

Freightways
DECEMBER 2010 HALF YEAR REPORT

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



DX Mail
www.dxmail.co.nz



Parceline Express



Pass The Parcel
www.passtheparcels.co.nz



Stuck
www.stuck.co.nz



Online Security Services
www.onlinesecurity.co.nz



Document Destruction Service
www.destruction.co.nz



Data Security Services
www.dataservices.co.nz



Archive Security
www.onlinerecords.co.nz



Databank
www.databank.com.au



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



Air Freight NZ



Fieldair Engineering
www.fieldair.co.nz



Freightways Information Services

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

The Directors are pleased to present the financial result of Freightways Limited (Freightways) for the half year ended 31 December 2010. The successful execution of a range of strategies focused on service quality, cost management and growth, along with a return to improving volumes from many existing customers, have combined to deliver a positive result above that of the prior half year.

Operating performance

Consolidated operating revenue of \$176 million for the half year was 7% higher than the prior comparative period (pcp). Revenue from 1 October to 31 December 2010 (Second Quarter) was particularly strong at 9% above the pcp, whereas previously announced revenue from 1 July to 30 September 2010 (First Quarter) was 4% ahead of the pcp.

EBITDA of \$34 million for the half year was 6% higher than the pcp. Second Quarter EBITDA was 9% above the pcp, whereas previously announced First Quarter EBITDA was 2% above the pcp.

EBITA of \$29 million for the half year was 7% higher than the pcp. Second Quarter EBITA was 10% above the pcp, whereas previously announced First Quarter EBITA was 3% above the pcp.

Consolidated NPAT of \$16 million for the half year was 9% higher than the pcp.

During the half year the Christchurch earthquake affected all Freightways businesses in some way. Most importantly none of our team was injured, despite several being at work during the time of the earthquake. Our express package & business mail teams implemented contingency plans locally and through the support of their team mates in the rest of New Zealand ensured minimal disruption to service, except where access was restricted. The document storage operation of our Christchurch information management business was more severely affected, with collapsed racking restricting our ability to provide normal levels of service to our customers. The project to extract archive boxes, rebuild racking and return to normal service is all but complete. Commercially the impact of the earthquake on Freightways has not been material. The information management business is insured for this type of incident in relation to its equipment and earnings.

More recently the flooding in Queensland has affected the operations of Shred-X, DataBank and Archive Security. Again, most importantly, none of our team has been injured. While our facilities have also been unaffected, access to our customers, particularly in the Brisbane CBD, has been severely restricted. The full commercial impact of the flooding on Freightways is yet to be determined, but it is not expected to be material.

In both the above instances the Freightways team demonstrated its tremendous service ethic and team work to ensure minimal disruption to customers.

Dividend

The Directors have declared an interim dividend of 7.25 cents per share, fully imputed at a tax rate of 30%. This represents a payout of approximately \$11.1 million compared with \$10.8 million for the pcp interim dividend of 7 cents per share. The dividend will be paid on 31 March 2011. The record date for determination of entitlements to the dividend is 11 March 2011.

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

REVIEW OF OPERATIONS

Express Package and Business Mail

The core express package & business mail division currently contributes approximately 80% of Freightways' revenue and earnings through its brands of New Zealand Couriers, Post Haste Couriers, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express and DX Mail.

Operating revenue of \$140 million for the half year was 5% higher than the pcp. Second Quarter revenue was 7% above the pcp, whereas First Quarter revenue was 3% above the pcp.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

EBITDA of \$26 million for the half year was 3% higher than the pcp. Second Quarter EBITDA was 8% above the pcp, whereas First Quarter EBITDA was 2% below the pcp.

EBITA of \$23 million for the half year was 5% higher than the pcp. Second Quarter EBITA was 10% above the pcp, whereas First Quarter EBITA was on par with the pcp.

