FREIGHTWAYS LIMITED

Half Year Report
December 2020

HALF YEAR REVIEW
From the Chairman and Chief Executive Officer

Freightways is a resilient and entrepreneurial business. This has been demonstrated through the most disruptive challenge we have seen in recent times. The ability for our teams to respond to the pandemic and safely provide essential services has been illustrated over the last 9 months through initiatives such as: the swift establishment of a temporary international airfreight service for NZ exporters from scratch; providing high levels of service despite the rapid acceleration of express package and medical waste volumes; growing our contractors' incomes far in excess of normal wage growth; and maintaining a workforce of 5,000 people pre and post the initial lockdowns.

Our service performance has been recognised, by both current and newly acquired customers, with our businesses gaining positive feedback and achieving their highest ever NPS scores, which is a tribute to our culture, systems and experienced teams of people.

This has translated into a very solid performance across all our business units during the first half of this year. Through a combination of organic growth and new-customer acquisition, as well as a very focused control of costs, we have delivered results that we are very proud of. The performance of our new acquisition, Big Chill, has also been very strong and has resulted in an increase of $19.2m in the accrual for the final payment of the purchase price (part of the contracted arrangement provided for a final payment which would be reflective of performance post purchase). This impacts our reported NPAT for the half year.

COVID-19 lockdowns affect our businesses in different ways. While the harshest level 4 lockdowns present significant efficiency, resourcing and financial challenges, outside of level 4 we have seen several new dynamics establish themselves – a larger market for courier services driven heavily by eCommerce and a higher awareness and demand for medical waste disposal. Our Pricing For Effort (PFE) strategy has seen improved margins and enabled us to allocate the appropriate level of contractor income for the increased volume of B2C deliveries which have been performed with a superior level of reliability. On the negative side, we have had to adapt to lower levels of office activity among our customers in our Information Management businesses, which we have partially offset by repurposing vehicles and re-training people to provide alternate services.

We have made strategic investments in R&D through establishing a product development team - The Startery – which is charged with developing complementary revenue streams for our businesses so that we can leverage horizon 1 (mature) business with horizon 2 and 3 (emerging) opportunities.

As we head into 2021, we are conscious that we operate in a carbon emitting industry (by virtue of the vehicles and aircraft we operate either directly or through contracts) and that operating sustainably is critical for the future of our environment. While we have made great strides in reducing our relative emissions per item through optimisation of the routes and size of our fleets and adopting modern vehicles, we also continue to monitor alternative fuel cell vehicle development that will eventually allow us and our contractors to achieve step changes in carbon reduction. Key to this will be to ensure our contractors are in a position to switch from diesel to alternative fuel cell technology. Within our Secure Destruction business we are investing in our ability to grow circular economy initiatives - through our ability to pick-up, process and deliver high-value waste. From an efficient platform (document destruction where we already divert 50,000 tonnes of paper fibre from landfill), we are adding new high-value waste streams to be repurposed and recycled. We intend to use the power of our networks to pick-up, process (shredding, treating) and deliver to those who demand the end product - reliably and efficiently.

Through the latter half of 2020 we have been encouraged by growing eCommerce demand fuelling greater express package volume. This will help our industry grow profitably for those who can meet its challenges. We are also excited by the emphasis on waste reduction and increased sustainability initiatives which our destruction business can leverage.

Freightways is well positioned to take advantage of the opportunities that are in front of us with loyal customers, high-performing businesses, a strong balance sheet as well as experienced and adaptable teams.

We will return to paying a dividend in April 2021 based on the strong performance of the business in the first half of FY21.

Divisional performance

Each division's highlights are listed below along with the strategic priorities for FY21.

