

# HALF YEAR REPORT

---

# DECEMBER

# 2015



# 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.kiwiexpress.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



The Information Management Group  
www.timg.co.nz



Archive Security  
www.timg.co.nz



Data Security Services  
www.timg.co.nz



Document Destruction Service  
www.timg.co.nz



Databank  
www.timg.com



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 2015. This report discusses the result, reviews the operations of each division and provides an outlook for the balance of the financial year.

### Operating performance

Compared to the prior corresponding period (pcp) which included 4 extra trading days:

- Operating revenue increased by 5% to \$255 million;
- Earnings (operating profit) before Interest, Tax, Depreciation and Amortisation (EBITDA) increased by 5% to \$51 million;
- Earnings (operating profit) before Interest, Tax and Amortisation (EBITA) increased by 6% to \$45 million;
- Net Profit after Tax (NPAT) increased by 5% to \$28 million;
- Net Profit after Tax and before Amortisation (NPATA) increased by 7% to \$29 million; and
- Earnings Per Share (EPS) increased by 5% to 18 cents per share.

The benefit of Freightways' diversification into the Information Management industry is evident in this result, with both the New Zealand and Australian operations of the information management division recording results well above the pcp. Approximately 30% of Freightways' operating revenue and earnings for the half year was generated by this division. The express package & business mail division contributed a result above the pcp, when allowing for the four extra trading days in the pcp.

### Dividend

The Directors have declared an interim dividend of 12.75 cents per share, fully imputed at a tax rate of 28%, being a 6% increase above the pcp dividend of 12 cents per share. This represents a payout of approximately \$19.7 million compared with \$18.5 million for the pcp dividend. The dividend will be paid on 4 April 2016. The record date for determination of entitlements to the dividend is 18 March 2016.

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 2015 are provided below for the express package & business mail division and the information management division.

#### Express Package & Business Mail

Operating revenue of \$187 million was 1% higher than the pcp. EBITDA of \$35 million and EBITA of \$32 million were both 1% lower than the pcp. Allowing for four extra trading days in the pcp, this result would have been ahead of the pcp.

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.

Overall activity within the express package & business mail division was above the prior year, albeit the timing of the end of year peak volumes occurred later this year than the prior year. This resulted in some pressure on capacity and some additional operating costs being required to ensure service quality was not compromised.

An aircraft fleet upgrade was recently announced that will see a transition from the existing Convair freighter aircraft to Boeing 737-400s. The project to manage this transition is running to schedule with the first Boeing 737-400 arriving in the country in mid-December and being put to work in assisting with peak Christmas volumes. Two further Boeing 737-400 aircraft are scheduled to arrive in coming months and to be fully operational by May 2016.

## HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

Negotiations have been completed with Christchurch International Airport Limited to lease a new purpose-built facility to enable the consolidation of operations from three separate facilities into one that will have airside access to the Boeing 737-400 aircraft fleet. This new facility will be fully automated, enabling a reduction in the manual handling and sorting of freight. Capital expenditure of approximately \$11 million related to this project will be invested progressively throughout the next 14 months. This new facility is expected to be fully operational early in the second half of the 2017 financial year. A positive return above our cost of capital for this project is expected to be achieved through efficiency and quality enhancements.

During the half year, branch relocations to larger premises occurred in Dunedin and Tauranga to create more capacity to accommodate our current and expected future volume growth.

Freightways' business mail operator, DX Mail, continued to expand its postie network and is now offering 5 days a week delivery in an increasing number of urban locations throughout New Zealand. While the overall physical letters market continues to decline, the demand for DX Mail's service is increasing. Dataprint, which provides physical and digital transactional mailhouse services, also increased market share in all of its service lines, both physical and digital.

### **Information Management**

Compared to the pcp, which also included the benefit of 4 extra trading days in the New Zealand operations, operating revenue of \$69 million was 20% higher, while EBITDA of \$17 million and EBITA of \$14 million were 22% and 25% higher, respectively.

Our established information management brands on both sides of the Tasman, with the exception of Shred-X, now operate as The Information Management Group (TIMG). Shred-X, due to its unique positioning and particularly strong brand presence throughout Australia, will continue to operate under its own name.

