Freightways

HALF YEAR REPORT DECEMBER 2011

Freightways

New Zealand Couriers
www.nzcouriers.co.nz

Freightways

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.passtheparcel.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.datasecurity.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 2011. Highlights of the half year include the positive financial performance of the group that is above the prior year in all respects, the completion of two acquisitions (one in New Zealand and one in Australia) that add to the depth of Freightways' presence in the Australasian information management industry, the benefit of reduced funding costs following the renegotiation of Freightways' finance facilities in September 2011 and the continued successful execution of growth strategies across both the express package & business mail division and the information management division.

Operating performance

Consolidated operating revenue of $192 million for the half year was 9% higher than the prior comparative period (pcp).

EBITDA of $36 million (excluding non-recurring items) for the half year was 8% higher than the pcp and EBITA of $31 million (excluding non-recurring items) for the half year was 9% higher than the pcp.

Consolidated NPAT of $18.3 million (excluding non-recurring items) for the half year was 16% higher than the pcp.

Cash flows generated from operations were again strong at $36 million.

A one-off $1 million EBITA benefit ($0.7 million after tax) relating to proceeds from a Christchurch earthquake insurance claim made in the prior year has not been included in the above revenue and earnings numbers. This amount is recorded as a positive non-recurring item in the half year accounts.

Dividend

The Directors have declared an interim dividend of 8.5 cents per share, fully imputed at a tax rate of 30%. This represents a pay out of approximately $13.1 million compared with $11.1 million for the pcp interim dividend of 7.25 cents per share. The interim dividend will be paid on 30 March 2012. The record date for determination of entitlements to the final dividend is 16 March 2012.

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

The Freightways team of people throughout New Zealand and Australia have again demonstrated their ability to deliver superior performance in a half year that has seen significant growth in both operating divisions. The benefit of the successful industry and geographical diversification strategy embarked upon by Freightways in previous years is also evident in this result.

Express package & 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, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express and DX Mail.

Operating revenue of $149 million for the half year was 6% higher than the pcp.

EBITDA of $28 million for the half year was 8% higher than the pcp and EBITA of $26 million for the half year was 9% higher than the pcp.

A particularly strong first quarter was followed by good sound performance throughout the division in the second quarter. Increasing volumes from many existing customers and price increases underpinned the revenue growth in this division. Revenue from fuel surcharges used to offset the impact of higher fuel prices is also included in this result.

A consequence of the Christchurch earthquakes has been a decline in revenue and earnings from the Canterbury region for a small acquisition Freightways completed in November 2010 that services the international postal market. Customers in Christchurch who utilise this service were severely disrupted in the

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

February 2011 earthquake and consequently activity levels in this business have been running at around 80% of our initial expectations since then. While we expect activity levels to recover in time, this initial decline in earnings has meant that the performance hurdle that would have triggered an earnout payment to the vendor of the acquired business was not achieved. Accounting rules dictate that this earnout payment, previously recorded as an amount payable by Freightways, be written back to earnings. As such a positive non-cash earnings benefit of $0.25 million is included in this half year result.

During the half year, our Hawkes Bay businesses relocated to new larger premises. Work also commenced on the redevelopment of the Post Haste and Castle Parcels depots at our main Auckland site to enable the future accommodation of NOW Couriers that currently operates from a separate Auckland location.

Overall, Freightways' express package & business mail division has been able to once again demonstrate its resilience and its growth attributes to deliver a very good half year result.

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.

Operating revenue of $44 million for the half year was 19% above the pcp.

EBITDA of $9 million for the half year was 10% above the pcp and EBITA of $7 million for the half year was 9% above the pcp.

During the half year, Freightways acquired Iron Mountain's New Zealand operations and the business and assets of Filesaver Pty Limited in Sydney. Financial performance relating to these entities is tracking to expectation. Restructuring costs relating to both these acquisitions and the relocation of our Perth operations, totalling approximately $0.5 million have been expensed during the half year. The synergy benefits relating to these costs will start flowing during the second half of the financial year.