Express Package & Business Mail

- Experienced strong volume growth from new and existing customers. The EP brands were successful in winning market share and helping new-to-market customers with their logistics needs. This resulted in 11% improvement in volume over the pcp.
- B2C deliveries also contributed positively to revenue and contractor incomes without negatively impacting margins. B2C deliveries increased by 46% over the pcp with peaks during level 2 and 3 lockdowns establishing a sustainable higher base volume for 2021.
- PFE peaked at $1.01 per item in the 1st half of FY21, which has assisted courier incomes to grow by an average of 10% on the pcp.
- Service performance was particularly strong in spite of materially higher volumes and this was no better demonstrated than through the Xmas peak season. NPS score for all brands have shown consistent improvement through the year.
- Big Chill achieved high levels of utilisation for their new 3PL facility in Auckland which aided margins and also saw increased volume from existing and new customers driving revenue growth of 10%. The strong performance of Big Chill is also reflected in the forecast final instalment to be paid to the vendors of the business for its acquisition in FY22. Based on the trading results this year, we have increased our provision by $19.2m.
- While the Trans-Tasman airfreight scheme ended for Freightways at the end of November, the operation contributed meaningfully to the business and more importantly for our customers over a 6-month period and gives the group a new-found capability which may present opportunities if international lockdowns persist over the coming year.
- By December DX Mail volumes were up 3.9% on the pcp which was a pleasing result and suggest the various lockdowns have not had a detrimental effect on physical mail volumes.

The year ahead

Express Package will continue to focus on building a strong and profitable market position through providing superior levels of service and pricing our services appropriately.

This focus will include introducing a further phase of our pricing for effort (PFE) strategy for B2C deliveries in February 2021. This will finalise the B2C pricing required to ensure well paid and sustainable courier runs are the norm, rewarding effort appropriately as well as establishing a sustainable operating margin for B2C deliveries.

Our new customer facing IT systems are being launched, starting with NOW Couriers and, as they are fully tested by their customers and refined, will be rolled out across our other EP brands.

NOW Couriers' guaranteed same-day Auckland service has proven to be a successful model. It builds upon our PFE strategy of rating local same day deliveries appropriately for the effort required and gives our customers market leading local delivery performance.

The Big Chill network has expanded storage facilities over the last year in: Auckland, Wellington and Hawkes Bay and we will continue to invest to meet increasing demand in strategic locations. Work will commence on new market opportunities for Big Chill, some of which will leverage the ability to provide a last-mile express delivery service to customers as well as continuing to improve their customer experience by leveraging our suite of express package technology.

DX Mail will continue to develop their physical networks in response to demand and our multi-channel offering through closer alignment with Dataprint's capabilities.

Information Management & Secure Destruction

- We achieved incremental gains in storage volume through the first half of FY21 but understandably many prospective clients had bigger issues to manage through the period – particularly in markets such as Melbourne, Sydney and Auckland. Utilisation has improved to 83% for NZ and 70% for Australia.
- Demand for pick-up and delivery of archives and media tapes is lower in both NZ and Australia.
- Our litigation support services – in particular print and copy services - have improved their profitability through a number of initiatives to streamline the ways customers interact with us and managing the level of resource required accordingly.
- The Australian digitalisation project continues and is expected to carry on well into FY22 but at lower levels of monthly revenue than initially expected.
- Document destruction has recovered to pre-COVID levels in NZ and is slowly recovering in Australia as people return to offices in Victoria and, to a lesser extent, Sydney.
- Medical Waste revenue was up 100% on the pcp and while there will be peaks around lockdowns, we now have a substantially larger business than we did pre-COVID.

The year ahead

There are a number of promising avenues to increase facility utilisation in NZ and Australia over the remainder of FY21 whilst still allowing flexibility to cater to growth in archives when customers return to BAU. There is also an encouraging pipeline of digitalisation opportunities in Australia, which our team will look to capitalise on to provide on-going revenue in FY21.

In addition to continuing to grow our presence in Medical Waste, we will invest in collecting new high-value waste streams that can be diverted from landfill or treated to add value.

Balance sheet strength

Capital expenditure for FY21 is forecast to be in a range of $20-22m in FY21 and spent on a range of IT development projects, replacement of vehicles and freight handling equipment. Our gearing continues to reduce, as expected following the BCD acquisition. We remain committed to a solid investment-grade debt profile.

Outlook

Whilst the immediately foreseeable economic climate remains uncertain, we are encouraged by the strong trade in Express Package and the resilience of our Information Management businesses, as demonstrated in our results over the first half of FY21.

