HALF YEAR REPORT DECEMBER 2012

Freightways

Freightways

New Zealand Couriers
www.nzcouriers.co.nz

Post Haste Couriers
www.posthaste.co.nz

Castle Parcels
www.castleparcels.co.nz

Now Couriers
www.nowcouriers.co.nz

SUB60
www.sub60.co.nz

Kiwi Express Couriers
www.kiwiexpress.co.nz

Security Express

Pass The Parcel
www.passtheparcel.co.nz

Stuck
www.stuck.co.nz

DX Mail
www.dxmail.co.nz

Dataprint
www.dataprint.co.nz

Air Freight NZ

Fieldair Engineering
www.fieldair.co.nz

Parceline Express

Freightways Information Services

Online Security Services
www.onlinesecurity.co.nz

Archive Security
www.onlinerecords.co.nz

Data Security Services
www.datasecurity.co.nz

Document Destruction Service
www.destruction.co.nz

Databank
www.databank.com.au

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

Filesaver
www.filesaver.com.au

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 2012, that was above the prior half year in all respects and a record result for the company.

Highlights include sustaining the growth momentum in the express package businesses throughout the half year compared to a very strong prior comparative period (pcp), the deployment of several customer-facing technology initiatives which added further value to the service we already provide, and market share growth we achieved in Australia from the winning of some significant nationwide customers.

Operating performance

Consolidated operating revenue of $207 million for the half year was 8% higher than the pcp.

EBITDA (excluding non-recurring items) of $40 million for the half year and EBITA (excluding non-recurring items) of $34 million for the half year were 9% and 8% higher than the pcp, respectively.

Consolidated NPAT (excluding non-recurring items) of $20 million for the half year was 10% higher than the pcp.

Cash flows generated from operations were again strong at $37 million.

Earnings per share (EPS) for the half year (excluding non-recurring items) was 13 cents per share, an improvement of 9% over the pcp.

A one-off $1 million EBITA benefit ($1 million after tax) relating to the reversal of an accrued acquisition earnout payment that is not expected to be payable when it falls due on 30 June 2013 has been recorded in the Income Statement. This amount has been treated as a non-recurring item and has not been included in the above operating revenue and earnings numbers. The business that this acquisition earnout payment relates to is performing well, albeit it is not expected to reach the performance hurdle that would trigger this final earnout payment.

Dividend

The Directors have declared an interim dividend of 9.0 cents per share, fully imputed at an effective tax rate of approximately 28%, as the last imputation credits at 30% are used and the balance of the dividend is imputed at 28%. This represents a pay out of approximately $13.9 million compared with $13.1 million for the pcp interim dividend of 8.5 cents per share. The interim dividend will be paid on 2 April 2013. The record date for determination of entitlements to the interim dividend is 15 March 2013.

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

Strong results have again been achieved in both the express package & business mail and information management divisions.

Express package & business mail

The express package & business mail division operates a multi-brand strategy in the domestic market through New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express, DX Mail and Dataprint.

Operating revenue of $158 million for the half year was 6% higher than the pcp.

EBITDA of $29 million for the half year was 4% higher than the pcp and EBITA of $26 million for the half year was 2% higher than the pcp.

The sustained performance of the express package & business mail division in the first and second quarters, that again demonstrated steady year-on-year improvement, is encouraging, particularly given the very strong performance experienced in the prior year. Underpinning this result was growth in volumes from existing

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

customers, pricing improvement and some acquired revenue. We have continued to develop and extend our suite of services and how we take them to market. Technology-based innovation plays an important part in our service offer. A number of technology-based initiatives have been deployed recently, following the completion of a major IT project in the prior year. Overall margin as a percentage of revenue was slightly below the prior year due to the currently higher cost of servicing the Canterbury region and the impact of reduced postal volumes from existing customers in our business mail operations. The recently acquired Dataprint is performing well and to expectation.

Overall, Freightways' express package & business mail division has been able to once again demonstrate its resilience and its growth attributes to deliver a 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, Filesaver and Shred-X.

Operating revenue of $50 million for the half year was 15% above the pcp.

EBITDA of $11 million for the half year was 21% higher than the pcp and EBITA of $9 million for the half year was 23% higher than the pcp.