As the half year progressed, the improving performance of the express package & business mail division gained momentum, assisted by modest price increases, some market share gains and a return to increasing volumes from many existing customers. Management's foremost focus remains directed at service quality and cost management strategies, while continuing to explore and execute growth initiatives to further broaden the suite of services offered by this division.

In November, the acquisition of a small New Zealand domiciled international postal service provider was finalised and subsequently merged with DX Mail. The initial cost of this acquisition was \$1.75 million and the total cost is likely to be \$3 million, with the balance only being paid upon the achievement of financial hurdles through to June 2013. Both DX Mail and New Zealand Couriers will benefit from the initial 12 months' incremental EBITA contribution from this acquisition, which is expected to be \$0.7 million.

Agreements have recently been finalised to trial the retailing of parcel products via nationwide retail chains. The objective of these initiatives is to provide customers with greater access to the range of services offered by the express package & business mail division.

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 DataBank, Archive Security and Shred-X.

This division continues to demonstrate excellent revenue and earnings growth. Operating revenue of \$37 million for the half year was 14% above the pcp. Second Quarter revenue was 16% above the pcp, whereas First Quarter revenue was 11% above the pcp.

EBITDA of \$8 million for the half year was 21% above the pcp. Second Quarter EBITDA was 19% above the pcp, whereas First Quarter EBITDA was 23% above the pcp.

EBITA of \$7 million for the half year was 22% above the pcp. Second Quarter EBITA was 19% above the pcp whereas First Quarter EBITA was 26% above the pcp.

Recent investment in additional document storage capacity in Melbourne, Wellington, Sydney and Auckland has increased the cost base of this division for this half compared to the pcp, however the strong growth we continue to achieve is contributing to the offset of these increased costs. Accelerated demand for the services offered by our information management division has meant that further purpose-built storage capacity will be leased in Perth and Adelaide during the second financial half of 2011. This investment is expected to reap future rewards as increasing utilisation of this extra capacity is achieved.

Strategic growth opportunities for this division of Freightways continue to be explored and executed. During the half year Shred-X started up operations in South Australia, New South Wales and Western Australia. Freightways is now in a position to offer its Australian information management customers a full nationwide service, with its own representation across all three primary service lines in all major states and via an established agent network in outer-lying areas.

The information management division has contributed approximately 20% of Freightways' total EBITA for this half year and its overall performance continues to be outstanding.

Internal service providers

Fieldair Holdings provides airfreight linehaul services, Parceline Express provides road linehaul services and Freightways Information Services provides IT support to the Freightways front line express package and business mail businesses. All three internal service providers have continued to deliver exceptional service.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

Finance facilities

Freightways' finance facilities were renegotiated during the first half of the financial year to provide 5-year funding for around a third of the finance facilities until September 2015. The balance of the facilities is available through to September 2012. This new 5-year component of the finance facilities demonstrates the support of Freightways' banking syndicate and provides important diversity of tenure and funding certainty for the company.

Corporate

Corporate overhead costs continue to be well contained, as are all other major areas of cost within the operating businesses, other than occupancy. Occupancy costs have been impacted by investment in increased capacity for our growing information management division.

Interest costs for the half year have increased compared with the pcp due to slightly higher average bank debt levels during the period and the higher margins charged by Freightways' lenders compared with the pcp. The bank debt levels at the end of the half year are \$6 million higher than as at 30 June 2010, however \$5 million of that is as a result of the movement in foreign exchange rates applicable to the translation of Australian-denominated borrowings, which itself does not contribute to any increase in interest costs.

Tax expense for the half year is lower than the pcp due to higher interest deductions on cross-Tasman intercompany borrowings.

OUTLOOK

While Freightways has shown its ability to deliver quality growth in a still difficult market, we have not yet experienced increased volumes across all sectors of our customer base. It is also too early to suggest that the growth we have experienced, particularly in the Second Quarter, is sustainable. Accordingly we must at this stage remain cautious in our outlook. We are nevertheless encouraged by this half year result and are optimistic about a further gradually improving marketplace. In the meantime, Freightways will continue to actively manage its cost base, seek to further improve its service quality and continue to develop growth initiatives wherever possible.

