Freightways

Results for announcement to the market		
Name of issuer	FREIGHTWAYS LIMITED	
Reporting Period	6 months to 31 December 2019	
Previous Reporting Period	6 months to 31 December 2018	
Currency	New Zealand dollars	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$318,914	1%
Total Revenue	$318,914	1%
Net profit/(loss) from continuing operations	$29,195	(13%)
Total net profit/(loss)	$29,195	(13%)
Interim Dividend		
Amount per Quoted Equity Security	$0.20833333	
Imputed amount per Quoted Equity Security	$0.05833333	
Record Date	13 March 2020	
Dividend Payment Date	1 April 2020	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	31 December 2019 - ($0.58)	31 December 2018 - ($0.52)
A brief explanation of any of the figures above necessary to enable the figures to be understood	Refer to the section “Half Year Review” for commentary.	
Authority for this announcement		
Name of person authorised to make this announcement	Mark Royle	
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Date of release through MAP	24/02/2020	

Unaudited financial statements accompany this announcement.

HALF YEAR REVIEW

From the Chairman and Chief Executive Officer

The Directors are pleased to present the consolidated financial results of Freightways Limited (Freightways) for the six months ended 31 December 2019. This report discusses the results, reviews the operations of each division and provides an outlook for the balance of the financial year ahead.

Key matters of note in respect of the half year include:

- The agreement to acquire Big Chill Distribution Limited (Big Chill) is pending Overseas Investment Office (OIO) approval, which is expected around the end of Q3 in FY20.
- In the Express Package & Business Mail (EP&BM) division:
  - After suffering a decline in organic volume through much of 2019, due to lower same-customer trading, December showed a slight uplift in terms of year on year activity levels.
  - Pricing for Effort (PFE) delivered an average of $0.66 per item by December, up from $0.55 at the end of October.
  - Despite needing to match cheaper competitor pricing in the letters business, DX Mail successfully retained its customers.
- In the Information Management & Secure Destruction (IM&SD) division:
  - Poor performance in a number of smaller service lines and the delayed commencement of digitisation contracts proved a drag on first half year Australian earnings. A number of initiatives are in place to improve this performance in the 2nd half of FY20.
  - Growth in the Australian records storage business of 10% for the half year.
  - A major data digitisation contract was secured, which will commence in Q3 and continue through most of calendar 2020.
  - 14% revenue growth in the SD and medical waste business in Australia.
  - A decline in SD paper pricing of approximately $1m (and $0.5m in NZ) in the half year. The earnings impact of the decline in paper pricing was mitigated to some extent by higher paper volumes than the prior comparative period (pcp) and lower processing costs.

The results discussed throughout this commentary exclude the impact of:

- The new NZ IFRS 16 Leases accounting standard, which became mandatory for Freightways from 1 July 2019. The pcp results are not required to be restated in the first year of adopting NZ IFRS 16 and accordingly, the Directors believe that providing commentary excluding the impact of NZ IFRS 16 provides a better comparison to the pcp. The table below presents the results including and excluding the impact of having adopted NZ IFRS 16; and
- Non-recurring items - The Directors believe the following non-recurring benefit should not be included when assessing underlying trading performance: the non-recurring benefit before tax totalling $1.4 million (no tax applicable) in 2018 in respect of the gain arising during that half year from the progressive recording of the replacement of earthquake-related damaged racking funded by insurance proceeds. A gain on the racking replacement arose because the overall insurance proceeds for new racking exceeded the written down book value of the structurally-compromised racking written-off.

Operating performance

The below table presents the reported half year result compared to the pcp, both before and after the inclusion of non-recurring items that were reported in the pcp, and inclusive and exclusive of the newly-adopted NZ IFRS 16 Leases accounting standard adjustments:

		HY19			HY20			Change	
		GAAP	**IFRS16 lease adj.**	**Excl. leasing**	**GAAP**	**IFRS16 lease adj.**	**Excl. leasing**	**GAAP**	**Excl. leasing**
	Note	**$M**	**$M**	**$M**	**$M**	**$M**	**$M**	**%**	**%**
Revenue		314.8	-	314.8	318.9	-	318.9	1.3	1.3
EBITA, before non-recurring items	i.	50.7	-	50.7	50.1	(2.4)	47.7	(1.2)	(5.9)
Non-recurring items		1.4	-	1.4	-	-	-	(100.0)	(100.0)
EBITA	ii.	52.1	-	52.1	50.1	(2.4)	47.7	(3.8)	(8.4)
NPAT, before non-recurring items	iii.	32.0	-	32.0	29.2	1.1	30.3	(8.7)	(5.3)
Non-recurring items after tax		1.4	-	1.4	-	-	-	(100.0)	(100.0)
NPAT	iv	33.4	-	33.4	29.2	1.1	30.3	(12.6)	(9.3)