Increased utilisation of existing facilities, as a result of increased box and data storage volumes from existing and new customers, the successful integration of recent acquisitions in New Plymouth, Sydney and Brisbane and improved performance from the recently-acquired LitSupport, all contributed to this solid result. LitSupport has however not achieved its initial 12-month performance target and the vendors will accordingly repay Freightways approximately A\$5 million of the initial purchase price. Nonetheless, the LitSupport team has, in the latter stages of the half year, increased sales momentum and completed a restructure to reduce overhead costs, both of which position the business well for the future. Demand for the digital information management services offered throughout TIMG continues to increase.

### **Internal service providers**

Fieldair Holdings provides airfreight linehaul and Parceline Express provides road linehaul to our front line businesses. As express package volumes have grown, the services provided by the operations of these businesses have quickly adapted, while maintaining service excellence. Freightways Information Services provides IT development and support to the express package & business mail division. This team has been expanded to address the increasing demand for technology-based innovation and to assist in achieving Freightways' strategic objective of being a technology leader in the markets it operates in.

### **Corporate**

The maturity dates for all existing bank facilities were extended during the half year by a further two years at a slightly reduced cost.

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 \$8 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.

## HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

### OUTLOOK

Freightways is positioned in markets that are expected to deliver long-term growth. In the near-term, however, and at least for the balance of the 2016 financial year, given the current volatility in markets around the world, Freightways is cautious in its outlook.

The express package & business mail division is expected to perform at similar levels to the prior year. Performance within this division is largely dependent on domestic economic activity that will be reflected in existing customer activity.

The information management division is expected to continue to improve its year-on-year performance.

Strategic growth opportunities, including acquisitions and alliances that complement existing capabilities, will be executed where they make commercial sense.

Capital expenditure for the full year is expected to be approximately \$20 million to support the growth and development of both Freightways operating divisions. Overall cash flows are expected to remain strong throughout the 2016 financial year.

### CONCLUSION

Freightways has recorded a sound half year result above the prior comparative period. Accordingly, the Directors have been able to declare a fully imputed, 12.75 cents per share interim dividend. The benefits of diversification into the information management industry, where continued forecast growth is expected, will increasingly underpin the company's performance as the more cyclic express package & business mail industry enters a period where achieving year-on-year growth may be more challenging.

