,826)	(5,942)	(2%)
Profit before income tax		35,976	29,744	21%
Income tax		(9,669)	(8,001)	21%
Profit for the period attributable to shareholders		26,307	21,743	21%
Earnings per share for the period:				
Basic earnings per share (cents)		17.0	14.1	
Diluted earnings per share (cents)		17.0	14.1	

NB: All revenue and earnings are from continuing operations.

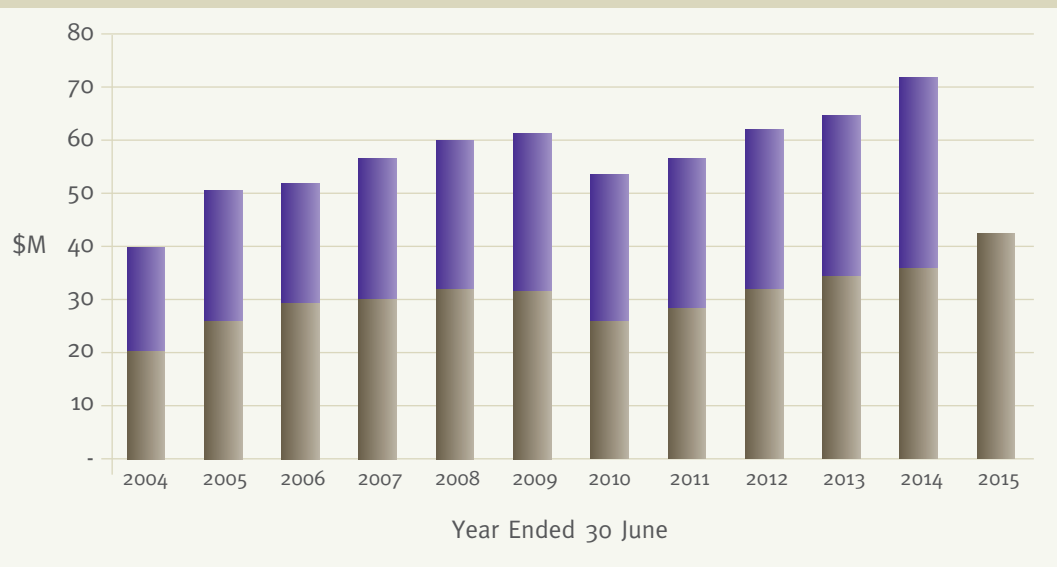
The above Income Statement should be read in conjunction with the accompanying notes.

FINANCIAL SUMMARY (UNAUDITED)

FREIGHTWAYS OPERATING REVENUE



FREIGHTWAYS EBITA*



* This EBITA graph represents the operating results of the company, exclusive of any non-recurring items.

1st half

2nd half

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

	6 mths ended 31 Dec 2014 \$000	6 mths ended 31 Dec 2013 \$000
Profit for the period	26,307	21,743
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(1,299)	(2,547)
Cash flow hedges taken directly to equity, net of tax	(1,333)	2,837
Total other comprehensive income after income tax	(2,632)	290
Total comprehensive income for the period attributable to the shareholders	23,675	22,033

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

	Note	6 mths ended 31 Dec 2014 \$000	6 mths ended 31 Dec 2013 \$000
Equity at the beginning of the period		199,436	187,299
Profit for the period		26,307	21,743
Exchange differences on translation of foreign operations		(1,299)	(2,547)
Cash flow hedges taken directly to equity, net of tax		(1,333)	2,837
Total comprehensive income for the period		23,675	22,033
Dividends paid		(17,384)	(15,038)
Issue of ordinary shares, net of costs		720	386
Equity at the end of the period	4	206,447	194,680

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2014 (UNAUDITED)