The express package & business mail division, while reliant on continuing growth amongst its existing customer base to sustain its year-on-year performance improvement, has again shown its ability in the Second Quarter of this half year to return double digit EBITA growth. If the recent level of revenue growth can be maintained, and subject to other factors beyond the division's control, it is expected that similar levels of earnings growth should also be achieved in the future.

The information management division is expected to continue its strong growth. While the cost of increased capacity will continue to come to bear throughout the balance of the 2011 financial year, the benefit derived from the recurring nature of this division's revenue will drive sustainable long-term value. The initial market demand for this additional leased capacity has also been particularly encouraging; meaning the impact on margin of a higher cost base may be for a shorter period of time than initially expected.

Capital expenditure for the half year was \$6 million. Full year capital expenditure is expected to be \$13 million. This investment will be evenly distributed between the express package & business mail division and the information management division. Overall, cash flows are expected to remain strong throughout the balance of the financial year.

In recent years, Freightways has strengthened its earnings profile by diversifying its activities both geographically and deeper into the information management market. Freightways will continue to seek and develop growth opportunities to support this strategy and will also explore other opportunities that complement its core capabilities.

Subject to business factors beyond its control, Freightways is well positioned to reap the benefits of further improvement in the markets in which it operates.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

CONCLUSION

Freightways has delivered a half year operating result that demonstrates sound progress and is above the prior year in all respects, again demonstrating the resilience of the Group, the positive features of the markets it operates in and the high quality of its subsidiary businesses and teams of people. Accordingly, the Directors have been able to declare a fully imputed 7.25 cents per share interim dividend.

The Directors acknowledge the outstanding work and ongoing dedication of the Freightways team in a continuing difficult trading environment.



Susan Sheldon
Chairman



Dean Bracewell
Managing Director

14 February 2011



INDEPENDENT ACCOUNTANTS' REPORT

To the shareholders of Freightways Limited

Report on the interim financial statements

We have reviewed the interim condensed consolidated financial statements ("financial statements") of Freightways Limited on pages 6 and 8 to 16, which comprise the balance sheet as at 31 December 2010, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the interim financial statements

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 31 December 2010 and its financial performance and cash flows for the half year ended on that date.

Accountants' responsibility

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the half year ended 31 December 2010 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

Other than in our capacity as accountants conducting this review and as auditors under the Companies Act 1993, we have no relationship with, or interests in, Freightways Limited.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 31 December 2010 and its financial performance and cash flows for the half year ended on that date.

Restriction on distribution or use

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 an accountant's 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 Company and the Company's shareholders as a body, for our review procedures, for this report, or for the opinions we have formed.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', is written over a horizontal line.

Chartered Accountants
Auckland
14 February 2011

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (UNAUDITED)

	Note	6 mths ended 31 Dec 2010 \$000	6 mths ended 31 Dec 2009 \$000	Variance %
Operating revenue	3	176,166	164,919	7%
Transport and logistics expenses*		(81,624)	(75,182)	9%
Employee benefits expenses*		(39,224)	(37,164)	6%
Occupancy expenses		(6,268)	(5,751)	9%
General and administrative expenses		(15,511)	(15,037)	3%
Operating profit before interest, tax, depreciation and software amortisation		33,539	31,785	6%
Depreciation and software amortisation		(4,858)	(4,925)	(1%)
Operating profit before interest and income tax (EBITA)	3	28,681	26,860	7%
Net interest and finance costs		(7,795)	(6,871)	13%
Profit before income tax		20,886	19,989	4%
Income tax		(5,090)	(5,532)	(8%)
Profit for the period (NPAT)		15,796	14,457	9%
Earnings per share for the period:				
Basic earnings per share (cents)		10.3	9.5	
Diluted earnings per share (cents)		10.3	9.5	