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



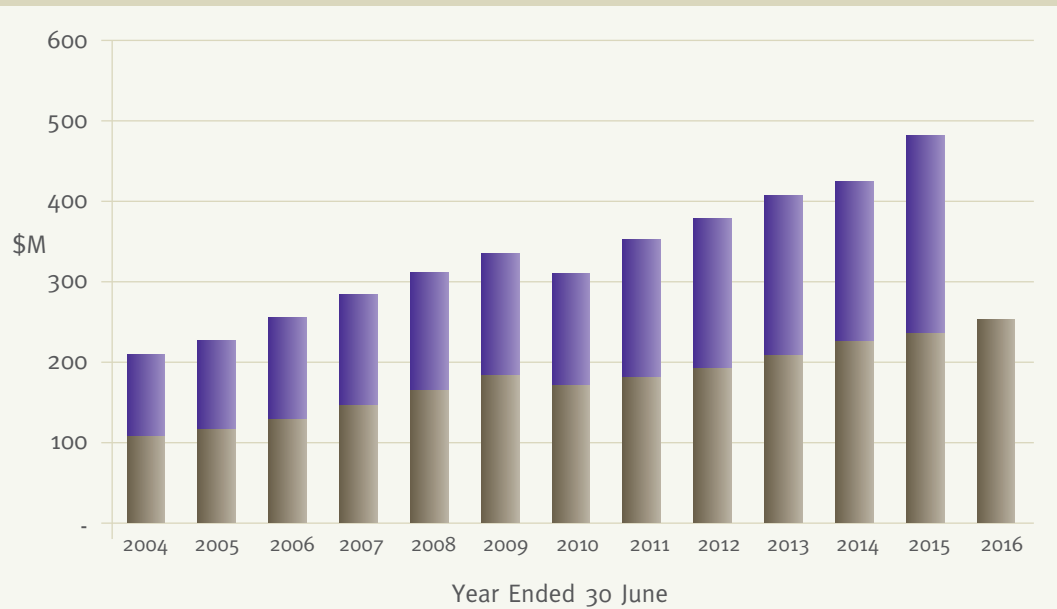
**Susan Sheldon**  
*Chairman*

**Dean Bracewell**  
*Managing Director*

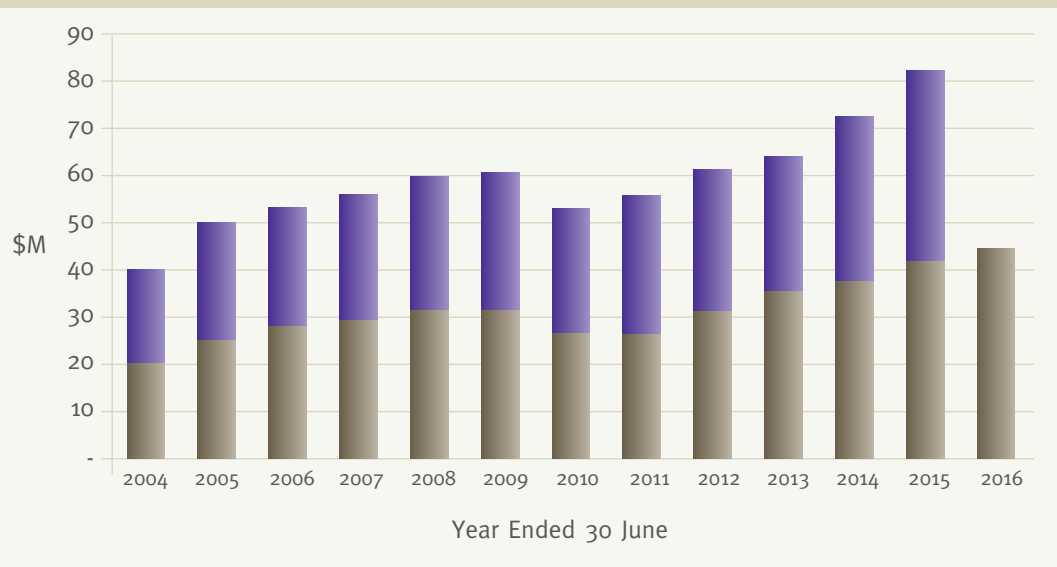
22 February 2016

## 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



## INDEPENDENT REVIEW REPORT

To the shareholders of Freightways Limited

### Report on the Half Year Financial Statements

We have reviewed the accompanying Group financial statements of Freightways Limited ("the Company") on pages 6 to 19, which comprise the consolidated balance sheet as at 31 December 2015, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

### Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and 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 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 auditors perform 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) and International Standards on Auditing. Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the area of Directors' fees benchmarking and other agreed procedures at the Annual Meeting of Shareholders. The provision of these other services has not impaired our independence.

### 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**

**22 February 2016**

## CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

	Note	6 mths ended 31 Dec 2015 \$000	6 mths ended 31 Dec 2014 \$000	Variance %
<b>Operating revenue</b>	4	254,898	241,760	5%
Transport and logistics expenses		(97,104)	(97,655)	(1%)
Employee benefits expenses		(70,140)	(62,236)	13%
Occupancy expenses		(11,708)	(10,396)	13%
General and administrative expenses		(24,759)	(22,867)	8%
<b>Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles</b>		51,187	48,606	5%
Depreciation and software amortisation		(6,188)	(6,197)	-
<b>Operating profit before interest, income tax and amortisation of intangibles</b>		44,999	42,409	6%
Amortisation of intangibles		(963)	(607)	59%
<b>Operating profit before interest and income tax</b>	4	44,036	41,802	5%
Net interest and finance costs		(5,741)	(5,826)	(1%)
<b>Profit before income tax</b>		38,295	35,976	6%
Income tax		(10,547)	(9,669)	9%
<b>Profit for the period attributable to shareholders</b>		27,748	26,307	5%
<b>Earnings per share for the period:</b>				
Basic earnings per share (cents)		17.9	17.0	
Diluted earnings per share (cents)		17.9	17.0	