GAAP – Generally Accepted Accounting Principles (IFRS-compliant)

Notes:

i. Operating profit before interest, tax and amortisation, before non-recurring items.
ii. Operating profit before interest, tax and amortisation.
iii. Net profit after tax (NPAT), before non-recurring items.
iv. Profit for the half year attributable to shareholders.

Dividend

The Directors have declared an interim dividend of 15 cents per share, fully imputed at a tax rate of 28%, in line with the pcp interim dividend. This represents a payout of approximately $23.3 million, also in line with the pcp. The dividend will be paid on 1 April 2020. The record date for determination of entitlements to the dividend is 13 March 2020.

As previously announced, Freightways is awaiting OIO approval to acquire Big Chill. While it is planned to fund this acquisition from Freightways' existing syndicated bank facilities, the Directors have determined that the Freightways Dividend Reinvestment Plan (DRP) will be offered for the above interim dividend and may be offered for the final dividend in October 2020 to mitigate the level of debt funding required. In this regard, when the DRP is offered, it is intended that it will be fully-underwriten for the applicable dividends to maximise the cash flow benefit for Freightways of activating the DRP, while still allowing shareholders the choice of shares or cash for their dividend payments.

As a capital management tool, the application of the DRP will be reviewed for each future dividend.

DIVISIONAL PERFORMANCE

EP&BM for the half year ended 31 December 2019

Operating revenue of $237.6 million was 1.8% higher than the pcp. EBITA of $39.1 million was 1.1% higher than the pcp.

Activity levels: After suffering a noticeable decline in organic volume through much of 2019, due to lower same-customer trading, December showed signs of that decline abating. Revenue growth on the pcp of 1.3% in Q1 increased to 2.1% in Q2. All things being equal, it gives rise to some confidence that through the remainder of 2020 the EP businesses may see a steady improvement in volume trends.

Pricing for Effort: By December, average PFE revenue reached $0.66 per item, up from $0.55 at the end of October. December also saw a peak in terms of the number and proportion of residential items travelling through the network, with residential on-time delivery performance levels tested and measured at 93%, 1% higher than our main competitor for the same period.

DX Mail: Despite needing to match cheaper competitor pricing for bulk mail, DX Mail successfully retained its customers through quality and timely mail services. The NZ Commerce Commission has advised, for the time being, it will not be pursuing an investigation into NZ Post's targeted discounted zonal pricing. The level of discounting has had an adverse effect on earnings in this division.

Key Strategies in 2020

Pricing for Effort: The EP brands will continue to work at increasing average pricing per item through the remainder of FY20 toward our goal of $0.75 per item. The additional courier income generated from this price increase has been meaningful for contractors who work residential areas and has assisted in delivering a higher level of productivity and on-time delivery.

Customer Visibility and Data Analytics: A number of new customer & business-facing IT projects are delivering better visibility for parcels travelling through the network and more accurate information on utilisation, freight-mix and margins by customer, route and brand. There are further customer-facing enhancements planned for the remainder of FY20 and for FY21 which will streamline the experience for customers and enable new services to be offered to the market.

New Service offerings: In the 2nd half of FY20 the EP division will commence a same day delivery service for Auckland, which will be positioned between cheaper hub & spoke services and the more expensive point-to-point deliveries, to provide customers with guaranteed same-day delivery. These services will be Priced for Effort to ensure that both contractors and the Company benefit from the initiative.

<u>IM&SD for the half year ended 31 December 2019</u>

Operating revenue of $82.2 million was 0.1% higher than the pcp. EBITA of $11 million was 24.8% lower than the pcp, primarily due to lower volumes moving through the largely fixed cost print & copy bureaus and the impact of lower paper prices experienced in the SD businesses on both sides of the Tasman.