The very strong growth experienced in this division has assisted in offsetting the increased costs associated with leasing significant additional capacity in both Australia and New Zealand. Part of this growth has come from winning nationwide customers in Australia that would not have been achieved without this investment. In our document destruction operations the demand for recycled paper on the global market has again decreased and accordingly the price we receive for the sale of this product has declined. The implementation of a range of contingencies to offset the impact of these reduced prices has been successfully completed; meaning the impact on our margins is at this stage immaterial.

New service lines have been added to Freightways' suite of information management services, adding breadth to our revenue and earnings growth. Strategic growth opportunities continue to be explored and executed where they make commercial sense.

Overall, the performance of the information management division and its demonstrated ability to sustain high levels of growth has been 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 express package & business mail division. All three internal service providers have continued to deliver exceptional service that underpins the service offered by our front line businesses.

Finance facilities

Newly negotiated finance facilities came into effect on 1 September 2011. These include facilities of NZD110 million and AUD70 million, spread equally between 3-year, 4-year and 5-year maturity dates. This multi-currency facility, with an evenly spread maturity profile, demonstrates the support of Freightways' banking syndicate and provides important diversity of duration and funding certainty for the company. The reduced cost of these facilities is clearly evidenced in the decreased interest charge to the company for the half year.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

Corporate

Corporate overhead costs continue to be well contained. Bank borrowings have increased to fund the recent acquisitions.

OUTLOOK

Based on our experiences in the first half of the 2012 financial year, we expect to see continued gradual improvement in the market segments we operate in. While Freightways expects it will benefit from this improvement, it will also complement any natural growth by continuing to actively manage its cost base, by striving to further improve its service quality and by continuing to execute growth initiatives wherever possible.

The express package & business mail division remains reliant on growth within its existing customer base to sustain its year-on-year performance improvement, albeit the market share gains and pricing improvement achieved during 2011 and pricing initiatives implemented to date in 2012 will contribute positively to its overall performance. Freightways has consistently demonstrated its ability to compete successfully in an openly competitive environment and it will continue to do so. Our express package brands are among the most recognised in New Zealand, our people have a depth of experience second to none and our service culture will continue to set us apart from our competitors.

The information management division is transitioning successfully through a period of significant investment in capacity. It is expected to complete this transition while still delivering sound year-on-year earnings growth. This new capacity has already enabled the winning of customers who have a nationwide presence and demand. The restructuring and relocation costs expensed in the first half of the year are expected to drive synergy value from the second half of the year. Although some further restructuring costs are expected they will not be of the same magnitude as those expensed during the first half of the year.

Capital expenditure for 2012 is expected to be $20 million and includes a one-off $4 million depot refurbishment at our main Auckland site to accommodate the relocation of NOW Couriers, that is currently based off-site, and costs associated with the integration of the recently acquired businesses. Overall, cash flows are expected to remain strong throughout the remainder 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.

CONCLUSION

Freightways has delivered a very strong half year result that is above the prior period 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 8.5 cents per share interim dividend.

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

Susan Sheldon

Susan Sheldon
Chairman

Dean Bracewell
Managing Director

13 February 2012

INDEPENDENT ACCOUNTANTS' REPORT

To the shareholders of Freightways Limited

Report on the interim financial statements

We have reviewed the interim condensed financial statements ("financial statements") of Freightways Limited on pages 5 and 7 to 19, which comprise the balance sheet as at 31 December 2011, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year then ended, and the notes to the financial statements that include 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 2011, 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 2011 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We have no relationship with, or interests in, Freightways Limited or any of its subsidiaries other than in our capacities as accountants conducting this review and taxation advisors. These services have not impaired our independence as accountants of the Group.

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 2011 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 accountants' 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.

PricewaterhouseCoopers

Chartered Accountants
Auckland
13 February 2012

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CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (UNAUDITED)