**NB:** All revenue and earnings are from continuing operations.

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



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

	6 mths ended 31 Dec 2015 \$000	6 mths ended 31 Dec 2014 \$000
<b>Profit for the period</b>	27,748	26,307
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(2,011)	(1,299)
Cash flow hedges taken directly to equity, net of tax	272	(1,333)
<b>Total other comprehensive income after income tax</b>	(1,739)	(2,632)
<b>Total comprehensive income for the period attributable to the shareholders</b>	26,009	23,675

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 2015 (UNAUDITED)

	Note	6 mths ended 31 Dec 2015 \$000	6 mths ended 31 Dec 2014 \$000
<b>Equity at the beginning of the period</b>		207,804	199,436
Adjustments for acquisition accounting	3	583	-
<b>Restated equity at the beginning of the period</b>		208,387	199,436
Profit for the period		27,748	26,307
Exchange differences on translation of foreign operations		(2,011)	(1,299)
Cash flow hedges taken directly to equity, net of tax		272	(1,333)
<b>Total comprehensive income for the period</b>		26,009	23,675
Dividends paid		(19,345)	(17,384)
Issue of ordinary shares, net of costs		878	720
<b>Equity at the end of the period</b>	5	215,929	206,447

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

## CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2015 (UNAUDITED)

	Note	As at 31 Dec 2015 \$000	As at 31 Dec 2014 \$000 (Restated)	As at 30 Jun 2015 \$000 (Restated)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		12,378	3,780	13,946
Trade and other receivables		73,062	69,174	71,247
Inventories		6,432	8,025	5,870
		91,872	80,979	91,063
Assets held for sale		5,797	-	5,797
Total current assets		97,669	80,979	96,860
<b>Non-current assets</b>				
Trade and other receivables		421	452	273
Property, plant and equipment		84,851	94,268	84,511
Intangible assets		309,091	303,454	311,563
Total non-current assets		394,363	398,174	396,347
<b>Total assets</b>		492,032	479,153	493,207
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		57,954	55,014	57,436
Finance lease liabilities		9	210	32
Income tax payable		4,411	4,648	6,327
Provisions		1,563	503	1,413
Derivative financial instruments		72	501	338
Unearned income		16,308	14,892	16,041
Total current liabilities		80,317	75,768	81,587
<b>Non-current liabilities</b>				
Trade and other payables		6,019	6,259	6,744
Borrowings (secured)	6	170,976	169,277	177,007
Deferred tax liability		7,182	9,993	7,723
Provisions		2,832	2,887	2,932
Finance lease liabilities		-	8	-
Derivative financial instruments		8,777	8,514	8,827
Total non-current liabilities		195,786	196,938	203,233
<b>Total liabilities</b>		276,103	272,706	284,820
<b>NET ASSETS</b>		215,929	206,447	208,387
<b>EQUITY</b>				
Contributed equity	5	123,736	122,828	122,858
Retained earnings		103,531	96,138	95,128
Cash flow hedge reserve		(6,509)	(6,754)	(6,781)
Foreign currency translation reserve		(4,829)	(5,765)	(2,818)
<b>TOTAL EQUITY</b>	5	215,929	206,447	208,387

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 2015 (UNAUDITED)

	6 mths ended 31 Dec 2015 \$000	6 mths ended 31 Dec 2014 \$000
Note	INFLOWS (OUTFLOWS)	INFLOWS (OUTFLOWS)
<b>Cash flows from operating activities</b>		
Receipts from customers	258,554	241,056
Payments to suppliers and employees	(208,114)	(190,711)
<b>Cash generated from operations</b>	50,440	50,345
Interest received	63	64
Interest and other costs of finance paid	(5,168)	(5,475)
Income taxes paid	(13,048)	(11,603)
<b>Net cash inflows from operating activities</b>	7 32,287	33,331
<b>Cash flows from investing activities</b>		
Payments for property, plant & equipment	(6,764)	(5,802)
Payments for software	(881)	(771)
Proceeds from disposal of property, plant & equipment	20	129
Payments for businesses acquired (net of cash acquired)	(5,805)	(22,342)
Payments for other investing activities	(521)	(117)
<b>Net cash outflows from investing activities</b>	(13,951)	(28,903)
<b>Cash flows from financing activities</b>		
Dividends paid	(19,345)	(17,384)
Increase (decrease) in bank borrowings	(645)	12,861
Net proceeds from issue of ordinary shares	296	153
Finance lease liabilities repaid	(38)	(55)
<b>Net cash outflows from financing activities</b>	(19,732)	(4,425)
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,396)	3
Cash and cash equivalents at the beginning of the period	13,946	3,880
Exchange rate adjustments	(172)	(103)
<b>Cash and cash equivalents at the end of the period</b>	12,378	3,780