We would expect that:

- In Express Package, our existing volumes will be supplemented by market share gains and the growth of eCommerce while our existing B2B volume will be influenced by macro-economic activity;

- In Information Management, whilst storage revenues will remain resilient, our activity-based revenue streams will be driven by the number of people returning to office environments, noting this could be lower than pre-COVID-19.

We have well-established systems and processes to be able to adapt to any future lockdowns in NZ or Australia and we can reasonably expect that B2C Express Package volumes will accelerate in a level 2 or 3 lockdown and that IM activity will decline as office workers move to working from home.

Our portfolio of services will be continually reviewed with a view to delivering superior long-term value to shareholders by assessing our short, medium and long-term opportunities and applying the best allocation of capital to them.

The company will continue to consider growth or acquisition opportunities that may be complementary to our existing operations and capabilities.

We are proud of our achievements to date in growing contractor incomes, developing new services and reducing emissions per item. We will actively explore future opportunities to enhance our position on these key ESG areas.

The Freightways directors would again like to acknowledge the efforts of every one of our team across Australasia.

Mark Verbiest
Chairman

Mark Troughear
Chief Executive Officer

22 February 2021

Independent auditor's review report

To the shareholders of Freightways Limited

Report on the consolidated financial statements

Our conclusion

We have reviewed the consolidated financial statements of Freightways Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020, 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 six month period ended on that date, and significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2020, and its financial performance and cash flows for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. In addition to our role as auditor, our firm carries out other services for the Group of agreed upon procedures over the poll for the shareholder resolutions at the Annual General Meeting and Executives' remuneration benchmarking. The provision of these other services has not impaired our independence.

Directors' responsibility for the financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial statements

Our responsibility is to express a conclusion on the consolidated financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. A review of consolidated financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We 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 and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these consolidated financial statements.

Who we report to

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.

The engagement partner on the review resulting in this independent auditor's review report is Keren Blakey.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
22 February 2021

Auckland

FREIGHTWAYS LIMITED
CONSOLIDATED INCOME STATEMENT
for the half year ended 31 December 2020 (unaudited)

	Note	6 mths ended 31 Dec 2020 $000	6 mths ended 31 Dec 2019 $000	Variance %
Operating revenue	4 & 5	**410,332**	**318,914**	**29%**
Transport and logistics expenses		(162,216)	(124,672)	30%
Employee benefits expenses		(112,667)	(92,440)	22%
Occupancy expenses		(3,585)	(2,623)	37%
General and administrative expenses		(32,061)	(27,890)	15%
Change in fair value of contingent consideration – Big Chill Distribution Limited	10	(19,200)	-	100%
Depreciation and software amortisation		(28,809)	(21,178)	36%
Amortisation of intangibles	11	(3,791)	(1,151)	229%
Operating profit before interest and income tax	4	**48,003**	**48,960**	**(2%)**
Net interest and finance costs		(11,222)	(8,530)	32%
Profit before income tax		**36,781**	**40,430**	**(9%)**
Income tax		(14,814)	(11,235)	32%
Profit for the period		**21,967**	**29,195**	**(25%)**
Profit for the period attributable to:				
Owners of the parent		21,930	29,173	(25%)
Non-controlling interests		37	22	68%
		21,967	**29,195**	**(25%)**
Earnings per share for the period*:				
Basic earnings per share (cents)		13.3	18.8	
Diluted earnings per share (cents)		13.2	18.8	

*Basic and diluted earnings per share for the 6 months ended 31 December 2020 calculated on the profit for the period attributable to shareholders, excluding Change in fair value of contingent consideration – Big Chill Distribution Limited, are 24.9 cents and 24.8 cents, respectively.

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

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year ended 31 December 2020 (unaudited)

	6 mths ended 31 Dec 2020 $000	6 mths ended 31 Dec 2019 $000
Profit for the period	**21,967**	**29,195**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(2,817)	(437)
Cash flow hedges taken directly to equity, net of tax	(701)	890
Total other comprehensive income after income tax	**(3,518)**	**453**
Total comprehensive income for the period	**18,449**	**29,648**
Total comprehensive income for the period is attributable to:		
Owners of the parent	18,412	29,626
Non-controlling interests	37	22
	18,449	**29,648**

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

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year ended 31 December 2020 (unaudited)