	Note	As at 31 Dec 2014 \$000	As at 31 Dec 2013 \$000	As at 30 Jun 2014 \$000
ASSETS				
Current assets				
Cash and cash equivalents		3,780	1,120	3,880
Trade and other receivables		63,497	67,781	60,774
Inventories		8,025	8,659	8,776
Total current assets		75,302	77,560	73,430
Non-current assets				
Trade and other receivables		452	419	279
Property, plant and equipment		94,901	91,195	93,576
Intangible assets		316,773	287,422	286,600
Total non-current assets		412,126	379,036	380,455
Total assets		487,428	456,596	453,885
LIABILITIES				
Current liabilities				
Trade and other payables		54,580	55,714	53,973
Finance lease liabilities		210	107	70
Income tax payable		5,023	3,628	5,320
Provisions		503	347	443
Derivative financial instruments		501	320	143
Unearned income		14,892	14,559	14,561
Total current liabilities		75,709	74,675	74,510
Non-current liabilities				
Trade and other payables		14,095	2,828	2,763
Borrowings (secured)	5	169,277	166,978	159,098
Deferred tax liability		10,538	9,139	8,881
Provisions		2,840	1,996	2,200
Finance lease liabilities		8	72	32
Derivative financial instruments		8,514	6,228	6,965
Total non-current liabilities		205,272	187,241	179,939
Total liabilities		280,981	261,916	254,449
NET ASSETS		206,447	194,680	199,436
EQUITY				
Contributed equity	4	122,828	122,046	122,108
Retained earnings		96,138	82,679	87,215
Cash flow hedge reserve		(6,754)	(5,017)	(5,421)
Foreign currency translation reserve		(5,765)	(5,028)	(4,466)
TOTAL EQUITY	4	206,447	194,680	199,436

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

	6 mths ended 31 Dec 2014 \$000	6 mths ended 31 Dec 2013 \$000
Note	INFLOWS (OUTFLOWS)	INFLOWS (OUTFLOWS)
Cash flows from operating activities		
Receipts from customers	241,056	207,145
Payments to suppliers and employees	(190,711)	(167,270)
Cash generated from operations	50,345	39,875
Interest received	64	32
Interest and other costs of finance paid	(5,475)	(6,021)
Income taxes paid	(11,603)	(9,489)
Net cash inflows from operating activities	6 33,331	24,397
Cash flows from investing activities		
Payments for property, plant & equipment	(5,802)	(7,915)
Payments for software	(771)	(1,089)
Proceeds from disposal of property, plant & equipment	129	49
Payments for businesses acquired	(22,342)	(15,511)
Payments for other investing activities	(117)	(229)
Net cash outflows from investing activities	(28,903)	(24,695)
Cash flows from financing activities		
Dividends paid	(17,384)	(15,038)
Increase in bank borrowings	12,861	12,721
Net proceeds from issue of ordinary shares	153	206
Finance lease liabilities repaid	(55)	(88)
Net cash outflows from financing activities	(4,425)	(2,199)
Net increase (decrease) in cash and cash equivalents	3	(2,497)
Cash and cash equivalents at the beginning of the period	3,880	3,484
Exchange rate adjustments	(103)	133
Cash and cash equivalents at the end of the period	3,780	1,120

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 2014 (UNAUDITED)

1. BASIS OF PREPARATION

The interim financial statements are those of Freightways Limited (the 'Company') and its subsidiary companies (together with the Company, referred to as the 'Group'). The Company is registered under the Companies Act 1993 and is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the New Zealand Stock Exchange (NZX).

The Group is designated as a profit-orientated entity for financial reporting purposes.

The financial statements are stated in New Zealand dollars and rounded to the nearest thousand, unless otherwise indicated.

The financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and consequently, do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the annual report for the year ended 30 June 2014.

2. ACCOUNTING POLICIES

The accounting policies and methods of computation are consistent with those used in the most recent annual report.

3. SEGMENT REPORTING

(a) Description of segments

The Group is organised into the following reportable operating segments which categorise the business into its primary markets and reflect the structure and internal reporting used by the Managing Director, as the chief operating decision maker, and the Board to assist strategic decision-making and allocation of resources:

Express package & business mail

Comprises network courier, point-to-point courier and postal services.