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 2015 (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 2015.

Certain comparatives have been restated to align with the current period's presentation and as a result of finalising certain acquisition accounting, as explained in note 3.

### 2. ACCOUNTING POLICIES

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

### 3. ACQUISITION ACCOUNTING RESTATEMENT

The initial accounting for acquisitions made during the 2015 financial year had previously been determined on a provisional basis. The fair value of assets acquired and liabilities assumed, including identified intangible assets, were subsequently finalised during the 12 months from the respective acquisition dates and upon confirmation of certain determinants that impacted earnings assumptions. The comparative financial statements have been restated to reflect the final determination of the fair value of assets acquired and liabilities assumed. Refer to note 10 for further explanation.

The following line items in the respective balance sheets have been restated by the amounts indicated:

	As at 31 Dec 2014 \$000 Increase / (Decrease)	As at 30 Jun 2015 \$000 Increase / (Decrease)
Trade and other receivables	5,677	1,213
Plant and equipment	(633)	-
Goodwill	(13,319)	(6,674)
Trade and other payables	(7,402)	(5,583)
Income tax payable	(375)	(453)
Deferred tax liability	(545)	(8)
Provisions	47	-
Foreign currency translation reserve	-	26
Retained earnings (net interest and finance costs adjusted)	-	557

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

### 4. 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.

#### (b) Segment analysis

	EXPRESS PACKAGE & BUSINESS MAIL	INFORMATION MANAGEMENT	CORPORATE & OTHER	INTER- SEGMENT ELIMINATION	CONSOLIDATED OPERATIONS
	\$000	\$000	\$000	\$000	\$000
<b>Half year ended 31 December 2015</b>					
Sales to external customers	185,785	69,113	-	-	254,898
Inter-segment sales	998	-	2,253	(3,251)	-
Total revenue	186,783	69,113	2,253	(3,251)	254,898
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	35,439	16,532	(784)	-	51,187
Depreciation and software amortisation	(3,052)	(2,371)	(765)	-	(6,188)
Operating profit (loss) before interest, income tax and amortisation of intangibles	32,387	14,161	(1,549)	-	44,999
Amortisation of intangibles, excluding software amortisation	(25)	(938)	-	-	(963)
Operating profit (loss) before interest and income tax	32,362	13,223	(1,549)	-	44,036
Net interest and finance costs	(2)	(454)	(5,285)	-	(5,741)
Profit (loss) before income tax	32,360	12,769	(6,834)	-	38,295
Income tax	(9,122)	(3,956)	2,531	-	(10,547)
Profit (loss) for the period attributable to the shareholders	23,238	8,813	(4,303)	-	27,748

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

### (b) Segment analysis (continued)

	EXPRESS PACKAGE & BUSINESS MAIL	INFORMATION MANAGEMENT	CORPORATE & OTHER	INTER- SEGMENT ELIMINATION	CONSOLIDATED OPERATIONS
	\$000	\$000	\$000	\$000	\$000
<b>Half year ended 31 December 2014</b>					
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, 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 2015 (UNAUDITED)