The information management division has again recorded a very good result, with growth occurring in all locations that we operate from in both New Zealand and Australia. This growth is offsetting the impact of the currently low prices we continue to receive from the sale of recycled paper from the document destruction operations. A number of contingencies to mitigate the impact of these reduced prices have been implemented, however the contribution from this particular revenue source remains significantly lower than the pcp. Following the recent gaining of another significant nationwide customer, the Shred-X business has invested in resources to extend its paper collection network beyond metropolitan areas to regional areas throughout the east coast of Australia.

Overall, the performance of the information management division has again been very strong.

Internal service providers

Fieldair Holdings provides airfreight linehaul services, Parceline Express provides road linehaul services and Freightways Information Services provides IT development and support to the express package & business mail division. All three internal service providers have continued to deliver outstanding service, underpinning the service offered by our front line businesses.

Corporate

Corporate overhead costs continue to be well contained. Net bank borrowings increased by $4 million during the half year; in part to fund the recent acquisition of Dataprint in July 2012.

Capital expenditure of $7 million was invested during the half year to maintain Freightways' airfreight and IT infrastructure and to support the group's growth strategies.

OUTLOOK

Overall we expect to be operating in a slow growth environment for the foreseeable future. We do however remain mindful of any further deterioration in the global economy that will inevitably influence the markets that we operate in.

The positive momentum that we have been achieving in our express package businesses is expected to continue at similar levels for the foreseeable future. Along with gradual growth in our traditional customer base, we are experiencing continued strong growth in volume that originates from businesses and consumers shopping online. Our business mail operations, which are a smaller part of this division, will continue to face declining letter volumes, though we do expect it to offset much of this decline by increasing its share of the market.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

The growth that we have consistently been achieving in the information management division is expected to continue. Strong market support for the services we provide and the gaining of a number of nationwide customers following our investment in capacity and resources in recent years is very positive. A number of new digital services to complement our traditional physical information management services have recently been introduced. No near-term improvement is expected in the prices we receive from the sale of recycled paper, that continue to track significantly lower than we were able to achieve in the prior year.

Capital expenditure for the full year ending 30 June 2013 is expected to be $14 million to support the growth and development of both the Freightways' operating divisions. Overall, cash flows are expected to remain strong throughout the 2013 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 out 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 record half year result. The positive features of the markets it operates in, the resilience of its business models and the successful execution of its growth strategies by a very experienced and capable team, are evident in this result. Accordingly, the Directors have been able to declare a fully imputed 9.0 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
Chairman

Dean Bracewell
Managing Director

18 February 2013

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 20, which comprise the balance sheet as at 31 December 2012, 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 2012, 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 2012 in accordance with the Review Engagement Standards issued in New Zealand.

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

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 31 December 2012 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
18 February 2013

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (UNAUDITED)

	Note	6 mths ended 31 Dec 2012 $000	6 mths ended 31 Dec 2011 $000	Variance %
Operating revenue	3	206,712	192,183	8%
Transport and logistics expenses		(86,638)	(80,612)	7%
Employee benefits expenses		(53,737)	(49,463)	9%
Occupancy expenses		(9,129)	(8,165)	12%
General and administrative expenses		(17,573)	(17,616)	0%
Operating profit before interest, income tax, depreciation and software amortisation, amortisation of intangibles and non-recurring items		39,635	36,327	9%
Depreciation and software amortisation		(5,871)	(5,064)	16%
Operating profit before interest, income tax, amortisation of intangibles and non-recurring items		33,764	31,263	8%
Amortisation of intangibles, excluding software amortisation		(140)	-	-
Operating profit before interest, income tax and non-recurring items		33,624	31,263	8%
Non-recurring items before income tax*		1,000	1,010	(1%)
Operating profit before interest and income tax	3	34,624	32,273	7%
Net interest and finance costs		(6,661)	(6,971)	(4%)
Profit before income tax		27,963	25,302	11%
Income tax		(6,929)	(6,333)	9%
Profit for the period attributable to shareholders		21,034	18,969	11%
Earnings per share for the period:**				
Basic earnings per share (cents)		13.7	12.3	
Diluted earnings per share (cents)		13.6	12.3	

* The non-recurring item relates to the reversal of an accrued acquisition earnout payment for which the financial hurdle required to be met as at 30 June 2013 is not expected to be achieved. The non-recurring item in the prior period relates to Christchurch earthquake insurance claim proceeds received during that period.

** Basic and diluted earnings per share for the period, calculated on the profit for the period excluding non-recurring items, were both 13.0 cents.