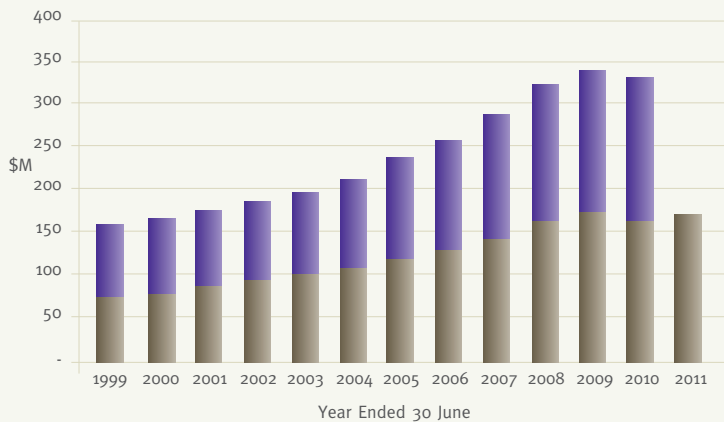
* Employee benefits of \$6,625,000 (2009: \$5,637,000) have been included in Transport and logistics expenses, due to the function performed by the relevant employees. The total Employee benefits expenses of the consolidated group for the six months ended 31 December 2010 were \$45,849,000 (2009: \$42,801,000).

NB: All revenue and earnings are from continuing operations.

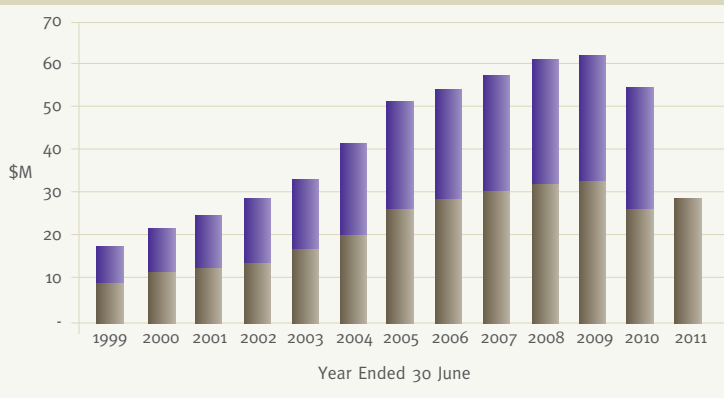
The above Income Statement should be read in conjunction with the accompanying notes.

FINANCIAL SUMMARY (UNAUDITED)

FREIGHTWAYS OPERATING REVENUE



FREIGHTWAYS EBITA



1st half
 2nd half

NB:

– Historic EBITA amounts above for the years ended 30 June 1999 to 2003 have been presented on a pro-forma basis consistent with the Freightways Investment Statement and Prospectus issued in August 2003.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (UNAUDITED)

	6 mths ended 31 Dec 2010 \$000	6 mths ended 31 Dec 2009 \$000
Profit for the period (NPAT)	15,796	14,457
Other comprehensive income		
Cash flow hedges taken directly to equity, net of tax	2,382	1,354
Exchange differences on translation of foreign operations	1,574	(486)
Total other comprehensive income after income tax	3,956	868
Total comprehensive income for the period	19,752	15,325

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 2010 (UNAUDITED)

	Note	6 mths ended 31 Dec 2010 \$000	6 mths ended 31 Dec 2009 \$000
Equity at the beginning of the period		157,926	146,055
Total comprehensive income for the period		19,752	15,325
Dividends paid		(10,754)	(12,706)
Issue of ordinary shares, net of costs		193	12,829
Equity at the end of the period	4	167,117	161,503

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2010 (UNAUDITED)

