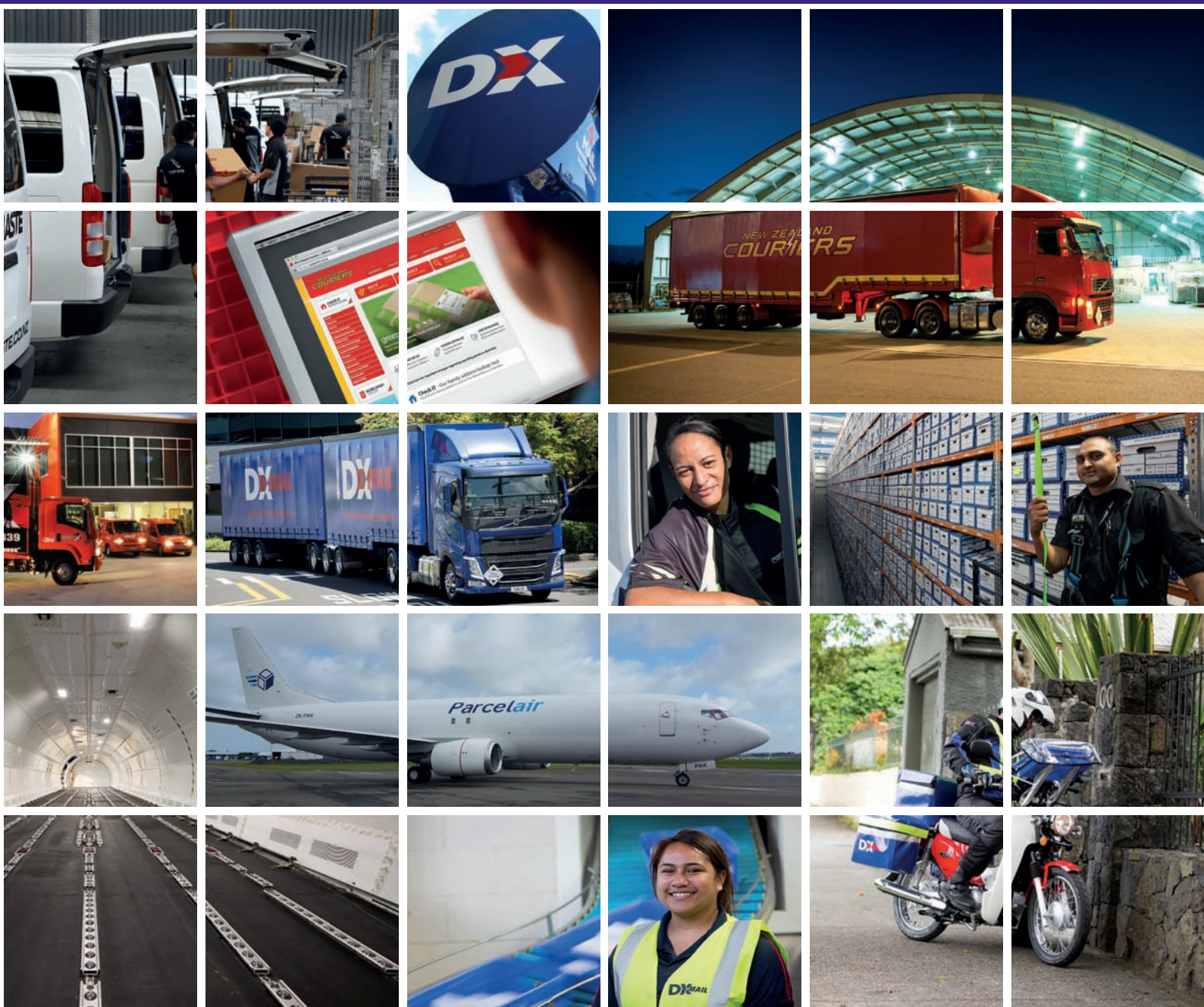


Freightways

HALF YEAR REPORT DECEMBER 2016



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
www.securityexpress.co.nz



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



The Information Management Group
www.timg.co.nz



Archive Security
www.timg.co.nz



Data Security Services
www.timg.co.nz



Document Destruction Service
www.timg.co.nz



Databank
www.timg.com



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



Filesaver
www.filesaver.com.au



LitSupport
www.litsupport.com.au

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

The Directors are pleased to present the consolidated financial result of Freightways Limited (Freightways) for the half year ended 31 December 2016. This report discusses the result, reviews the operations of each division and provides an outlook for the financial year ending 30 June 2017.