GROUP	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 2020	**180,630**	**142,746**	**(2,075)**	**(4,635)**	**114**	**316,780**
Profit for the period	-	21,930	-	-	37	21,967
Exchange differences on translation of foreign operations	-	-	-	(2,817)	-	(2,817)
Cash flow hedges taken directly to equity, net of tax	-	-	(701)	-	-	(701)
Total Comprehensive Income	**-**	**21,930**	**(701)**	**(2,817)**	**37**	**18,449**
Dividend payments	-	-	-	-	-	-
Shares issued	1,391	-	-	-	-	1,391
Balance at 31 December 2020	**182,021**	**164,676**	**(2,776)**	**(7,452)**	**151**	**336,620**
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**

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

FREIGHTWAYS LIMITED
CONSOLIDATED BALANCE SHEET
as at 31 December 2020 (unaudited)

	Notes	As at 31 Dec 2020 $000	As at 31 Dec 2019 $000	As at 30 Jun 2020 $000
Current assets				
Cash and cash equivalents		27,437	4,272	16,686
Trade and other receivables		106,989	102,119	100,381
Inventories		6,708	6,006	6,019
Income tax receivable		-	1,196	384
Total current assets		**141,134**	**113,593**	**123,470**
Non-current assets				
Trade receivables and other non-current assets		7,421	3,855	7,348
Property, plant and equipment		131,227	110,600	134,649
Right-of-use assets		273,220	194,948	278,142
Intangible assets		498,511	371,373	498,966
Investment in associates		7,692	7,758	7,842
Total non-current assets		**918,071**	**688,534**	**926,947**
Total assets		**1,059,205**	**802,127**	**1,050,417**
Current liabilities				
Trade and other payables		100,747	75,997	87,656
Borrowings (secured)	7	3,861	-	5,210
Lease liabilities		38,602	22,030	30,641
Income tax payable		19,564	3,862	18,824
Provisions		1,638	998	1,225
Derivative financial instruments		422	858	750
Contract liability		14,925	14,641	15,142
Total current liabilities		**179,759**	**118,386**	**159,448**
Non-current liabilities				
Trade and other payables		46,798	2,567	27,386
Borrowings (secured)	7	176,744	179,635	216,484
Deferred tax liability		40,493	30,788	41,425
Provisions		6,519	5,152	6,331
Lease liabilities		268,838	198,472	280,431
Derivative financial instruments		3,434	3,323	2,132
Total non-current liabilities		**542,826**	**419,937**	**574,189**
Total liabilities		**722,585**	**538,323**	**733,637**
NET ASSETS		**336,620**	**263,804**	**316,780**
EQUITY				
Contributed equity	6	182,021	127,169	180,630
Retained earnings		164,676	145,816	142,746
Cash flow hedge reserve		(2,776)	(3,011)	(2,075)
Foreign currency translation reserve		(7,452)	(6,316)	(4,635)
		336,469	263,658	316,666
Non-controlling interests		151	146	114
TOTAL EQUITY	6	**336,620**	**263,804**	**316,780**

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

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the half year ended 31 December 2020 (unaudited)

	6 mths ended 31 Dec 2020 $000	6 mths ended 31 Dec 2019 $000
	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities		
Receipts from customers	405,524	305,501
Payments to suppliers and employees	(301,907)	(244,095)
Cash generated from operations	**103,617**	**61,406**
Interest received	18	25
Interest and other costs of finance paid	(11,042)	(8,844)
Income taxes paid	(17,147)	(16,132)
Net cash inflows from operating activities	**75,446**	**36,455**
Cash flows from investing activities		
Payments for property, plant & equipment	(6,112)	(10,508)
Payments for software	(3,163)	(1,924)
Proceeds from disposal of property, plant & equipment	93	89
Payments for businesses acquired (net of cash acquired)	16	(7,159)
Payments for investment in associates	-	(7,468)
Receipts from joint venture	1,450	702
Cash flows from other investing activities	(63)	(77)
Net cash outflows from investing activities	**(7,779)**	**(26,345)**
Cash flows from financing activities		
Dividends paid	-	(24,084)
Increase (decrease) in bank borrowings	(40,717)	12,970
Proceeds from issue of ordinary shares	423	453
Principal elements of lease payments	(16,645)	(11,129)
Net cash outflows from financing activities	**(56,939)**	**(21,790)**
Net increase (decrease) in cash and cash equivalents	10,728	(11,680)
Cash and cash equivalents at the beginning of the period	16,686	15,986
Exchange rate adjustments	23	(34)
Cash and cash equivalents at the end of the period	**27,437**	**4,272**