Australian IM Performance: Poor performance in a number of smaller revenue streams (including the print & copy business) proved a drag on Australian earnings. A number of initiatives are in place to address this performance, including right-sizing the business and strategically reviewing the portfolio of services offered by TIMG Australia. Conversely, strong revenue growth of 10% was recorded in the Australian records storage & service business for the half year.

Digitisation: Work will commence in late-January (later than originally anticipated) and will continue through calendar 2020 on a major digitisation contract. The work leverages TIMG's secure logistics and storage capability, as well as its data transformation experience. It will engage up to 250 staff at its peak.

Secure Destruction: Strong momentum has continued in the Australian SD and medical waste business, with 14% revenue growth in the half year. This included the acquisition of a number of smaller businesses in the later part of the half year. The benefits of this growth for the overall IM&SD division have been somewhat muted by the decline in paper pricing of approximately $1.5m in the half year. The earnings impact of lower paper prices, while still significant, was mitigated to some extent by higher paper volumes than the pcp and efficiencies that were gained in processing costs.

Key Strategies in 2020

Facility Utilisation: The IM division will continue to target profitable records storage growth, particularly in facilities where there is low utilisation.

Digital Services Growth: TIMG has been successful to date in winning significant digitisation contract work. We will continue to target scale opportunities in the Australian market for digitisation and e-discovery services.

Secure Destruction and Medical Waste: Additional investment was made in teams, fleets, facilities and acquisitions in calendar 2019 to support the growth of Shred-X's document destruction, medical waste and product processing capabilities. It is planned to continue management's focus on revenue streams in related markets that complement the physical footprint established by Shred-X in the SD market. These related markets present an opportunity to apply Shred-X's consistent and high-quality national service standards and sales methodologies to grow through a number of niches, including eDestruction, medical waste, product destruction and other high value recycling.

ACQUISITIONS AND ALLIANCES

Freightways is pleased to announce it completed a number of small acquisitions during the half year as discussed in the Q1 trading update. Additionally there was a subsequent acquisition in Q2 of a small medical waste business in NSW, which will provide additional processing capacity and broaden the footprint of the business in that state.

The application for OIO approval for the Big Chill acquisition is in progress. A further announcement will be made when this approval process is complete.

Corporate

Corporate costs were marginally below the pcp and continued to be well contained.

Net debt increased by approximately $24 million to $175 million during the period. While cash flows from operations remained strong and adequately covered all planned expenditures, approximately $15 million was invested in a number of acquisitions and $14 million was spent on capital expenditure. Freightways continues to have excellent support from its lenders and sufficient headroom in debt facilities and gearing levels to complete the Big Chill acquisition and actively pursue its solid pipeline of other acquisition opportunities.

OUTLOOK

The EP&BM division observed a slowdown in terms of same-customer trade over the 2nd half of FY19 and into the 1st half of FY20. In December this trend showed signs of abating, which provides some confidence that the 2nd half of FY20 may return modest organic growth.

Freightways' businesses are yet to see any material impact from Covid-19. If in future it has a broader impact on the economies in which they operate, it could ultimately impact Freightways, and this will be monitored closely.

While the 1st half result for IM was disappointing due to the performance of the print & copy bureau, lower paper pricing and the delayed start to a major digitisation contract, we expect a turnaround in the 2nd half as we take action on the poorer performing service lines and the digitisation contract work commences.

Within the SD business, the division will look to leverage the larger footprint it has invested in to provide medical waste and product destruction services to both new and existing customers. Paper pricing is not expected to recover materially in the short term.

Overall capital expenditure for FY20 is still expected to be between $25-26 million, not including any potential capital expenditure associated with Big Chill, if that acquisition proceeds before the end of the financial year. Operating cash flows are expected to remain strong throughout 2020.

Management will be focused on integrating the Big Chill business into Freightways in 2020, assuming OIO approval is granted, as well as driving synergies from the smaller medical waste and destruction businesses acquired during calendar 2019.