Information management

Comprises secure paper-based and electronic business information management services.

Corporate & other

Comprises corporate, financing and property management services.

The Group has no individual customer that represents more than 2% of external sales revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

(b) Segment analysis

	EXPRESS PACKAGE & BUSINESS MAIL	INFORMATION MANAGEMENT	CORPORATE & OTHER	INTER- SEGMENT ELIMINATION	CONSOLIDATED OPERATIONS
	\$000	\$000	\$000	\$000	\$000
Half year ended 31 December 2014					
Sales to external customers	184,070	57,690	-	-	241,760
Inter-segment sales	1,099	(1)	2,165	(3,263)	-
Total revenue	185,169	57,689	2,165	(3,263)	241,760
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	35,936	13,514	(844)	-	48,606
Depreciation and software amortisation	(3,261)	(2,230)	(706)	-	(6,197)
Operating profit (loss) before interest, income tax and amortisation of intangibles	32,675	11,284	(1,550)	-	42,409
Amortisation of intangibles, excluding software amortisation	(25)	(582)	-	-	(607)
Operating profit (loss) before interest and income tax	32,650	10,702	(1,550)	-	41,802
Net interest and finance costs	(53)	(101)	(5,672)	-	(5,826)
Profit (loss) before income tax	32,597	10,601	(7,222)	-	35,976
Income tax	(9,215)	(3,121)	2,667	-	(9,669)
Profit (loss) for the period attributable to the shareholders	23,382	7,480	(4,555)	-	26,307

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

(b) Segment analysis (continued)

	EXPRESS PACKAGE & BUSINESS MAIL	INFORMATION MANAGEMENT	CORPORATE & OTHER	INTER- SEGMENT ELIMINATION	CONSOLIDATED OPERATIONS
	\$000	\$000	\$000	\$000	\$000
Half year ended 31 December 2013					
Sales to external customers	167,001	51,281	-	-	218,282
Inter-segment sales	1,065	48	2,043	(3,156)	-
Total revenue	168,066	51,329	2,043	(3,156)	218,282
Operating profit (loss) before interest, income tax, depreciation and software amortisation, amortisation of intangibles	30,857	11,718	(542)	-	42,033
Depreciation and software amortisation	(3,007)	(2,156)	(706)	-	(5,869)
Operating profit (loss) before interest, income tax and amortisation of intangibles	27,850	9,562	(1,248)	-	36,164
Amortisation of intangibles, excluding software amortisation	(25)	(453)	-	-	(478)
Operating profit (loss) before interest and income tax	27,825	9,109	(1,248)	-	35,686
Net interest and finance costs	(76)	(34)	(5,832)	-	(5,942)
Profit (loss) before income tax	27,749	9,075	(7,080)	-	29,744
Income tax	(7,820)	(2,764)	2,583	-	(8,001)
Profit (loss) for the period attributable to the shareholders	19,929	6,311	(4,497)	-	21,743

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

4. EQUITY

	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2014	122,108	87,215	(5,421)	(4,466)	199,436
Profit for the period	-	26,307	-	-	26,307
Dividend payment	-	(17,384)	-	-	(17,384)
Shares issued, net of costs	720	-	-	-	720
Cash flow hedges taken directly to equity, net of tax	-	-	(1,333)	-	(1,333)
Exchange differences on translation of foreign operations	-	-	-	(1,299)	(1,299)
Balance at 31 December 2014	122,828	96,138	(6,754)	(5,765)	206,447
Balance at 1 July 2013	121,660	75,974	(7,854)	(2,481)	187,299
Profit for the period	-	21,743	-	-	21,743
Dividend payment	-	(15,038)	-	-	(15,038)
Shares issued, net of costs	386	-	-	-	386
Cash flow hedges taken directly to equity, net of tax	-	-	2,837	-	2,837
Exchange differences on translation of foreign operations	-	-	-	(2,547)	(2,547)
Balance at 31 December 2013	122,046	82,679	(5,017)	(5,028)	194,680