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

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 Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

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

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand Equivalent to the International Accounting Standard 34: Interim Financial Reporting (NZ IAS 34) and International Accounting Standard 34: Interim Financial Reporting (IAS 34) 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 2020.

The presentation of the consolidated income statement has been simplified in the current period to remove the presentation of non-NZ GAAP financial measures as these were not prepared in accordance with NZ IFRS.

The Group is designated as a for-profit entity for the purposes of complying with NZ GAAP.

2. Accounting policies

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

There are various standards, amendments and interpretations which were assessed as having an immaterial impact on the Group. There are no NZ IFRS, NZ IFRIC interpretations or other applicable IFRS that are effective for the first time for the financial year beginning on or after 1 July 2020 that had a material impact on the financial statements.

3. Impact of COVID-19

The on-going COVID-19 global pandemic has accelerated a number of trends that were already evident before the start of the pandemic. Amongst them is a faster adoption of online shopping that positively impacts volume for Freightways' express package businesses. At the same time, with a number of information management's customers having employees working from home and using less paper, some of the information management activities continue to recover at a slower pace. This slower recovery is partially mitigated by continuing to develop new service lines and managing costs. The risk of a resurgence of COVID-19 in New Zealand or Australia creates a continued level of uncertainty, although Freightways' businesses are now well prepared to operate efficiently in different levels of lockdown. During the period an additional $0.9 million was received from the Australian government in relation to the JobKeeper subsidy. Management and the Directors have considered and concluded that there are no events or changes in circumstances giving rise to an impairment indicator since the recognition of impairment as at 30 June 2020 and the signing of the 2020 financial statements.

4. Segment reporting

(a) Description of segments

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, refrigerated transport, 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 4% of external sales revenue.

(b) Segment analysis

	Express package & business mail $000	Information management $000	Corporate $000	Inter-segment elimination $000	Consolidated operations $000
Half year ended 31 December 2020					
Sales to external customers	325,300	84,997	35	-	410,332
Inter-segment sales	2,383	(81)	2,428	(4,730)	-
Total revenue	327,683	84,916	2,463	(4,730)	410,332
Operating profit (loss) before change in fair value of contingent consideration, interest, income tax, depreciation and software amortisation and amortisation of intangibles	74,442	26,485	(1,124)	-	99,803
Change in fair value of contingent consideration – Big Chill Distribution Limited (Note 10)	-	-	(19,200)	-	(19,200)
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	74,442	26,485	(20,324)	-	80,603
Depreciation and software amortisation	(16,995)	(10,883)	(931)	-	(28,809)
Operating profit (loss) before interest, income tax and amortisation of intangibles	57,447	15,602	(21,255)	-	51,794
Amortisation of intangibles, excluding software amortisation	(2,640)	(1,151)	-	-	(3,791)
Operating profit (loss) before interest and income tax	54,807	14,451	(21,255)	-	48,003
Net interest and finance costs	(3,201)	(2,458)	(5,563)	-	(11,222)
Profit (loss) before income tax	51,606	11,993	(26,818)	-	36,781
Income tax	(14,158)	(3,520)	2,864	-	(14,814)
Profit (loss) for the period attributable to the shareholders	37,448	8,473	(23,954)	-	21,967

Segment Reporting (continued)

	Express package & business mail $000	Information management $000	Corporate $000	Inter-segment elimination $000	Consolidated operations $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

5. 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 & Refrigerated Transport	Postal	Storage & Handling	Destruction Activities	Other	Total
Half year ended 31 December 2020	$000	$000	$000	$000	$000	$000
Revenue from external customers	295,974	24,835	30,042	35,545	23,936	410,332
Timing of revenue recognition:						
At a point in time	-	1,407	-	9,919	5,047	16,373
Over time	295,974	23,428	30,042	25,626	18,889	393,959
	295,974	24,835	30,042	35,545	23,936	410,332
Half year ended 31 December 2019						
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