Note	As at 31 Dec 2010 \$000	As at 31 Dec 2009 \$000	As at 30 Jun 2010 \$000
ASSETS			
Current assets			
	3,871	4,642	4,996
	48,978	45,413	44,724
	7,527	7,170	7,770
	60,376	57,225	57,490
Non-current assets			
	378	303	360
	79,688	76,782	77,111
	255,347	245,850	246,491
	1,229	1,008	1,034
	26	24	22
	336,668	323,967	325,018
	397,044	381,192	382,508
LIABILITIES			
Current liabilities			
	40,565	36,078	37,679
	10	262	189
	281	287	232
	49	500	233
	15,142	14,503	15,645
	56,047	51,630	53,978
Non-current liabilities			
	1,000	1,859	1,842
5	160,756	159,545	154,648
	7,234	1,217	6,106
	939	731	858
	3,951	4,707	7,150
	173,880	168,059	170,604
	229,927	219,689	224,582
	167,117	161,503	157,926
NET ASSETS			
EQUITY			
4	120,681	120,453	120,488
	48,364	45,366	43,322
	(3,200)	(4,058)	(5,582)
	1,272	(258)	(302)
4	167,117	161,503	157,926

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 2010 (UNAUDITED)

	6 mths ended 31 Dec 2010 \$000	6 mths ended 31 Dec 2009 \$000
Note	INFLOWS (OUTFLOWS)	INFLOWS (OUTFLOWS)
Cash flows from operating activities		
Receipts from customers	171,747	162,451
Payments to suppliers and employees	(140,651)	(134,193)
Cash generated from operations	31,096	28,258
Interest and other costs of finance paid	(6,965)	(8,897)
Income taxes paid	(7,148)	(8,061)
Net cash inflows from operating activities	6 16,983	11,300
Cash flows from investing activities		
Payments for property, plant & equipment	(5,791)	(5,867)
Payments for software	(456)	(487)
Proceeds from disposal of property, plant & equipment	18	83
Payments for businesses acquired	(1,603)	(389)
Advances repaid by associates	-	3,783
Payments for other investing activities	(495)	-
Net cash outflows from investing activities	(8,327)	(2,877)
Cash flows from financing activities		
Dividends paid	(10,754)	(9,709)
Increase (decrease) in bank borrowings	1,000	(20,298)
Net proceeds from issue of ordinary shares	25	9,423
Finance lease liabilities repaid	(187)	(191)
Net cash outflows from financing activities	(9,916)	(20,775)
Net decrease in cash and cash equivalents	(1,260)	(12,352)
Cash and cash equivalents at the beginning of the period	4,996	16,970
Exchange rate adjustments	135	24
Cash and cash equivalents at the end of the period	3,871	4,642

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 2010 (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 issuer in terms of the Securities Act 1978 and the Financial Reporting Act 1993. The interim financial statements have been prepared in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

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 have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards and with International Financial Reporting Standards.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies and methods of computation are consistent with those used in the most recent annual report which can be obtained from Freightways' registered office or www.freightways.co.nz.

Certain comparatives have been restated to conform with the current period's presentation.

3. SEGMENT INFORMATION

(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 management and the Board to assist strategic decision-making:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (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 2010					
Sales to external customers	139,696	36,470	-	-	176,166
Inter-segment sales	570	63	1,723	(2,356)	-
Total revenue	140,266	36,533	1,723	(2,356)	176,166
Operating profit before interest, tax, depreciation and software amortisation (EBITDA)	25,727	8,418	(606)	-	33,539
Depreciation and software amortisation expense	(2,351)	(1,797)	(710)	-	(4,858)
Operating profit before interest and income tax (EBITA)	23,376	6,621	(1,316)	-	28,681
Half year ended 31 December 2009					
Sales to external customers	132,791	32,128	-	-	164,919
Inter-segment sales	567	74	1,661	(2,302)	-
Total revenue	133,358	32,202	1,661	(2,302)	164,919
Operating profit before interest, tax, depreciation and software amortisation (EBITDA)	24,929	6,949	(93)	-	31,785
Depreciation and software amortisation expense	(2,756)	(1,534)	(635)	-	(4,925)
Operating profit before interest and income tax (EBITA)	22,173	5,415	(728)	-	26,860