### 5. EQUITY

	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
	\$000	\$000	\$000	\$000	\$000
<b>Balance at 1 July 2015</b>	122,858	94,571	(6,781)	(2,844)	207,804
Adjustment for acquisition accounting	-	557	-	26	583
<b>Restated balance at 1 July 2015</b>	122,858	95,128	(6,781)	(2,818)	208,387
Profit for the period	-	27,748	-	-	27,748
Dividend payment	-	(19,345)	-	-	(19,345)
Shares issued, net of costs	878	-	-	-	878
Cash flow hedges taken directly to equity, net of tax	-	-	272	-	272
Exchange differences on translation of foreign operations	-	-	-	(2,011)	(2,011)
<b>Balance at 31 December 2015</b>	123,736	103,531	(6,509)	(4,829)	215,929
<b>Balance at 1 July 2014</b>	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)
<b>Balance at 31 December 2014</b>	122,828	96,138	(6,754)	(5,765)	206,447

#### Contributed equity

##### Fully paid ordinary shares

As at 31 December 2015, there were 154,760,691 fully paid ordinary shares on issue (2014: 154,522,922). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

##### Partly paid ordinary shares

On 14 September 2015, 121,691 partly paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2014: 124,221). The issue price per share was \$5.39 (2014: \$5.11) 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, 63 partly paid shares were redeemed and cancelled (2014: 24,292). As at 31 December 2015, there were 383,721 partly paid ordinary shares on issue (2014: 409,862). 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 2015 (UNAUDITED)

### Partly paid ordinary shares, fully paid up to ordinary shares

On 14 September 2015, 147,769 (2014: 173,498) 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 \$3.92 (2014: \$3.12).

### Employee share plan

On 15 September 2015, the Company issued 90,000 fully paid ordinary shares at \$4.86 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2014: 115,000 fully paid ordinary shares at \$4.60 each). In total, participating employees were provided with interest-free loans of \$0.4 million to fund their purchase of the shares in the Share Plan (2014: \$0.5 million). The loans are repayable over three years and repayment commenced in October 2015.

### 6. BORROWINGS (SECURED)

The Group has negotiated a two-year extension of its bank facilities. The extended facilities, at improved pricing, are spread between 3-year, 4-year and 5-year maturity and became effective from 1 July 2015.

As at 31 December 2015, the Group's debt facilities comprised NZ\$110 million and A\$97 million (2014: NZ\$110 million and A\$97 million), of which NZ\$77 million and A\$88 million (2014: NZ\$77 million and A\$88 million) had been drawn, respectively. The Group also had an undrawn bank overdraft facility of NZ\$8 million available (2014: NZ\$8 million).

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

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

	6 mths ended 31 Dec 2015 \$000	6 mths ended 31 Dec 2014 \$000
<b>Profit for the period</b>	27,748	26,307
<i>Add non-cash items:</i>		
Depreciation and amortisation	7,151	6,804
Movement in provision for doubtful debts	50	226
Movement in deferred income tax	(114)	(1,539)
Net loss on disposal of fixed assets	24	23
Net foreign exchange loss (gain)	(11)	(7)
Movement in derivative fair value	61	54
<i>Items not included in profit for the period:</i>		
Cash flow hedges taken directly to equity	(272)	1,333
<i>Movement in working capital, net of effects of acquisitions of businesses:</i>		
(Increase) decrease in trade and other receivables	(2,619)	(1,119)
(Increase) decrease in inventories	(608)	775
Increase (decrease) in trade and other payables	2,738	1,429
Increase (decrease) in income taxes payable	(1,861)	(955)
<b>Net cash inflows from operating activities</b>	<b>32,287</b>	<b>33,331</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

### 8. 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 2015 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2015 \$000	2014 \$000
Short-term employee benefits	3,312	3,279
Long-term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments	315	150

### 9. 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 2015 contained in its Annual Report, which can be obtained from the Company's registered office or [www.freightways.co.nz](http://www.freightways.co.nz).

There have been no significant changes in the Group's risk management objectives and policies since 30 June 2015.

In the period to 31 December 2015 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 and valuation techniques

The Group uses various methods in estimating the fair value of financial instruments, contingent consideration in business combinations and purchase price adjustments. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

Specific valuation techniques used to value contingent consideration in a business combination and estimated purchase price adjustments include:

- fair value is calculated as the present value of the estimated future cash flows based on management's assessment of future performance; and
- management's knowledge of the business and the industry it operates in.

The Group's derivative financial instruments are all Level 2 financial instruments and purchase price adjustments are all Level 3 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 2015.