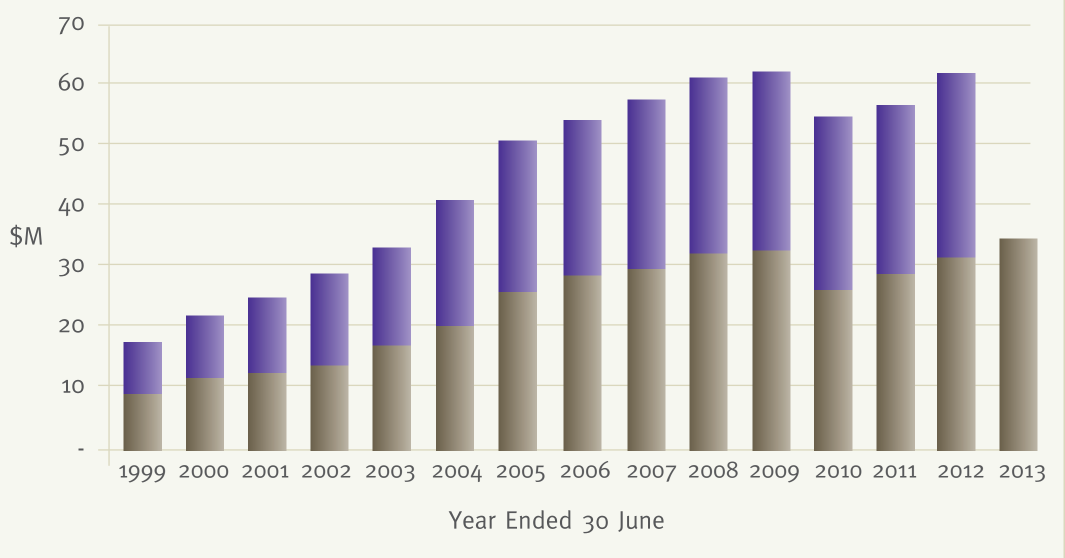
NB: All revenue and earnings are from continuing operations.

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

FINANCIAL SUMMARY (UNAUDITED)

FREIGHTWAYS OPERATING REVENUE

FREIGHTWAYS EBITA*



* This EBITA graph represents the operating results of the company, exclusive of any non-recurring items.

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 2012 (UNAUDITED)

	6 mths ended 31 Dec 2012 $000	6 mths ended 31 Dec 2011 $000
Profit for the period	21,034	18,969
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Cash flow hedges taken directly to equity, net of tax	78	(5,360)
Exchange differences on translation of foreign operations	714	615
Total other comprehensive income after income tax	792	(4,745)
Total comprehensive income for the period	21,826	14,224

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 2012 (UNAUDITED)

	Note	6 mths ended 31 Dec 2012 $000	6 mths ended 31 Dec 2011 $000
Equity at the beginning of the period		173,304	167,769
Total comprehensive income for the period		21,826	14,224
Dividends paid		(14,630)	(11,153)
Issue of ordinary shares, net of costs		371	526
Equity at the end of the period	4	180,871	171,366

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2012 (UNAUDITED)

	Note	As at 31 Dec 2012 $000	As at 31 Dec 2011 $000	As at 30 Jun 2012 $000
ASSETS				
Current assets				
Cash and cash equivalents		4,023	5,545	9,130
Trade and other receivables		62,549	55,130	53,401
Inventories		8,613	7,579	8,129
Total current assets		75,185	68,254	70,660
Non-current assets				
Trade and other receivables		656	297	674
Property, plant and equipment		91,514	87,300	90,343
Intangible assets		281,027	273,626	275,295
Deferred tax asset		588	1,478	563
Total non-current assets		373,785	362,701	366,875
Total assets		448,970	430,955	437,535
LIABILITIES				
Current liabilities				
Trade and other payables		48,721	44,999	45,266
Finance lease liabilities		88	26	26
Provisions		333	349	363
Derivative financial instruments		649	388	345
Unearned income		14,067	13,933	13,937
Total current liabilities		63,858	59,695	59,937
Non-current liabilities				
Trade and other payables		4,179	2,941	3,991
Borrowings (secured)	5	177,624	178,039	178,971
Deferred tax liability		6,040	3,788	4,553
Provisions		1,615	1,410	1,479
Finance lease liabilities		122	79	66
Derivative financial instruments		14,661	13,637	15,234
Total non-current liabilities		204,241	199,894	204,294
Total liabilities		268,099	259,589	264,231
NET ASSETS		180,871	171,366	173,304
EQUITY				
Contributed equity	4	121,634	121,239	121,263
Retained earnings		70,508	59,145	64,104
Cash flow hedge reserve		(11,373)	(10,371)	(11,451)
Foreign currency translation reserve		102	1,353	(612)
TOTAL EQUITY	4	180,871	171,366	173,304