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (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 2010	120,488	43,322	(5,582)	(302)	157,926
Profit for the period	-	15,796	-	-	15,796
Dividend payment	-	(10,754)	-	-	(10,754)
Shares issued, net of costs	193	-	-	-	193
Cash flow hedges taken directly to equity, net of tax	-	-	2,382	-	2,382
Foreign currency translation reserve	-	-	-	1,574	1,574
Balance at 31 December 2010	120,681	48,364	(3,200)	1,272	167,117
Balance at 1 July 2009	107,624	43,615	(5,412)	228	146,055
Profit for the period	-	14,457	-	-	14,457
Dividend payment	-	(12,706)	-	-	(12,706)
Shares issued, net of costs	12,829	-	-	-	12,829
Cash flow hedges taken directly to equity, net of tax	-	-	1,354	-	1,354
Foreign currency translation reserve	-	-	-	(486)	(486)
Balance at 31 December 2009	120,453	45,366	(4,058)	(258)	161,503

Contributed equity

Fully paid ordinary shares

As at 31 December 2010, there were 153,629,947 fully paid ordinary shares on issue (2009: 153,592,160). 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 2010, 173,685 partly paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2009: 103,357). The issue price per share was \$2.85 (2009: \$2.83) 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. As at 31 December 2010, there were 321,599 partly paid ordinary shares on issue (2009: 155,701). Partly paid ordinary shares have no voting rights and no rights to dividends and surplus on winding up.

Partly paid shares, fully paid up to ordinary shares

On 2 September 2010, 7,787 (2009: 12,440) 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 issue price per share was \$3.01 (2009: \$3.01).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (UNAUDITED)

Employee Share Plan

On 17 September 2010, the Company issued 30,000 fully paid ordinary shares at \$2.56 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2009: 150,000 fully paid ordinary shares at \$2.67 each). In total, participating employees were provided with interest-free loans of \$0.2 million to fund their purchase of the shares in the Share Plan (2009: \$0.3 million). The loans are repayable over three years and repayment commenced in October 2010.

Dividend Reinvestment Plan

The Freightways Dividend Reinvestment Plan (DRP) did not operate during the period.

In the prior period, 985,691 fully paid ordinary shares were issued at \$3.1071 to shareholders participating in the DRP in respect of the dividend paid on 30 September 2009. A further 3,124,754 fully paid ordinary shares were issued at \$3.1071 to the underwriters of the DRP which provided the Company with the funds necessary to pay cash to those shareholders who chose not to participate in the DRP for this dividend.

In total, approximately \$0.2 million of transaction costs were incurred in respect of the operation and underwriting of the DRP for the dividend paid on 30 September 2009. These costs were deducted from the gross equity raised.

5. BORROWINGS (SECURED)

On 10 September 2010 a renegotiation was completed to extend the term to maturity of NZ\$75 million of the then existing debt facility by 5 years. This tranche of the debt facility is available until 9 September 2015. The remainder of the debt facility will mature on 9 September 2012.

As at 31 December 2010, the Group's debt facility comprised NZ\$120 million and A\$80 million (2009: NZ\$120 million and A\$80 million), of which NZ\$87 million and A\$56 million (2009: NZ\$91 million and A\$55 million) had been drawn, respectively. The Group also had an undrawn bank overdraft facility of NZ\$8 million available (2009: NZ\$8 million).

For the year ended 30 June 2010, the final dividend paid on 30 September 2010 was in line with the Company's dividend policy of annually paying out 75% of NPATA. However the 75% was applied to the underlying cash earnings from operations (i.e. 75% of NPATA, excluding the non-recurring, non-cash \$5.7 million tax charge arising as a result of tax law changes). This meant that the annual dividend payout for the year ended 30 June 2010 was approximately 93% of the year's reported NPATA.