CONCLUSION

The 1st half of FY20 exhibited a continued level of lower same-customer volumes in the EP businesses, although signs at the end of the half year were that this situation may be beginning to slowly improve. Paper pricing in the SD business is also well below the pcp, which has an impact on the IM&SD revenue and margin. Notwithstanding these two macro issues, Freightways has made significant advances in improving returns from residential courier delivery work and at the same time improving those contractors' incomes and productivity and as a result we have reduced emissions in these areas. Freightways has also built a strong platform in Australia for large-scale digitisation work and has a small, but fast-growing, medical waste business to complement the national SD footprint established over the previous decade. Freightways is well positioned with its impending acquisition of Big Chill to leverage another niche of the New Zealand express freight market. The Company is committed to continuous improvements within its portfolio of businesses, as well as focusing on long-term sustainability for the benefit of Freightways' people, customers, shareholders and the environments in which it operates.

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

Mark Verbiest
Chairman

Mark Troughear
Chief Executive Officer

21 February 2020

FREIGHTWAYS LIMITED
CONSOLIDATED INCOME STATEMENT
for the half year ended 31 December 2019 (unaudited)

	6 mths ended 31 Dec 2019 $000	6 mths ended 31 Dec 2018 $000	Variance %
Operating revenue	**318,914**	**314,769**	**1%**
Other income	-	1,194	(100%)
Transport and logistics expenses	(124,672)	(123,962)	1%
Employee benefits expenses	(92,440)	(88,003)	5%
Occupancy expenses	(2,623)	(14,403)	(82%)
General and administrative expenses	(27,890)	(30,181)	(8%)
Other expenses	-	(1,194)	(100%)
Non-recurring items	-	1,373	100%
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles	**71,289**	**59,593**	**20%**
Depreciation and software amortisation	(21,178)	(7,492)	183%
Operating profit before interest, income tax and amortisation of intangibles	**50,111**	**52,101**	**(4%)**
Amortisation of intangibles	(1,151)	(1,004)	15%
Operating profit before interest and income tax	**48,960**	**51,097**	**(4%)**
Net interest and finance costs*	(8,530)	(5,009)	70%
Profit before income tax	**40,430**	**46,088**	**(12%)**
Income tax	(11,235)	(12,686)	(11%)
Profit for the period	**29,195**	**33,402**	**(13%)**
Profit for the period attributable to:			
Owners of the parent	29,173	33,402	(13%)
Non-controlling interests	22	-	100%
	29,195	**33,402**	**(13%)**

* The 2019 net interest amount includes $4 million in respect of the interest component of operating lease payments, now accounted for under NZ IFRS 16.

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year ended 31 December 2019 (unaudited)

	6 mths ended 31 Dec 2019 $000	6 mths ended 31 Dec 2018 $000
Profit for the period	**29,195**	**33,402**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(437)	(2,373)
Cash flow hedges taken directly to equity, net of tax	890	324
Total other comprehensive income after income tax	**453**	**(2,049)**
Total comprehensive income for the period	**29,648**	**31,353**
Total comprehensive income for the period is attributable to:		
Owners of the parent	29,626	31,353
Non-controlling interests	22	-
	29,648	**31,353**

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year ended 31 December 2019 (unaudited)

	Contributed equity	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Non-controlling interests	Total equity
	$000	$000	$000	$000	$000	$000
Balance at 1 July 2019	**126,440**	**157,226**	**(3,901)**	**(5,879)**	**124**	**274,010**
Impact of adoption of NZ IFRS 16	-	(16,499)	-	-	-	(16,499)
Restated Balance at 1 July 2019	**126,440**	**140,727**	**(3,901)**	**(5,879)**	**124**	**257,511**
Profit for the period	-	29,173	-	-	22	29,195
Exchange differences on translation of foreign operations	-	-	-	(437)	-	(437)
Cash flow hedges taken directly to equity, net of tax	-	-	890	-	-	890
Total Comprehensive Income	**-**	**29,173**	**890**	**(437)**	**22**	**29,648**
Dividend payments	-	(24,084)	-	-	-	(24,084)
Shares issued	729	-	-	-	-	729
Balance at 31 December 2019	**127,169**	**145,816**	**(3,011)**	**(6,316)**	**146**	**263,804**
Balance at 1 July 2018	**125,260**	**140,861**	**(4,229)**	**(3,669)**	**-**	**258,223**
Profit for the period	-	33,402	-	-	-	33,402
Exchange differences on translation of foreign operations	-	-	-	(2,373)	-	(2,373)
Cash flow hedges taken directly to equity, net of tax	-	-	324	-	-	324
Total Comprehensive Income	**-**	**33,402**	**324**	**(2,373)**	**-**	**31,353**
Dividend payments	-	(23,695)	-	-	-	(23,695)
Acquisition of non-controlling interests	-	-	-	-	109	109
Shares issued	1,180	-	-	-	-	1,180
Balance at 31 December 2018	**126,440**	**150,568**	**(3,905)**	**(6,042)**	**109**	**267,170**