There have been no reclassifications of financial assets and finance liabilities since 30 June 2015.

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

### 10. BUSINESS COMBINATIONS

#### Current period acquisitions

During the half year ended 31 December 2015, the Group acquired a number of small information management businesses in Australia and New Zealand 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 2015 was revenue of \$1.2 million and operating profit before interest, income tax and amortisation of intangibles of \$0.2 million.

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 \$1.6 million and \$0.4 million, respectively.

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

	\$000
<b>Purchase consideration</b>	
Cash paid during the period	3,854
Total purchase consideration	3,854
<b>Fair value of assets and liabilities arising from the acquisition</b>	
Prepayments	4
Property, plant and equipment	533
Customer relationships	667
Goodwill	3,115
Trade and other payables	(311)
Deferred tax liability	(154)
	3,854

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

The goodwill of \$3.1 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.

### Prior period acquisitions

#### LitSupport Pty Ltd ("LTS")

On 3 December 2014, the Group acquired 100% of LTS, a company operating in the Australian information management market, for an initial payment of \$18.3 million (A\$17.1 million) and a future maximum earn-out of \$13.9 million (A\$12.9 million). This acquired subsidiary operates within the Group's information management division.

As a result of not meeting an initial financial hurdle for the 2015 calendar year, the vendors are required to refund \$5.3 million (A\$5 million) of the initial purchase price to the Company and this has been recorded as a receivable on the balance sheet as at 31 December 2015.

The initial accounting for this acquisition had previously been determined on a provisional basis. The fair value of assets acquired and liabilities assumed, including identified intangible assets, were subsequently finalised within 12 months from the acquisition date and upon confirmation of certain determinants that impacted earnings assumptions. The following table summarises the final amounts determined for consideration paid and the fair value of assets acquired and liabilities assumed.

	Final acquisition accounting 31 Dec 2015	Provisional acquisition accounting 30 Jun 2015	Provisional acquisition accounting 31 Dec 2014
	\$000	\$000	\$000
<b>Purchase consideration</b>			
Cash paid	18,313	18,343	18,321
Additional cash consideration payable	-	-	120
Estimated purchase price adjustment	(5,338)	(4,389)	-
Fair value of future earn-out payment	4,360	8,452	10,624
Total purchase consideration	17,335	22,406	29,065
<b>Fair value of assets and liabilities arising from the acquisition</b>			
Cash and cash equivalents	1,478	1,478	1,467
Trade and other receivables	2,664	2,664	2,296
Plant and equipment	1,819	1,819	2,472
Brand name	4,745	4,745	4,853
Customer relationships	4,314	4,314	5,392
Goodwill	8,072	13,539	18,643
Trade and other payables	(3,325)	(3,713)	(3,170)
Deferred tax liability	(2,432)	(2,440)	(2,843)
Finance lease	-	-	(45)
	17,335	22,406	29,065

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

The future earn-out payment of up to a maximum discounted amount of \$8.8 million 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 expects could be required to be made in respect of this acquisition is between nil and \$6.4 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill 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.

### 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.

The contingent consideration arrangement required 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 2014. The final earn-out payment of \$0.8 million was paid in August 2015.

### Previous acquisitions

During the year ended 30 June 2015, the Group acquired a number of small information management businesses in Australia for initial payments totalling \$1.8 million and potential future maximum earn-outs totalling \$2.3 million. These businesses have been integrated into the Group's information management division.

The initial accounting for these acquisitions had previously been determined on a provisional basis. The fair value of assets acquired and liabilities assumed, including identified intangible assets, were subsequently finalised within 12 months from the acquisition dates and upon confirmation of certain determinants that impacted earnings assumptions. The following table summarises the final amounts determined for consideration paid and the fair value of assets acquired and liabilities assumed.