The syndicated facilities agreements applicable to the Group's banking contain a negative covenant effectively restricting the Company from paying a dividend that exceeds 80% of NPATA in any calendar year, without the written consent of the Facility Agent. The necessary consent to distribute over 80% in 2010 was obtained by the Company on 27 July 2010 in advance of the final dividend being paid.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (UNAUDITED)

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

	6 mths ended 31 Dec 2010 \$000	6 mths ended 31 Dec 2009 \$000
Profit for the period	15,796	14,457
<i>Add non-cash items:</i>		
Depreciation and software amortisation	4,858	4,925
Movement in provision for doubtful debts	(158)	226
Movement in deferred income tax	1,015	1,315
Net loss (gain) on disposal of fixed assets	31	(36)
Net foreign exchange loss (gain)	22	(383)
Movement in derivative fair value	19	(125)
<i>Items not included in profit for the period:</i>		
Cash flow hedges taken directly to equity	(2,382)	(1,460)
<i>Movement in working capital:</i>		
(Increase) decrease in trade and other receivables	(3,634)	(2,614)
(Increase) decrease in inventories	257	(405)
Increase (decrease) in trade and other payables	3,051	(1,618)
Increase (decrease) in income taxes payable	(1,973)	(3,043)
Increase (decrease) in non-current provisions	81	61
Net cash inflows from operating activities	16,983	11,300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2010 (UNAUDITED)

7. TRANSACTIONS WITH RELATED PARTIES

Trading with related parties: The Group has not entered into any material external related party transactions which require disclosure. The Group does trade, on normal commercial terms, with certain companies in which there are common directorships. These counterparties include Telecom Corporation of New Zealand Limited, Contact Energy Limited and Meridian Energy Limited.

Due from associates: The Group entered into a property development joint venture (JV) in respect of a new operating facility for one of its Australian subsidiaries. As part of this JV arrangement the Group made progress payments to the developer on behalf of the JV. The other JV partners' outstanding share of these payments was \$3.9 million and was repaid during the prior period. As at 31 December 2010 there was \$0.1 million (2009: \$0.1 million) receivable from the other JV partners.

Key management compensation: Compensation paid during the period (or payable as at 31 December 2010 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2010 \$000	2009 \$000
Short-term employee benefits	2,208	2,054
Long-term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments	39	64

8. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had contractual obligations to purchase or construct buildings and equipment for \$1.9 million at 31 December 2010 (2009: \$1.6 million).

There were no other capital commitments as at 31 December 2010 (2009: nil).

As at 31 December 2010, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately \$1.8 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 2010 (2009: nil).

9. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 31 December 2010 was (\$0.54) (2009: (\$0.52)).

10. POST BALANCE DATE EVENTS

Dividends declared

On 14 February 2011, the directors declared a fully imputed interim dividend of 7.25 cents per share or \$11.1 million to be paid on 31 March 2011 to the shareholders of record as at 11 March 2011. A supplementary dividend of 1.28 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.

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

Messenger Services Limited

32 Botha Road
Penrose
DX EX10911
AUCKLAND
Telephone: 09 526 3680
www.sub60.co.nz
www.kiwiexpress.co.nz
www.stuck.co.nz

New Zealand Couriers Limited

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

Post Haste Limited

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

Castle Parcels Limited

161 Station Road
Penrose
DX CX10245
AUCKLAND
Telephone: 09 525 5999
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

New Zealand Document Exchange Limited

32 Botha Road
Penrose
DX CR59901
AUCKLAND
Telephone: 09 526 3150
www.dxmail.co.nz

Online Security Services Limited

33 Botha Road
Penrose
DX EX10975
AUCKLAND
Telephone: 09 580 4360
www.onlinesecurity.co.nz

Fieldair Holdings Limited

Palmerston North International Airport
Palmerston North
DX PX10029
PALMERSTON NORTH
Telephone: 06 357 1149
www.fieldair.co.nz

NOW Couriers Limited

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