FREIGHTWAYS LIMITED
CONSOLIDATED BALANCE SHEET
as at 31 December 2019 (unaudited)

	As at 31 Dec 2019 $000	As at 31 Dec 2018 $000	As at 30 Jun 2019 $000
ASSETS			
Current assets			
Cash and cash equivalents	4,272	3,441	15,986
Trade and other receivables	102,119	95,199	87,805
Inventories	6,006	5,327	5,009
Income tax receivable	1,196	-	-
Total current assets	**113,593**	**103,967**	**108,800**
Non-current assets			
Trade receivables and other non-current assets	3,855	3,390	3,984
Property, plant and equipment	110,600	106,531	106,710
Right-of-use assets	194,948	-	-
Intangible assets	371,373	363,532	365,152
Investment in associates	7,758	-	-
Total non-current assets	**688,534**	**473,453**	**475,846**
Total assets	**802,127**	**577,420**	**584,646**
LIABILITIES			
Current liabilities			
Trade and other payables	75,997	72,718	68,967
Lease liabilities	22,030	119	127
Income tax payable	3,862	3,687	6,429
Provisions	998	745	860
Derivative financial instruments	858	617	880
Contract liability	14,641	15,548	15,664
Total current liabilities	**118,386**	**93,434**	**92,927**
Non-current liabilities			
Trade and other payables	2,567	3,201	3,137
Borrowings (secured)	179,635	166,487	167,394
Deferred tax liability	30,788	37,394	37,762
Provisions	5,152	4,720	4,750
Lease liabilities	198,472	208	129
Derivative financial instruments	3,323	4,806	4,537
Total non-current liabilities	**419,937**	**216,816**	**217,709**
Total liabilities	**538,323**	**310,250**	**310,636**
NET ASSETS	**263,804**	**267,170**	**274,010**
EQUITY			
Contributed equity	127,169	126,440	126,440
Retained earnings	145,816	150,568	157,226
Cash flow hedge reserve	(3,011)	(3,905)	(3,901)
Foreign currency translation reserve	(6,316)	(6,042)	(5,879)
	263,658	267,061	273,886
Non-controlling interests	146	109	124
TOTAL EQUITY	**263,804**	**267,170**	**274,010**
Net tangible assets (liabilities) per security	($0.58)	($0.52)	($0.47)

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the half year ended 31 December 2019 (unaudited)

	6 mths ended 31 Dec 2019 $000	6 mths ended 31 Dec 2018 $000
	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities		
Receipts from customers	305,501	304,469
Payments to suppliers and employees	(244,095)	(252,636)
Cash generated from operations	**61,406**	**51,833**
Interest received	25	51
Interest and other costs of finance paid*	(8,844)	(4,610)
Income taxes paid	(16,132)	(14,925)
Net cash inflows from operating activities	**36,455**	**32,349**
Cash flows from investing activities		
Payments for property, plant & equipment	(10,508)	(10,199)
Payments for software	(1,924)	(1,972)
Proceeds from disposal of property, plant & equipment	89	507
Payments for businesses acquired (net of cash acquired)	(7,159)	(10,516)
Payments for investment in associates	(7,468)	-
Receipts from associate	702	1,709
Payments for other investing activities	(77)	(204)
Net cash outflows from investing activities	**(26,345)**	**(20,675)**
Cash flows from financing activities		
Dividends paid	(24,084)	(23,695)
Increase in bank borrowings	12,970	8,193
Proceeds from issue of ordinary shares	453	390
Principal elements of lease payments (2018 – Principal elements of finance lease payments)	(11,129)	(68)
Net cash outflows from financing activities	**(21,790)**	**(15,180)**
Net decrease in cash and cash equivalents	(11,680)	(3,506)
Cash and cash equivalents at the beginning of the period	15,986	7,410
Exchange rate adjustments	(34)	(463)
Cash and cash equivalents at the end of the period	**4,272**	**3,441**

* The 2019 interest paid amount includes $4 million in respect of the interest component of operating lease payments, now accounted for under NZ IFRS 16.