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 2012 (UNAUDITED)

	Note	6 mths ended 31 Dec 2012 $000 INFLOWS (OUTFLOWS)	6 mths ended 31 Dec 2011 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers		200,116	188,473
Payments to suppliers and employees		(163,321)	(152,141)
Cash generated from operations		36,795	36,332
Interest received		8	56
Interest and other costs of finance paid		(7,033)	(7,016)
Income taxes paid		(8,947)	(7,742)
Net cash inflows from operating activities	6	20,823	21,630
Cash flows from investing activities			
Payments for property, plant & equipment		(6,716)	(6,541)
Payments for software		(629)	(293)
Proceeds from disposal of property, plant & equipment		40	117
Payments for businesses acquired		(2,983)	(20,944)
Advances to associates repaid		-	69
Payments for other investing activities		(410)	(476)
Net cash outflows from investing activities		(10,698)	(28,068)
Cash flows from financing activities			
Dividends paid		(14,630)	(11,153)
(Decrease) Increase in bank borrowings		(679)	18,707
Net proceeds from issue of ordinary shares		159	152
Finance lease liabilities repaid		(40)	(13)
Net cash inflows (outflows) from financing activities		(15,190)	7,693
Net increase (decrease) in cash and cash equivalents		(5,065)	1,255
Cash and cash equivalents at the beginning of the period		9,130	4,325
Exchange rate adjustments		(42)	(35)
Cash and cash equivalents at the end of the period		4,023	5,545

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 2012 (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.

Revised IAS 1 Presentation of Financial Statements (mandatory for annual reporting periods beginning on or after 1 July 2012). In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future.

The Group adopted Revised IAS 1 from 1 July 2012 resulting in a change of presentation in the statement of comprehensive income to indicate items of other comprehensive income that may subsequently be reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (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 the Managing Director, as the chief operating decision maker, and the Board to assist strategic decision-making and allocation of resources:

Express package & business mail

Comprises network courier, point-to-point courier and postal services.

Information management

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

Corporate & other

Comprises corporate, financing and property management services.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (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 2012					
Sales to external customers	156,852	49,860	-	-	206,712
Inter-segment sales	911	84	1,952	(2,947)	-
Total revenue	157,763	49,944	1,952	(2,947)	206,712
Operating profit before interest, income tax, depreciation and software amortisation, amortisation of intangibles and non-recurring items	28,983	11,164	(512)	-	39,635
Depreciation and software amortisation	(2,928)	(2,288)	(655)	-	(5,871)
Operating profit before interest, income tax, amortisation of intangibles and non-recurring items	26,055	8,876	(1,167)	-	33,764
Amortisation of intangibles, excluding software amortisation	(50)	(90)	-	-	(140)
Operating profit before interest, income tax, and non-recurring items	26,005	8,786	(1,167)	-	33,624
Non-recurring items before income tax	-	-	1,000	-	1,000
Operating profit before interest and income tax	26,005	8,786	(167)	-	34,624
Net interest and finance costs	(12)	16	(6,665)	-	(6,661)
Profit before income tax	25,993	8,802	(6,832)	-	27,963
Income tax	(7,359)	(2,552)	2,982	-	(6,929)
Profit for the period attributable to the shareholders	18,634	6,250	(3,850)	-	21,034

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (UNAUDITED)

(b) Segment analysis (continued)

	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, income tax, depreciation and software amortisation, amortisation of intangibles and non-recurring items	27,873	9,236	(782)	-	36,327
Depreciation and software amortisation	(2,421)	(2,036)	(607)	-	(5,064)
Operating profit before interest, income tax, amortisation of intangibles and non-recurring items	25,452	7,200	(1,389)	-	31,263
Amortisation of intangibles, excluding software amortisation	-	-	-	-	-
Operating profit before interest, income tax, and non-recurring items	25,452	7,200	(1,389)	-	31,263
Non-recurring items before income tax	-	-	1,010	-	1,010
Operating profit before interest and income tax	25,452	7,200	(379)	-	32,273
Net interest and finance costs	-	(3)	(6,968)	-	(6,971)
Profit before income tax	25,452	7,197	(7,347)	-	25,302
Income tax	(7,412)	(1,966)	3,045	-	(6,333)
Profit for the period attributable to the shareholders	18,040	5,231	(4,302)	-	18,969