	Note	6 mths ended 31 Dec 2011 $000	6 mths ended 31 Dec 2010 $000	Variance %
Operating revenue	3	192,183	176,166	9%
Transport and logistics expenses		(80,612)	(74,999)	7%
Employee benefits expenses		(49,463)	(45,849)	8%
Occupancy expenses		(8,165)	(6,268)	30%
General and administrative expenses		(17,616)	(15,511)	14%
Operating profit before interest, tax, depreciation, software amortisation and non-recurring items		36,327	33,539	8%
Depreciation and software amortisation		(5,064)	(4,858)	4%
Operating profit before interest, income tax and non-recurring items		31,263	28,681	9%
Non-recurring income before income tax*		1,010	-	-
Operating profit before interest and income tax (EBITA)	3	32,273	28,681	13%
Net interest and finance costs		(6,971)	(7,795)	(11%)
Profit before income tax		25,302	20,886	21%
Income tax		(6,333)	(5,090)	24%
Profit for the period (NPAT)		18,969	15,796	20%
Earnings per share for the period:**				
Basic earnings per share (cents)		12.3	10.3	
Diluted earnings per share (cents)		12.3	10.3	

* Non-recurring income relates to Christchurch earthquake insurance claim proceeds received during the period.

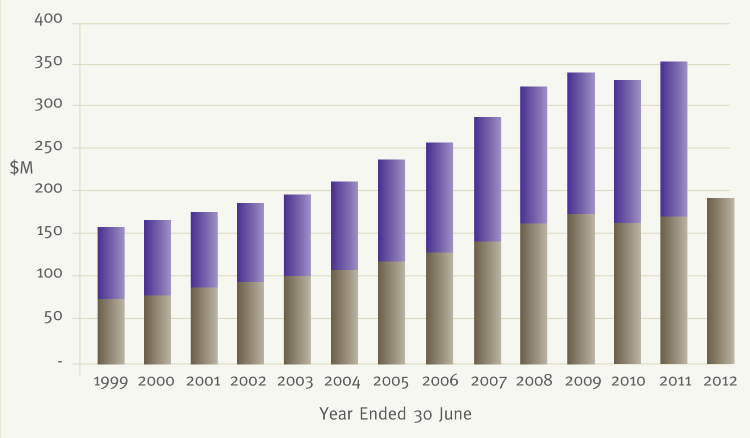
** Basic and diluted earnings per share for the period, calculated on the profit for the period excluding non-recurring income, are 11.9 cents and 11.8 cents, respectively.

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

* Excludes non-recurring items (HY2012: $1m income; FY2011: $1.3m net expense)

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 2011 (UNAUDITED)

	6 mths ended 31 Dec 2011 $000	6 mths ended 31 Dec 2010 $000
Profit for the period (NPAT)	18,969	15,796
Other comprehensive income		
Cash flow hedges taken directly to equity, net of tax	(5,360)	2,382
Exchange differences on translation of foreign operations	615	1,574
Total other comprehensive income after income tax	(4,745)	3,956
Total comprehensive income for the period	14,224	19,752

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 2011 (UNAUDITED)

	Note	6 mths ended 31 Dec 2011 $000	6 mths ended 31 Dec 2010 $000
Equity at the beginning of the period		167,769	157,926
Total comprehensive income for the period		14,224	19,752
Dividends paid		(11,153)	(10,754)
Issue of ordinary shares, net of costs		526	193
Equity at the end of the period	4	171,366	167,117

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2011 (UNAUDITED)

	Note	As at 31 Dec 2011 $000	As at 31 Dec 2010 $000	As at 30 Jun 2011 $000
ASSETS				
Current assets				
Cash and cash equivalents		5,545	3,871	4,325
Trade and other receivables		55,130	48,978	49,774
Inventories		7,579	7,527	7,423
Total current assets		68,254	60,376	61,522
Non-current assets				
Trade and other receivables		297	378	85
Property, plant and equipment		87,300	79,688	80,193
Intangible assets		273,626	255,347	256,007
Deferred tax asset		1,478	1,229	1,362
Other non-current assets		-	26	18
Total non-current assets		362,701	336,668	337,665
Total assets		430,955	397,044	399,187
LIABILITIES				
Current liabilities				
Trade and other payables		44,999	40,565	42,599
Finance lease liabilities		26	10	26
Provisions		349	281	246
Derivative financial instruments		388	49	174
Unearned income		13,933	15,142	14,830
Total current liabilities		59,695	56,047	57,875
Non-current liabilities				
Trade and other payables		2,941	1,000	1,000
Borrowings (secured)	5	178,039	160,756	158,222
Deferred tax liability		3,788	7,234	6,570
Provisions		1,410	939	1,217
Finance lease liabilities		79	-	93
Derivative financial instruments		13,637	3,951	6,441
Total non-current liabilities		199,894	173,880	173,543
Total liabilities		259,589	229,927	231,418
NET ASSETS		171,366	167,117	167,769
EQUITY				
Contributed equity	4	121,239	120,681	120,713
Retained earnings		59,145	48,364	51,329
Cash flow hedge reserve		(10,371)	(3,200)	(5,011)
Foreign currency translation reserve		1,353	1,272	738
TOTAL EQUITY	4	171,366	167,117	167,769