6. Equity

Contributed equity

Fully paid ordinary shares

As at 31 December 2020, there were 165,538,104 fully paid ordinary shares on issue (2019: 155,458,437). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Share rights

During the period, Freightways implemented a new executive Long Term Incentive (LTI) Scheme. This equity settled scheme replaces the previous senior executive performance share plan. The new LTI Scheme offers share rights to senior executives, with vesting determined at the end of a 3-year vesting period. Vesting is subject to the achievement of certain financial hurdles set by the Board and included in the annual offer of participation to executives. Once is has been determined how many share rights have vested, each share right will convert to one Freightways fully paid ordinary share at that time.

Share rights of 141,916 and 166,352 were issued on 31 July 2020 and 19 October 2020 respectively to senior executives under the Freightways LTI Scheme (2019: Nil). As at 31 December 2020, there were 308,268 share rights on issue (2019: Nil). Share rights do not carry a dividend entitlement and are non-transferable.

Partly-paid ordinary shares

During the period, 63,474 partly-paid shares were redeemed and cancelled (2019: 25,227). As at 31 December 2020, there were 200,342 partly-paid ordinary shares on issue (2019: 263,816). Partly-paid ordinary shares have no voting rights and no rights to dividends and surplus on winding up.

Employee share plan

On 13 October 2020, the Company issued 125,000 fully paid ordinary shares at $6.64 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2019: 80,000 fully paid ordinary shares at $7.24 each). In total, participating employees were provided with interest-free loans of $0.8 million to fund their purchase of the shares in the Share Plan (2019: $0.6 million). The loans are repayable over three years and repayment commenced in October 2020.

7. Borrowings (secured)

In December 2016, a US$125 million uncommitted finance facility was established with a US-based lender on the same terms as those that are in place with the existing banking syndicate. Of this facility, the US dollar equivalent of NZ$10 million and A$30 million has been drawn as at 31 December 2020 (2019: NZ$10 million and A$30 million).

As at 31 December 2020, the Group's debt facilities with its banking syndicate comprised NZ$213.5 million and A$90.4 million (2019: NZ$163.5 million and A$90.4 million), of which NZ$69 million and A$61.7 million (2019: NZ$67.5 million and A$68.2 million) had been drawn, respectively.

The Group had an undrawn bank overdraft facility of NZ$8 million available (2019: NZ$8 million).

The Group also has a fleet financing facility with a NZ$6 million (2019: Nil) limit operated by Big Chill Distribution Limited. As at 31 December 2020, NZ$3.9 million (2019: Nil) of the fleet financing facility has been drawn. This facility is scheduled to be repaid progressively by April 2021 and will then be cancelled.

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

8. 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 Z Energy Limited and Sanford Limited.

Payments to associate: During the period, the Group paid Parcelair Limited $7.5 million (2019: $6.4 million) for the provision of airfreight linehaul services to the express package businesses on normal commercial terms. Parcelair Limited is incorporated in New Zealand and is half-owned by the Group.

Key management compensation: Compensation paid during the period (or payable as at 31 December 2020 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2020 $000	2019 $000
Short-term employee benefits	3,530	3,241
Share-based payments	651	438

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 2020 contained in its Annual Report, which can be obtained from the Company's registered office or www.freightways.co.nz.

There have been no significant changes in the Group's risk management objectives and policies since 30 June 2020.

In the period to 31 December 2020 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.

<u>Fair values and valuation techniques</u>
The Group uses various methods in estimating the fair value of financial instruments. 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;
- In respect of forward foreign exchange contracts, the fair value is calculated using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and
- discounted cash flow analysis for other financial instruments.

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. Contingent consideration in a business combination and estimated 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 2020.

There have been no reclassifications of financial assets and finance liabilities since 30 June 2020.

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

Prior period acquisitions:

Acquisition of Big Chill Distribution Limited ("BCD")

Effective 1 April 2020, the Group acquired 100% of BCD, a company operating in the New Zealand temperature-controlled transport and facilities market, for an initial consideration of approximately $114.6 million and a future earn-out representing 20% of BCD Enterprise Value as at 30 June 2022. This acquired subsidiary operates within the Group's express package & business mail division.