Earnings per Security (EPS)

Calculation of basic and fully diluted EPS in accordance with NZ IAS 33: Earnings Per Share:

	Current half year (cents per share)	Previous corresponding half year (cents per share)
Basic EPS	18.8	21.5
Diluted EPS	18.8	21.5

Basic and diluted earnings per share calculated on the profit for the period attributable to shareholders, excluding non-recurring items and the impact of NZ IFRS 16, net of tax, are both 19.5 cents (2018: both 20.6 cents).

Dividends Paid

	Date Paid	Cents per share (fully imputed)
Final Dividend for the year ending 30 June 2019	1 October 2019	15.50
		15.50

Post Balance Date Events

Dividend declared

On 21 February 2020, the Directors declared a fully imputed interim dividend of 15 cents per share (approximately $23.3 million) in respect of the year ended 30 June 2020. The dividend will be paid on 1 April 2020. The record date for determination of entitlements to the dividend is 13 March 2020. A supplementary dividend of 2.65 cents per share will be paid to overseas shareholders when the interim dividend is paid. The Freightways Dividend Reinvestment Plan will be offered for this dividend and a notice to shareholders inviting their participation will be sent out in due course.

Non-recurring Items, Other Income and Other Expenses

The non-recurring item before tax totalling $1.4 million (no tax applicable) in 2018 was a non-recurring benefit in respect of the gain arising during that half year from the progressive recording of the replacement of earthquake-related damaged racking funded by insurance proceeds. A gain on the racking replacement arose because the overall insurance proceeds for new racking exceeded the written down book value of the structurally-compromised racking written-off.

Included in other expenses in 2018 is an amount of $1.2 million in additional costs of operations resulting from the above-mentioned earthquake, which was also recoverable from insurance. Compensation of $1.2 million received from the Group’s insurers for these additional costs of operations was included in other income.

Segment Reporting

A segment is a component of the Group that can be distinguished from other components of the Group by the products or services it sells, the primary market it operates in and the risks and returns applicable to it. Operating segments are reported upon in a manner consistent with the internal reporting used by the Chief Executive Officer, as the chief operating decision maker, and the Board for allocating resources, assessing performance and strategic decision making.

The Group is organised into the following reportable operating segments:

Express package & business mail
Comprises network (hub & spoke) courier, point-to-point courier and postal services.

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

Corporate and other
Comprises corporate, financing and property management services.

The Group has no individual customer that represents more than 3% of external sales revenue.

	Express package & business mail	Information management	Corporate & other	Inter-segment elimination	Consolidated operations
	$000	$000	$000	$000	$000
Half year ended 31 December 2019					
Sales to external customers	236,635	82,279	-	-	318,914
Inter-segment sales	931	-	2,436	(3,367)	-
Total revenue	237,566	82,279	2,436	(3,367)	318,914
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	49,805	23,037	(1,553)	-	71,289
Depreciation and software amortisation	(9,929)	(10,394)	(855)	-	(21,178)
Operating profit (loss) before interest, income tax and amortisation of intangibles	39,876	12,643	(2,408)	-	50,111
Amortisation of intangibles, excluding software amortisation	(25)	(1,126)	-	-	(1,151)
Operating profit (loss) before interest and income tax	39,851	11,517	(2,408)	-	48,960
Net interest and finance costs	(1,399)	(2,667)	(4,464)	-	(8,530)
Profit (loss) before income tax	38,452	8,850	(6,872)	-	40,430
Income tax	(10,574)	(2,623)	1,962	-	(11,235)
Profit (loss) for the period attributable to the shareholders	27,878	6,227	(4,910)	-	29,195

Segment Reporting (continued)