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 2011 (UNAUDITED)

	Note	6 mths ended 31 Dec 2011 $000 INFLOWS (OUTFLOWS)	6 mths ended 31 Dec 2010 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers		188,473	171,747
Payments to suppliers and employees		(152,141)	(140,651)
Cash generated from operations		36,332	31,096
Interest and other costs of finance paid		(6,960)	(6,965)
Income taxes paid		(7,742)	(7,148)
Net cash inflows from operating activities	6	21,630	16,983
Cash flows from investing activities			
Payments for property, plant & equipment		(6,541)	(5,791)
Payments for software		(293)	(456)
Proceeds from disposal of property, plant & equipment		117	18
Payments for businesses acquired		(20,944)	(1,603)
Advances repaid by associates		69	-
Payments for other investing activities		(476)	(495)
Net cash outflows from investing activities		(28,068)	(8,327)
Cash flows from financing activities			
Dividends paid		(11,153)	(10,754)
Increase in bank borrowings		18,707	1,000
Net proceeds from issue of ordinary shares		152	25
Finance lease liabilities repaid		(13)	(187)
Net cash inflows (outflows) from financing activities		7,693	(9,916)
Net increase (decrease) in cash and cash equivalents		1,255	(1,260)
Cash and cash equivalents at the beginning of the period		4,325	4,996
Exchange rate adjustments		(35)	135
Cash and cash equivalents at the end of the period		5,545	3,871

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 2011 (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 (NZ IFRS) and with International Financial Reporting Standards (IFRS).

2. CHANGES IN ACCOUNTING POLICIES

Except as described below, the accounting policies and methods of computation are consistent with those used in the most recent annual report which can be obtained from the Company's registered office or www.freightways.co.nz.

FRS 44 New Zealand Additional Disclosures and Harmonisation Amendments (effective 1 July 2011)

FRS 44 sets out New Zealand specific disclosures for entities that apply NZ IFRS. These disclosures have been relocated from various NZ IFRS to clarify that these disclosures are additional to those required by IFRS. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Group's current disclosures.

The Harmonisation Amendments amend various NZ IFRS for the purpose of harmonising with the source IFRS and Australian Accounting Standards. The significant amendments include:

- deletion of the requirement for an independent valuer to conduct the valuation of investment property and property, plant and equipment;
- inclusion of the option to account for investment property using either cost or fair value model; and
- introduction of the option to use the indirect method of reporting cash flows that is not currently in NZ IAS 7.

In addition, various disclosure requirements have been deleted.

The Group adopted FRS 44 and the Harmonisation Amendments from 1 July 2011 and there has been no material impact on the financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (UNAUDITED)

3. SEGMENT REPORTING

(a) Description of segments

The Group is organised into the following reportable operating segments which categorise the business into its primary markets and reflect the structure and internal reporting used by 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (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 2011					
Sales to external customers	148,668	43,515	-	-	192,183
Inter-segment sales	696	60	1,777	(2,533)	-
Total revenue	149,364	43,575	1,777	(2,533)	192,183
Operating profit before interest, tax, depreciation, software amortisation and non-recurring income	27,873	9,236	(782)	-	36,327
Depreciation and software amortisation expense	(2,421)	(2,036)	(607)	-	(5,064)
Operating profit before interest, income tax and non-recurring income	25,452	7,200	(1,389)	-	31,263
Non-recurring income before income tax	-	-	1,010	-	1,010
Operating profit before interest and income tax (EBITA)	25,452	7,200	(379)	-	32,273
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	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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (UNAUDITED)