	Final acquisition accounting 31 Dec 2015	Provisional acquisition accounting 30 Jun 2015	Provisional acquisition accounting 31 Dec 2014
	\$000	\$000	\$000
<b>Purchase consideration</b>			
Cash paid during the period	1,810	1,810	1,810
Estimated working capital adjustment & future earn-out payments	181	862	2,079
Total purchase consideration	1,991	2,672	3,889
<b>Fair value of assets and liabilities arising from the acquisition</b>			
Inventories	40	40	40
Customer relationships	957	957	1,470
Goodwill	1,376	2,057	2,916
Trade and other payables	(137)	(137)	(137)
Deferred tax liability	(245)	(245)	(400)
	1,991	2,672	3,889

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2015 (UNAUDITED)

Future earn-out payments up to a maximum discounted amount of \$0.2 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 \$0.3 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill of \$1.4 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.

As at 30 June 2015, future earn-out payment relating to an acquisition made in December 2013 of up to a maximum undiscounted amount of \$1.1 million was potentially payable within the next twelve months. During the half year ended 31 December 2015 the earn-out payment of \$1.1 million was paid.

### 11. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2015, the Group had capital commitments to purchase equipment of \$13.6 million (2014: \$2.2 million).

As at 31 December 2015, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately \$5.8 million (2014: \$5.3 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 2015 (2014: nil).

### 12. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 31 December 2015 was (\$0.54) (2014: (\$0.57)).

### 13. POST BALANCE DATE EVENTS

#### Dividend declared

On 22 February 2016, the Directors declared a fully imputed interim dividend of 12.75 cents per share (approximately \$19.7 million) in respect of the year ended 30 June 2016. The dividend will be paid on 4 April 2016. The record date for determination of entitlements to the dividend is 18 March 2016. A supplementary dividend of 2.25 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

For inquiries in relation to Freightways' services and products contact the offices listed below or refer to Freightways' website at [www.freightways.co.nz](http://www.freightways.co.nz).

### **Messenger Services Limited**

32 Botha Road  
Penrose  
DX EX10911  
AUCKLAND  
Telephone: 09 526 3680  
[www.sub60.co.nz](http://www.sub60.co.nz)  
[www.kiwiexpress.co.nz](http://www.kiwiexpress.co.nz)  
[www.stuck.co.nz](http://www.stuck.co.nz)  
[www.securityexpress.co.nz](http://www.securityexpress.co.nz)

### **New Zealand Couriers Limited**

32 Botha Road  
Penrose  
DX CX10119  
AUCKLAND  
Telephone: 09 571 9600  
[www.nzcouriers.co.nz](http://www.nzcouriers.co.nz)

### **Post Haste Limited**

32 Botha Road  
Penrose  
DX EX10978  
AUCKLAND  
Telephone: 09 579 5650  
[www.posthaste.co.nz](http://www.posthaste.co.nz)  
[www.passtheparcel.co.nz](http://www.passtheparcel.co.nz)

### **Castle Parcels Limited**

163 Station Road  
Penrose  
DX CX10245  
AUCKLAND  
Telephone: 09 525 5999  
[www.castleparcels.co.nz](http://www.castleparcels.co.nz)

### **Shred-X Pty Limited**

PO Box 1184  
Oxenford  
Queensland 4215  
AUSTRALIA  
Telephone: +61 1 300 667 555  
[www.shred-x.com.au](http://www.shred-x.com.au)

### **New Zealand Document Exchange Limited**

20 Fairfax Avenue  
Penrose  
DX CR59901  
AUCKLAND  
Telephone: 09 526 3150  
[www.dxmail.co.nz](http://www.dxmail.co.nz)  
[www.dataprint.co.nz](http://www.dataprint.co.nz)

### **The Information Management Group (NZ) Limited**

33 Botha Road  
Penrose  
DX EX10975  
AUCKLAND  
Telephone: 09 580 4360  
[www.timg.co.nz](http://www.timg.co.nz)

### **Fieldair Holdings Limited**

Palmerston North International Airport  
Palmerston North  
DX PX10029  
PALMERSTON NORTH  
Telephone: 06 357 1149  
[www.fieldair.co.nz](http://www.fieldair.co.nz)

### **NOW Couriers Limited**

161 Station Road  
Penrose  
AUCKLAND  
Telephone: 09 526 9170  
[www.nowcouriers.co.nz](http://www.nowcouriers.co.nz)

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[www.filesaver.com.au](http://www.filesaver.com.au)  
[www.litsupport.com.au](http://www.litsupport.com.au)