	Express package & business mail $000	Information management $000	Corporate & other $000	Inter-segment elimination $000	Consolidated operations $000
Half year ended 31 December 2018					
Sales to external customers	232,613	82,156	-	-	314,769
Inter-segment sales	866	-	2,414	(3,280)	-
Total revenue	233,479	82,156	2,414	(3,280)	314,769
Operating profit (loss) before non-recurring items, interest, income tax, depreciation and software amortisation and amortisation of intangibles	42,401	17,609	(1,790)	-	58,220
Non-recurring items	-	1,373	-	-	1,373
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	42,401	18,982	(1,790)	-	59,593
Depreciation and software amortisation	(3,773)	(2,947)	(772)	-	(7,492)
Operating profit (loss) before interest, income tax and amortisation of intangibles	38,628	16,035	(2,562)	-	52,101
Amortisation of intangibles, excluding software amortisation	(25)	(979)	-	-	(1,004)
Operating profit (loss) before interest and income tax	38,603	15,056	(2,562)	-	51,097
Net interest and finance costs	(6)	(99)	(4,904)	-	(5,009)
Profit (loss) before income tax	38,597	14,957	(7,466)	-	46,088
Income tax	(10,689)	(4,147)	2,150	-	(12,686)
Profit (loss) for the period attributable to the shareholders	27,908	10,810	(5,316)	-	33,402

Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Express Package	Postal	Storage & Handling	Destruction Activities	Other	Total
Half year ended 31 December 2019	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue from external customers	209,430	27,205	31,215	31,885	19,179	318,914
Timing of revenue recognition:						
At a point in time	-	1,774	-	9,715	5,376	16,865
Over time	209,430	25,431	31,215	22,170	13,803	302,049
	209,430	27,205	31,215	31,885	19,179	318,914
Half year ended 31 December 2018						
Revenue from external customers	204,454	28,159	31,729	30,046	20,381	314,769
Timing of revenue recognition:						
At a point in time	-	1,727	-	10,591	4,236	16,554
Over time	204,454	26,432	31,729	19,455	16,145	298,215
	204,454	28,159	31,729	30,046	20,381	314,769

Business Combinations

During the half year ended 31 December 2019, the Group acquired four small information management businesses in Australia for an aggregate purchase consideration totalling approximately $7.2 million. These businesses have been integrated into the Australian businesses of the Group's information management division. The acquisitions were of the business & assets of:

- Green Team in South Australia (SA) on 2 September 2019
- Country Hygiene in New South Wales (NSW) on 1 October 2019
- Scanning Conversion Services in SA on 1 November 2019
- Specialised Waste Treatment Services in NSW on 2 December 2019

The contribution of these businesses to the Group results for the half year ended 31 December 2019 was revenue of $0.8 million and operating profit before interest, income tax and amortisation of intangibles of $0.04 million, net of acquisition costs 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 half year is estimated at $2.6 million and $0.5 million (net of acquisition costs of $0.2 million), respectively.

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

Purchase consideration	**$000**
Cash consideration paid during the period	7,159
Fair value of assets and liabilities arising from the acquisition	
Trade and other receivables	6
Inventories	23
Plant and equipment	348
Customer relationships	2,290
Goodwill	5,803
Trade and other creditors	(288)
Provisions	(458)
Deferred tax liability	(565)
	7,159

The goodwill of $5.8 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.
<u>Prior period acquisitions:</u>

State Waste Services (SWS)

Effective 1 September 2017, the Group acquired the business and assets of SWS, an Australian-based medical waste collection and destruction business, for an initial payment of approximately $6.5 million (A$5.9 million) and a future maximum earn-out of up to $4.5 million (A$4.1 million). SWS was branded as Med-X and integrated into the Group's Shred-X business within the information management division.

As at 31 December 2019, an estimated discounted future earn-out payment of $1 million may be payable in September 2021 and has been accrued for in the financial statements, but is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2019, 2020 and 2021. 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 $4.5 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

Contingent Liability – Acquisition of Big Chill Distribution Limited

In October 2019, the Group entered into a sale & purchase agreement to acquire 100% of Big Chill Distribution Limited (Big Chill), subject to Overseas Investment Office approval. Completion of the acquisition is expected to occur in the first half of Calendar 2020. Big Chill is a New Zealand market leader in temperature-controlled transport, specialising in fast moving consumer goods (FMCG) and time critical parcel freight, both chilled and frozen. The acquisition involves an initial payment of $117m, representing 80% of an agreed enterprise value (EV) for Big Chill, and a final payment later in 2022, representing 20% of Big Chill's EV at 30 June 2022 (FY22), which will be calculated by reference to the FY22 earnings before interest and tax (not adjusted for NZ IFRS 16 Leases) (EBIT) at a multiple based on the growth in EBIT achieved for the 15 months ending 30 June 2021 (FY21) compared to the financial year ending 31 March 2020. When each of the initial and final purchase price payments are settled, completion adjustments will be made in respect of Big Chill's net debt, employee entitlements and working capital positions.