4. EQUITY

	CONTRIBUTED EQUITY $000	RETAINED EARNINGS $000	CASH FLOW HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	TOTAL EQUITY $000
Balance at 1 July 2011	120,713	51,329	(5,011)	738	167,769
Profit for the period	-	18,969	-	-	18,969
Dividend payment	-	(11,153)	-	-	(11,153)
Shares issued, net of costs	526	-	-	-	526
Cash flow hedges taken directly to equity, net of tax	-	-	(5,360)	-	(5,360)
Foreign currency translation reserve	-	-	-	615	615
Balance at 31 December 2011	121,239	59,145	(10,371)	1,353	171,366
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

Contributed equity

Fully paid ordinary shares

As at 31 December 2011, there were 153,838,159 fully paid ordinary shares on issue (2010: 153,629,947). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Partly paid ordinary shares

On 13 September 2011, 183,716 partly paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2010: 173,685). The issue price per share was $3.15 (2010: $2.85) 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 2011, there were 467,103 partly paid ordinary shares on issue (2010: 321,599). 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 13 September 2011, 38,212 (2010: 7,787) 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 (2010: $3.01).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (UNAUDITED)

Employee share plan

On 13 September 2011, the Company issued 170,000 fully paid ordinary shares at $2.84 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2010: 30,000 fully paid ordinary shares at $2.56 each). In total, participating employees were provided with interest-free loans of $0.5 million to fund their purchase of the shares in the Share Plan (2010: $0.2 million). The loans are repayable over three years and repayment commenced in October 2011.

5. BORROWINGS (SECURED)

During August 2011 the Group negotiated a restructuring and repricing of its bank facilities. The new facilities, with improved pricing compared to the previous facilities, are spread equally between 3-year, 4-year and 5-year maturity and became effective from 1 September 2011.

As at 31 December 2011, the Group's debt facilities comprised NZD110 million and AUD70 million (2010: NZD120 million and AUD80 million), of which NZD96 million and AUD62 million (2010: NZD87 million and AUD56 million) had been drawn, respectively. The Group also had an undrawn bank overdraft facility of NZD8 million available (2010: NZD8 million).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (UNAUDITED)

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

	6 mths ended 31 Dec 2011 $000	6 mths ended 31 Dec 2010 $000
Profit for the period	18,969	15,796
Add non-cash items:		
Depreciation and software amortisation	5,064	4,858
Movement in provision for doubtful debts	58	(158)
Movement in deferred income tax	(2,853)	1,015
Net loss (gain) on disposal of fixed assets	(9)	31
Net foreign exchange loss (gain)	(8)	22
Movement in derivative fair value	(41)	19
Items not included in profit for the period:		
Cash flow hedges taken directly to equity	5,360	(2,382)
Movement in working capital:		
(Increase) decrease in trade and other receivables	(6,403)	(3,634)
(Increase) decrease in inventories	(134)	257
Increase (decrease) in trade and other payables	2,746	3,051
Increase (decrease) in income taxes payable	(1,119)	(1,973)
Increase (decrease) in non-current provisions	-	81
Net cash inflows from operating activities	21,630	16,983

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (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 and Contact Energy Limited.

Due from associates: During 2007, 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. During the period, the other JV partners repaid the $0.1m balance of their outstanding advances. As at 31 December 2011 there were no amounts due from associates (2010: $0.1 million).

Key management compensation: Compensation paid during the period (or payable as at 31 December 2011 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2011 $000	2010 $000
Short-term employee benefits	2,907	2,208
Long-term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments	78	39

8. FINANCIAL RISK MANAGEMENT

The Group has a treasury policy which is used to assist in managing foreign exchange and interest rate risks. The interim financial statements do not include all financial risk management information and disclosures and should be read in conjunction with the Group's annual financial statements as at 30 June 2011 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 2011.

In the period to 31 December 2011 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, other than the impact of the further lowering of interest rates in New Zealand and Australia driving an increase in the Group's liabilities for derivative financial instruments associated with its interest rate hedging portfolio.

Effective 1 April 2009, the Group adopted the amendment to NZ IFRS 7 for financial instruments that are measured in the balance sheet at fair value, which requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (UNAUDITED)

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

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

Specific valuation techniques used to value financial instruments include:

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

The Group's derivative financial instruments are all Level 2 financial instruments. There have been no transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments in the period to 31 December 2011.