Contributed equity

Fully paid ordinary shares

As at 31 December 2014, there were 154,522,922 fully paid ordinary shares on issue (2013: 154,234,424). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Partly paid ordinary shares

On 10 September 2014, 124,221 partly paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2013: 148,386). The issue price per share was \$5.11 (2013: \$4.12) and the shares have been paid up by the relevant participants to one cent per share. The balance of the issue price per share may only be paid up upon the participants meeting agreed performance hurdles and upon the expiry of the applicable three-year escrow period in accordance with the Plan rules. During the period, 24,292 partly paid shares were redeemed and cancelled (2013: Nil). As at 31 December 2014, there were 409,862 partly paid ordinary shares on issue (2013: 507,845). Partly paid ordinary shares have no voting rights and no rights to dividends and surplus on winding up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

Partly paid ordinary shares, fully paid up to ordinary shares

On 10 September 2014, 173,498 (2013: 162,138) partly paid shares were fully paid-up by certain Freightways senior executives upon the achievement of agreed performance targets in accordance with the terms of the original issue of the relevant partly paid shares under the Freightways Senior Executive Performance Share Plan. The average issue price per share was \$3.12 (2013: \$2.85).

Employee share plan

On 18 September 2014, the Company issued 115,000 fully paid ordinary shares at \$4.60 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2013: 75,000 fully paid ordinary shares at \$3.71 each). In total, participating employees were provided with interest-free loans of \$0.5 million to fund their purchase of the shares in the Share Plan (2013: \$0.3 million). The loans are repayable over three years and repayment commenced in October 2014.

5. BORROWINGS (SECURED)

During November 2014, the Group negotiated an increase of A\$15 million to its Australian dollar debt facilities. The increase, effective 1 December 2014, was split equally between the Australian dollar debt facilities maturing on 1 September 2017 and 2018, at existing prices.

As at 31 December 2014, the Group's debt facilities comprised NZ\$110 million and A\$97 million (2013: NZ\$110 million and A\$82 million), of which NZ\$77 million and A\$88 million (2013: NZ\$92 million and A\$69 million) had been drawn, respectively. The Group also had an undrawn bank overdraft facility of NZ\$8 million available (2013: NZ\$8 million).

The Group was in compliance with all its banking covenants throughout this financial period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

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

	6 mths ended 31 Dec 2014 \$000	6 mths ended 31 Dec 2013 \$000
Profit for the period	26,307	21,743
<i>Add non-cash items:</i>		
Depreciation and amortisation	6,804	6,347
Movement in provision for doubtful debts	226	174
Movement in deferred income tax	(1,539)	2,892
Net loss (gain) on disposal of fixed assets	23	(11)
Net foreign exchange loss (gain)	(7)	(47)
Movement in derivative fair value	54	30
<i>Items not included in profit for the period:</i>		
Cash flow hedges taken directly to equity	1,333	(2,837)
<i>Movement in working capital, net of effects of acquisitions of businesses:</i>		
(Increase) decrease in trade and other receivables	(1,119)	(12,995)
(Increase) decrease in inventories	775	(148)
Increase (decrease) in trade and other payables	1,429	10,673
Increase (decrease) in income taxes payable	(955)	(1,424)
Net cash inflows from operating activities	33,331	24,397

7. TRANSACTIONS WITH RELATED PARTIES

Trading with related parties: The Group has not entered into any material external related party transactions which require disclosure.

Key management compensation: Compensation paid during the period (or payable as at 31 December 2014 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2014 \$000	2013 \$000
Short-term employee benefits	3,279	3,056
Long-term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments	150	109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

8. FINANCIAL RISK MANAGEMENT

The Group has a treasury policy which is used to assist in managing foreign exchange and interest rate risks. The interim financial statements do not include all financial risk management information and disclosures and should be read in conjunction with the Group's annual financial statements as at 30 June 2014 contained in its Annual Report, which can be obtained from the Company's registered office or www.freightways.co.nz.