Borrowings (secured)

In December 2019, the Group negotiated increases of NZ$70 million and A$20 million to its existing syndicated bank facilities with 4-year and 5-year maturity, respectively. The increased facilities were effective from 23 December 2019 and are at similar pricing to existing facilities.

Investment in Associate

In October 2019, the Group acquired a 33% interest in Sweetspot Group Limited (trading as GoSweetSpot (GSS)) for $7.5m. GSS is a New Zealand-based courier and freight aggregator. GSS purchases courier services from the Group for on-selling to its customers. The Group also utilises the GSS software solution to support some of its own customers.

Changes in Accounting Policies

Except for the adoption of NZ IFRS 16 Leases, the accounting policies and methods of computation are consistent with those used in the most recent annual report.

The Group adopted NZ IFRS 16 for which application was mandatory for the first time in the financial year beginning 1 July 2019. The impact of adopting NZ IFRS 16 is detailed below.

There are no other new standards, amendments or interpretations that are not yet effective that would be expected to have a material impact on the Group.

Adoption of NZ IFRS 16: Leases

This standard replaces the guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use' (ROU) asset for virtually all lease contracts. Included is an optional exemption for lessees in respect of certain short-term leases and leases of low value assets.

From the effective date of adoption, the income statement is impacted by the removal of operating lease expenses, the recognition of an interest expense applicable to the future lease payment obligations and the recognition of a depreciation expense in respect of the ROU asset.

This standard has changed the accounting for the Group's operating leases. As at the effective date, the Group had non-cancellable operating lease commitments of $127 million. Upon adoption, NZ IFRS 16 has a material impact on a number of elements of, and disclosures within, the Group's balance sheet, income statement and statement of cash flows. Importantly, the Group's actual overall cash flows are unaffected by the adoption of this standard.

The Group has implemented a new lease management system to manage its lease portfolio which also calculates the full financial impact of NZ IFRS 16 on the Group's operating leases as at 1 July 2019, being the date of adoption. In calculating the financial impact, management was required to make various key judgements, including:

- incremental borrowing rate (IBR) used to discount the ROU assets and the future lease payment obligations (lease liabilities);
- lease terms, including any rights of renewal expected to be exercised;
- foreign exchange conversion rates; and
- application of practical expedients and recognition exemptions allowed under NZ IFRS 16, including exemptions for low value assets and short-term leases.

Management has applied IBR's of between 2.45% to 4.23% to discount the ROU assets and the future lease payment obligations, depending on the nature of the relevant leases. Some of the factors taken into consideration when calculating the IBR for each asset category included observable market rates, economic conditions and lease tenor.

The new standard allowed a choice of transition methods. Management determined that the most appropriate approach for the Group to use was the modified retrospective transition method. Under this transition method, the Group was allowed to retrospectively value the ROU asset on a lease by lease basis without having to restate comparatives and to recognise the cumulative effect of initially applying the standard as an adjustment to retained earnings. Alternatively, the ROU asset could have been measured at an amount equal to the value of the lease liability. In arriving at the below financial impact of adopting the new standard, the latter approach was applied to value the ROU asset for the majority of the Group's operating leases by number, but with 20 high value property operating leases (representing approximately 80% of the lease liability to be recognised) being retrospectively valued.

Management's process identified that the financial impact on the balance sheet as at 1 July 2019 was as follows:

- Recognition of ROU assets of $200 million;
- Recognition of lease liabilities of $223 million;
- Recognition of a deferred tax asset of $7 million; and
- A decrease in opening retained earnings of $16 million.

The financial impact on the income statement for the half year ended 31 December 2019 was a reduction in net profit after tax of $1.1 million. This is made up of the following changes:

- a $15.1 million decrease in operating lease rental expenses (removed);
- a $12.7 million increase in depreciation (relating to ROU assets);
- a $4 million increase in interest expense (relating to lease liabilities); and
- a $0.5 million decrease in tax expense.

The only changes to the Group's statement of cash flows as a result of adopting the new standard was to presentation, as operating lease payments will continue to be paid as usual. The adjustments above are only for financial reporting purposes.