There were no reclassifications of financial assets and finance liabilities since 30 June 2011.

9. BUSINESS COMBINATIONS

Shred-X

In July 2007, the Group acquired the business and assets of Shred-X, which operates in the document destruction and paper recycling sector in Australia. The purchase price was comprised of initial payments totalling $11.3 million, which were paid during the year ended 30 June 2008, and a further amount payable to the Shred-X vendors based on the earnings achieved for the year ended 30 June 2011. The final earn-out payment of approximately $2.3 million was made to the Shred-X vendors in September 2011.

Iron Mountain New Zealand Limited ('IMNZ')

During October 2011, the Group acquired IMNZ, a company operating in the New Zealand information management market, for a total of approximately $12.8 million, net of cash acquired. This acquired subsidiary is now operating within the Group's information management division. A summary of this acquisition is set out below.

The contribution of IMNZ to the Group results for the half year ended 31 December 2011 was revenue of $2.6 million and operating profit before interest and income tax of $0.03 million, after expensing integration costs of $0.3 million for the period.

If IMNZ had been acquired at the beginning of the period, the contribution to revenue and operating profit for the period before interest and income tax is estimated at $5.2 million and $0.6 million, respectively, excluding integration costs of $0.3 million for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (UNAUDITED)

Details of net assets acquired are as follows:

	$000
Purchase consideration	
Cash paid during the period	13,041
less cash acquired within the subsidiary	(262)
Total purchase consideration	12,779
Fair value of assets and liabilities arising from the acquisition	
Trade receivables	1,458
Inventories	6
Deferred tax asset	412
Leasehold alterations, plant & equipment	4,859
Trade and other payables	(1,360)
Intangible assets	7,404
	12,779

Filesaver

During December 2011, the Group acquired the business and assets of Filesaver, a specialist document storage, archiving and imaging business in Australia. This acquired business has been integrated into the Group's information management division. The purchase price of up to $8.1 million will be paid over three years. An initial payment of $5.7 million was made and an earn-out of up to $2.4 million may be payable in September 2014, subject to the achievement of specific earnings targets.

The contribution of Filesaver to the Group results for the half year ended 31 December 2011 was revenue of $0.1 million. Due to initial integration costs upon acquisition, there was no contribution to operating profit before interest and income tax for the period.

If Filesaver had been acquired at the beginning of the period, the contribution to revenue and operating profit for the period before interest and income tax is estimated at $0.8 million and $0.4 million, respectively.

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

	$000
Purchase consideration	
Cash paid during the period	5,723
Stamp duty payable	298
Present value of future earn-out payment, including additional stamp duty	1,941
Total purchase consideration	7,962
Fair value of assets and liabilities arising from the acquisition	
Plant & equipment	39
Other assets	30
Trade and other payables	(407)
Intangible assets	8,300
	7,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2011 (UNAUDITED)

The acquisition accounting for the IMNZ and Filesaver acquisitions has been determined on a provisional basis at this stage, given the short period of ownership. The fair value of assets and liabilities acquired, including identified intangible assets, will be finalised for the financial statements for the year ended 30 June 2012.

The New Zealand dollar amounts shown are as at acquisition date.

10. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had contractual obligations to construct buildings and purchase equipment totalling $3.5 million at 31 December 2011 (2010: $1.9 million). These commitments relate predominantly to the refurbishment of operating facilities in Auckland.

There were no other capital commitments as at 31 December 2011 (2010: nil).

As at 31 December 2011, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $1.8 million (2010: $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 2011 (2010: nil).

11. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 31 December 2011 was ($0.62) (2010: ($0.54)).

12. POST BALANCE DATE EVENTS

Dividend declared

On 13 February 2012, the directors declared a fully imputed interim dividend of 8.5 cents per share or $13.1 million to be paid on 30 March 2012 to the shareholders of record as at 16 March 2012. A supplementary dividend of 1.5 cents per share will be paid to overseas shareholders when the interim dividend is paid. The Freightways Dividend Reinvestment Plan will not operate for this dividend.

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

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

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www.dxmail.co.nz

New Zealand Couriers Limited
32 Botha Road
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DX CX10119
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Telephone: 09 571 9600
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Online Security Services Limited
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