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (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 2012	121,263	64,104	(11,451)	(612)	173,304
Profit for the period	-	21,034	-	-	21,034
Dividend payment	-	(14,630)	-	-	(14,630)
Shares issued, net of costs	371	-	-	-	371
Cash flow hedges taken directly to equity, net of tax	-	-	78	-	78
Exchange differences on translation of foreign operations	-	-	-	714	714
Balance at 31 December 2012	121,634	70,508	(11,373)	102	180,871
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)
Exchange differences on translation of foreign operations	-	-	-	615	615
Balance at 31 December 2011	121,239	59,145	(10,371)	1,353	171,366

Contributed equity

Fully paid ordinary shares

As at 31 December 2012, there were 153,997,286 fully paid ordinary shares on issue (2011: 153,838,159). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Partly paid ordinary shares

On 10 September 2012, 155,832 partly paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2011: 183,716). The issue price per share was $3.97 (2011: $3.15) 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 2012, there were 521,597 partly paid ordinary shares on issue (2011: 467,103). Partly paid ordinary shares have no voting rights and no rights to dividends and surplus on winding up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (UNAUDITED)

Partly paid shares, fully paid up to ordinary shares

On 10 September 2012, 84,127 (2011: 38,212) partly paid shares were fully paid-up by certain Freightways senior executives upon the achievement of agreed performance targets in accordance with the terms of the original issue of the relevant partly paid shares under the Freightways Senior Executive Performance Share Plan. The average issue price per share was $2.84 (2011: $3.01).

Employee share plan

On 11 September 2012, the Company issued 75,000 fully paid ordinary shares at $3.57 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2011: 170,000 fully paid ordinary shares at $2.84 each). In total, participating employees were provided with interest-free loans of $0.3 million to fund their purchase of the shares in the Share Plan (2011: $0.5 million). The loans are repayable over three years and repayment commenced in October 2012.

5. BORROWINGS (SECURED)

As at 31 December 2012, the Group's debt facilities comprised NZ$110 million and A$70 million (2011: NZ$110 million and A$70 million), of which NZ$99 million and A$62 million (2011: NZ$96 million and A$62 million) had been drawn, respectively. The Group also had an undrawn bank overdraft facility of NZ$8 million available (2011: NZ$8 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 2012 (UNAUDITED)

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

	6 mths ended 31 Dec 2012 $000	6 mths ended 31 Dec 2011 $000
Profit for the period	21,034	18,969
Add non-cash items:		
Depreciation and amortisation	6,011	5,064
Movement in provision for doubtful debts	79	58
Movement in deferred income tax	1,462	(2,853)
Net loss (gain) on disposal of fixed assets	(17)	(9)
Net foreign exchange loss (gain)	-	(8)
Movement in derivative fair value	39	(41)
Items not included in profit for the period:		
Cash flow hedges taken directly to equity	(78)	5,360
Movement in working capital, net of effects of acquisitions of businesses:		
(Increase) decrease in trade and other receivables	(8,845)	(6,403)
(Increase) decrease in inventories	(484)	(134)
Increase (decrease) in trade and other payables	5,026	2,746
Increase (decrease) in income taxes payable	(3,404)	(1,119)
Net cash inflows from operating activities	20,823	21,630

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (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.

Key management compensation: Compensation paid during the period (or payable as at 31 December 2012 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2012 $000	2011 $000
Short-term employee benefits	3,109	2,907
Long-term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments	72	78

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 2012 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 2012.

In the period to 31 December 2012 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.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 - Quoted prices (adjusted) in active markets for identical assets or liabilities at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

Specific valuation techniques used to value financial instruments include:

- In respect of interest rate swaps, the fair value is calculated as the present value of the estimated future cash flows based on observable yield curves; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (UNAUDITED)

- 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 2012.

There were no reclassifications of financial assets and finance liabilities since 30 June 2012.

9. BUSINESS COMBINATIONS

Dataprint

On 2 July 2012, Freightways acquired the business and assets of Dataprint NZ Limited (Dataprint), a full-service, New Zealand-based mailhouse that provides its customers with both physical and digital solutions for their transactional and marketing mail. This acquired business has been integrated into the Group's express package & business mail division. The initial purchase price paid for Dataprint was $3 million, with a further $3.5 million payable over a three-year period, subject to performance targets being achieved.