There have been no significant changes in the Group's risk management objectives and policies since 30 June 2014.

In the period to 31 December 2014 there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets and financial liabilities.

Fair values

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

Level 1 - Quoted prices (adjusted) in active markets for identical assets or liabilities at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 - Inputs that are observable for the asset or liability, either directly (i.e., as prices; other than quoted prices referred to in Level 1 above) or indirectly (i.e., derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the fair value of an instrument is included in Level 2.

Level 3 - Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs). In these cases, the fair value of an instrument would be included in Level 3.

Specific valuation techniques used to value financial instruments include:

- In respect of interest rate swaps, the fair value is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- discounted cash flow analysis for other financial instruments.

The Group's derivative financial instruments are all Level 2 financial instruments. There have been no transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments in the period to 31 December 2014.

There have been no reclassifications of financial assets and finance liabilities since 30 June 2014.

The carrying value of the following financial assets and liabilities approximate their fair value:

- cash and cash equivalents
- trade and other receivables
- trade and other payables
- bank borrowings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

9. BUSINESS COMBINATIONS

LitSupport Pty Ltd ("LTS")

During December 2014, the Group acquired 100% of LTS, a company operating in the Australian information management market, for an initial payment of \$18.4 million (A\$17.1 million) and a future maximum earnout of \$13.5 million (A\$12.9 million). In discounted terms, the total purchase consideration is approximately \$29 million. This acquired subsidiary is now operating within the Group's information management division. A summary of this acquisition is set out below.

The contribution of LTS to the Group results for the half year ended 31 December 2014 was revenue of \$1.3 million and operating profit before interest, income tax and amortisation of intangibles of \$0.03 million. In addition, \$0.2 million of transaction execution costs were expensed during the period.

If the acquisition had occurred at the beginning of the period, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the period is estimated at \$8.6 million and \$1.3 million, respectively.

Details of net assets acquired and goodwill for these acquisitions are as follows:

	\$000
Purchase consideration	
Cash paid during the period	18,321
Additional cash consideration payable	120
Fair value of future earn-out payments	10,624
Total purchase consideration	29,065
Fair value of assets and liabilities arising from the acquisition	
Cash and cash equivalents	1,467
Trade and other receivables	2,296
Plant and equipment	2,472
Brand name	4,853
Customer relationships	5,392
Goodwill	18,643
Trade and other payables	(3,170)
Deferred tax liability	(2,843)
Finance lease	(45)
	29,065

The future earn-out payment of up to a maximum discounted amount of \$10 million, included in the purchase consideration above, may be payable in September 2017, but is contingent upon certain financial performance hurdles being achieved for the year ended 30 June 2017. The potential undiscounted amount of the future earn-out payment that the Group could be required to make in respect of this acquisition is between nil and \$13.5 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill of \$18.6 million arising upon this acquisition is attributable to such benefits as positioning the Group's information management services higher on the service chain of the industry and intellectual property obtained. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

Other acquisitions

During the half year ended 31 December 2014, the Group acquired a number of other information management businesses in Australia for an aggregate purchase consideration totalling approximately \$3.9 million. These businesses have been integrated into the Group's information management division.

The contribution of these businesses to the Group results for the half year ended 31 December 2014 was revenue of \$0.6 million and operating profit before interest, income tax and amortisation of intangibles of \$0.05 million. In addition, \$0.1 million of transaction execution costs were expensed during the period.

If these acquisitions had all occurred at the beginning of the period, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the period is estimated at \$1 million and \$0.1 million, respectively.