Given the size of the transaction and proximity to the end of financial year, the Group had not yet finalised the fair value assessment of the assets acquired, the liabilities assumed and goodwill as at 30 June 2020. As at 31 December 2020, the Group revised the assessment of the fair value of the assets acquired and liabilities assumed.

The following table summarises the revised amounts determined for purchase consideration and the fair value of assets acquired and liabilities assumed:

	1 Apr 2020 Preliminary	Adjustments	31 Dec 2020 Revised
Purchase consideration	**$000**	**$000**	**$000**
Cash paid during the period	84,553	-	84,553
Issue of Freightways shares	30,000	-	30,000
Fair value of future earn-out payment	27,193	-	27,193
Total purchase consideration	141,746	-	141,746
Fair value of assets and liabilities arising from the acquisition			
Cash and cash equivalents	5,715	-	5,715
Trade and other receivables	11,706	-	11,706
Plant and equipment	24,256	-	24,256
Right-of-use assets	91,292	-	91,292
Net investment in sublease	4,506	-	4,506
Brand name	5,500	8,500	14,000
Customer relationships	40,900	-	40,900
Non-compete agreement	1,900	-	1,900
Goodwill	83,754	(6,120)	77,634
Trade and other payables	(12,802)	-	(12,802)
Borrowings	(6,023)	-	(6,023)
Deferred tax liability	(12,723)	(2,380)	(15,103)
Lease liabilities	(96,235)	-	(96,235)
	141,746	-	141,746

The fair value of the trade and other receivables acquired as part of the business combination amounted to $11.7 million. The gross contractual amount is $12.1 million, with a loss allowance of $0.4 million recognised on acquisition.

The goodwill of $77.6 million arising upon this acquisition is attributable to the business know how and the premium paid for strategic reasons, including acquiring an entry point into the temperature-controlled transport and facilities industry. None of the goodwill recognised is expected to be deductible for income tax purposes.

(a) Big Chill brand name
As indicated in the 30 June 2020 annual report, the fair values were provisional. The brand name value has been finalised during the six months ended 31 December 2020

(b) Fair value of future final payment – 30 June 2020
The estimated discounted future final payment of $27.2 million may be payable in August 2022 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 2021 and 2022. The potential undiscounted amount of the future final payment that the Group expects could be required to be made in respect of this acquisition is between nil and $30 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

(c) Fair value of future final payment – 31 December 2020

As at 31 December 2020 the estimated future final payment was increased to $46.8 million, the increase of $19.2 million has been recognised in the income statement. The potential undiscounted amount of the future final payment that the Group expects could be required to be made in respect of this acquisition is between nil and $48.8 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement. The liability is presented within trade and other payables in the balance sheet.

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.

The potential earn-out is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2019, 2020 and 2021. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement. As at 31 December 2020, based on the actual performance of the acquired business, management has estimated that there is likely to be no future earn-out payment payable in September 2021 and accordingly there is no accrual for this earn-out.

11. Amortisation of Intangibles

Amortisation of intangibles in the current period is $3.8 million (2019: $1.2 million). The increase of $2.6 million is due to amortisation of definite life intangible assets arising from the acquisition of Big Chill Distribution Limited on 1 April 2020.

12. Capital Commitments and Contingent Liabilities

As at 31 December 2020, the Group had capital commitments to purchase equipment of $2.4 million (2019: $1.9 million).

As at 31 December 2020, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $5.1 million (2019: $4.6 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 2020 (2019: nil).

13. Net Tangible Assets per security

Net tangible assets (liabilities) per security at 31 December 2020 was ($0.88) (2019: ($0.58)).

14. Post Balance Date Events

Dividend declared

On 22 February 2021, the Directors declared a fully imputed interim dividend of 15.5 cents per share (approximately $25.7 million) in respect of the year ended 30 June 2021. The dividend will be paid on 1 April 2021. The record date for determination of entitlements to the dividend is 12 March 2021. A supplementary dividend of 2.74 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.

At the date of this report, there have been no other significant events subsequent to the reporting date.