The contingent consideration arrangement requires the Group to pay the former owners of Dataprint further payments based on the financial performance for the three months ended 30 November 2012 and for the years ended 30 June 2013, 2014 and 2015, up to a maximum discounted amount of $3.1 million. The potential undiscounted amount of all future payments that the Group could be required to make under this arrangement is between nil and $3.5 million.

Dataprint was acquired at the beginning of the period. The contribution of Dataprint to the Group results for the half year ended 31 December 2012 was revenue of $3.2 million and operating profit before interest and income tax of $0.8 million.

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

	$000
Purchase consideration	
Cash paid during the period (Initial purchase price, net of cash adjustments)	2,895
Fair value of future earn-out payment	3,072
Total purchase consideration	5,967
Fair value of assets and liabilities arising from the acquisition	
Plant & equipment	450
Software	500
Brand name	1,310
Customer relationships	500
Goodwill	4,125
Other payables and provisions	(327)
Deferred tax liability	(591)
	5,967

The goodwill of $4.1 million arising upon the acquisition is attributable to intellectual property obtained and economies of scale expected from integrating Dataprint into the operations of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (UNAUDITED)

The acquisition accounting for the Dataprint acquisition 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 acquisition and upon confirmation of certain determinants.

Universal Mail

In November 2010, the Group acquired the business and assets of Universal Mail, a small New Zealand domiciled international postal service provider. This acquired business has been integrated into the Group's express package & business mail division. Payment of the purchase price is staged over three years, with initial payments in total of $1.9 million being made in the year ended 30 June 2011, as disclosed in the 30 June 2011 Annual Report. Two additional earn-out payments were payable upon achievement of agreed annual earnings performance for the periods ended 31 December 2011 and 30 June 2013. The agreed annual earnings performance for the period ended 31 December 2011 was not met and the estimated payment of $0.3 million recorded in the balance sheet as at 30 June 2011 for the first earn-out payment has been reversed during the year ended 30 June 2012. The second potential earn-out payment of $1 million payable upon achievement of agreed annual earnings performance for the year ended 30 June 2013 is not expected to be paid. The estimated payment of $1 million recorded in the balance sheet as at 30 June 2012 has been reversed during the six months ended 31 December 2012.

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 $8.4 million is staged over three years. An initial payment of $6 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. Forecast earnings indicate that the earn-out payable is likely to be $0.2 million less than initially expected. Accordingly, the earn-out accrual and goodwill have been decreased by $0.2 million as part of the final acquisition accounting for Filesaver.

Details of the net assets acquired were disclosed in the Group's annual financial statements as at 30 June 2012 contained in its Annual Report, which can be obtained from the Company's registered office or www.freightways.co.nz.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2012 (UNAUDITED)

10. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2012, the Group had capital commitments to purchase equipment for $1.2 million (2011: $3.5 million to construct buildings and purchase equipment).

As at 31 December 2012, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $2 million (2011: $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 2012 (2011: nil).

11. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 31 December 2012 was ($0.60) (2011: ($0.62)).

12. POST BALANCE DATE EVENTS

Dividend declared

On 18 February 2013, the directors declared a fully imputed interim dividend of 9.0 cents per share or $13.9 million to be paid on 2 April 2013 to the shareholders of record as at 15 March 2013. A supplementary dividend of 1.588 cents per share will be paid to overseas shareholders when the interim dividend is paid. The Freightways Dividend Reinvestment Plan will not operate for this dividend.

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

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

New Zealand Document Exchange Limited
32 Botha Road
Penrose
DX CR59901
AUCKLAND
Telephone: 09 526 3150
www.dxmail.co.nz
www.dataprint.co.nz

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

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

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

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

Castle Parcels Limited
163 Station Road
Penrose
DX CX10245
AUCKLAND
Telephone: 09 525 5999
www.castleparcels.co.nz

NOW Couriers Limited
161 Station Road
Penrose
AUCKLAND
Telephone: 09 526 9170
www.nowcouriers.co.nz

Shred-X Pty Limited
PO Box 1184
Oxenford
Queensland 4215
AUSTRALIA
Telephone: +61 1 300 667 555
www.shred-x.com.au

The Information Management Group Pty Limited
PO Box 984
Chatswood
New South Wales 2057
AUSTRALIA
Telephone: +61 2 9882 3420
www.databank.com.au
www.filesaver.com.au

Freightways