Details of net assets acquired and goodwill for these acquisitions are as follows:

	\$000
Purchase consideration	
Cash paid during the period	1,810
Estimated working capital adjustment & future earn-out payments	2,079
Total purchase consideration	3,889
Fair value of assets and liabilities arising from the acquisition	
Inventories	40
Customer relationships	1,470
Goodwill	2,916
Trade and other payables	(137)
Deferred tax liability	(400)
	3,889

Future earn-out payments up to a maximum discounted amount of \$2 million, included in purchase consideration above, may be payable over the next two years, but are contingent upon certain financial performance hurdles being achieved. The potential undiscounted amount of all future earn-out payments of purchase consideration that the Group could be required to make in respect of these acquisitions is between nil and \$2.4 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill of \$2.9 million arising upon these acquisitions is attributable to the intellectual property obtained and economies of scale expected to be enhanced by integrating these businesses into the operations of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

Dataprint

On 2 July 2012, Freightways acquired the business and assets of Dataprint NZ Limited (Dataprint), a full-service, New Zealand-based mailhouse that provides its customers with both physical and digital solutions for their transactional and marketing mail. This acquired business has been integrated into the Group's express package & business mail division. The initial purchase price paid for Dataprint was \$3 million, with a further \$3.5 million payable over a three-year period, subject to performance targets being achieved.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2014 (UNAUDITED)

The contingent consideration arrangement requires the Group to pay the former owners of Dataprint further payments based on the financial performance for the three months ended 30 November 2012 and for the years ended 30 June 2013, 2014 and 2015, up to a maximum discounted amount of \$3.1 million. The first of these payments, being an amount of \$1 million, was made to the vendors based on the financial performance for the three months ended 30 November 2012. Further payments of \$0.8 million each were made in August 2013 and August 2014. The potential earn-out payable upon achievement of agreed annual earnings performance for the year ended 30 June 2015, up to a maximum discounted amount of \$0.7 million (2013: \$1.6 million), is still expected to be paid and remains in the balance sheet as an accrual.

Filesaver

During December 2011, the Group acquired the business and assets of Filesaver, a specialist document storage, archiving and imaging business in Australia. This acquired business has been integrated into the Group's information management division. The maximum purchase price of \$8.4 million includes an initial payment of \$6 million (which was made upon acquisition) and contingent consideration of up to \$2.4 million based on the financial performance for year ended 30 June 2014. The financial performance for the year ended 30 June 2014 indicated an earn-out of \$1.7 million was payable. This final earn-out was paid in September 2014.

Previous acquisitions

As at 30 June 2014, future earn-out payments of up to a maximum discounted amount of \$1.9 million were potentially payable over the two-year period ending 30 June 2016. During the half year ended 31 December 2014, one earn-out payment of \$1.1 million was made and a discounted amount of \$0.9 million remains payable within the next eighteen months if certain financial performance hurdles are achieved. The potential undiscounted amount of this future earn-out payment of purchase consideration that the Group could be required to make in respect of these acquisitions is between nil and \$1 million.

10. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2014, the Group had capital commitments to purchase equipment of \$2.2 million (2013: \$1.7 million).

As at 31 December 2014, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately \$5.3 million (2013: \$3.4 million). The letters of credit relate predominantly to support for regular payroll payments. The bank guarantees relate to security given to various landlords in respect of leased operating facilities.

There were no other contingent liabilities as at 31 December 2014 (2013: nil).

11. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 31 December 2014 was (\$0.65) (2013: (\$0.55)).

12. POST BALANCE DATE EVENTS

Dividend declared

On 23 February 2015, the Directors declared a fully imputed interim dividend of 12 cents per share (approximately \$18.5 million) in respect of the year ended 30 June 2015. The dividend will be paid on 7 April 2015. The record date for determination of entitlements to the dividend is 20 March 2015. A supplementary dividend of 2.1176 cents per share will be paid to overseas shareholders when the interim dividend is paid. The Freightways Dividend Reinvestment Plan will not operate for this dividend.



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

DIRECTORY

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Post Haste Limited

32 Botha Road
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