Highlights include the strength of the underlying volume growth and margin in the express package & business mail division, progress to timetable and budget of establishing major purpose-built facilities in Sydney and Christchurch and the related relocation projects, the execution of robust contingency plans that ensured minimal service disruption following the significant impact of the North Canterbury earthquake and the performance of our information management businesses, other than TIMG Australia, which was primarily affected by a poor result at LitSupport.

Operating performance

The below table presents the reported half year result compared to the prior comparative period (pcp), both before and after the inclusion of non-recurring items:

\$M	Note	Dec-16 Result	Non- Recurring Items	Underlying Trading Result		
				Dec-16	Dec-15	Increase
Revenue		272.8	-	272.8	254.9	7.0%
EBITDA	(i)	55.8	4.0	51.8	51.2	1.2%
EBITA	(ii)	50.1	4.0	46.1	45.0	2.4%
NPATA	(iii)	34.8	4.5	30.3	28.7	5.6%
NPAT	(iv)	34.0	4.5	29.5	27.7	6.2%
EPS (cents)		21.9	2.9	19.0	17.9	6.1%

Notes:

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

The results discussed throughout this commentary exclude the impact of the following non-recurring items that the Directors believe should not be included when assessing the underlying half year trading results:

- A non-recurring benefit before tax of \$5.6 million relating to previously accrued final acquisition payments that are no longer expected to be required. The interim dividend was calculated excluding this non-cash benefit.
- A non-recurring cost before tax of \$1.6 million relating to the relocation of the TIMG business in Sydney.

Dividend

The Directors have declared an interim dividend of 13 cents per share, fully imputed at a tax rate of 28%, being a 2% increase above the pcp dividend of 12.75 cents per share. This represents a payout of approximately \$20.1 million compared with \$19.7 million for the pcp dividend. The dividend will be paid on 3 April 2017. The record date for determination of entitlements to the dividend is 17 March 2017.

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

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

REVIEW OF OPERATIONS

Divisional results for the half year ended 31 December 2016 are provided below for the express package & business mail division and the information management division.

Express Package & Business Mail

Operating revenue of \$202.5 million was 8% higher than the pc. EBITA of \$34.8 million was 7% higher than the pc.

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, Stuck, Pass The Parcel, DX Mail and Dataprint.

Volume and revenue growth throughout the half year was strong, particularly so in the peak December month. Increased activity amongst existing customers and the winning of new customers contributed to this growth. Disruption surcharges were introduced during December to offset increased linehaul and delivery costs following November's North Canterbury earthquake. Overall, costs have been well contained and the higher operating costs involved with the transition to a new aircraft operating model reduced through the second quarter. Key matters:

- The transition to Boeing 737-400 aircraft is progressing well. The four superseded freighter aircraft owned by Freightways have all been sold for their combined book value of \$1 million. Three of the aircraft were sold subsequent to the end of the half year. The Boeing 737-400 aircraft provided important capacity during the peak volume period leading into Christmas.
- The new airside facility currently being constructed at Christchurch airport is on schedule. This facility will be automated with physical conveyor equipment, which is currently being assembled on site, and IT developed collaboratively by Freightways' IT team and the European-based suppliers. Overall this project is running to budget expectations.
- Increased resourcing of the IT team has enabled the progression of a number of key projects in support of Freightways' strategic intent to be a technology leader in the markets it operates in.
- The North Canterbury earthquake had a significant impact on the division's inter-island and intra-South Island linehaul services. Providing a consistent nationwide overnight and two-day delivery service relies on the network operating to a strict timetable. An issue at one point in the linehaul system has a ripple effect throughout the entire network and if not addressed, will severely affect customers who are reliant on the performance of this service. Immediately following the earthquake, the businesses developed a contingency plan to address the loss of State Highway One in the upper South Island and the initially disrupted inter-islander ferries to ensure the least possible impact on customers. This plan required the deployment of several additional linehaul trucks, drivers and depot handling staff at key sortation hubs throughout the country. The teamwork and passion displayed by Freightways' people to provide the best possible service in working through this significant challenge was and remains outstanding. Likewise, the support of customers during this period is acknowledged and appreciated.

Freightways' business mail operator, DX Mail, further expanded its postie network and now businesses in most urban locations throughout New Zealand are able to choose DX Mail for overnight and 5-day per week delivery of their standard-priced letters. Despite the decline of the overall physical letter market, the demand for DX Mail's suite of services is increasing. Dataprint, which provides physical and digital transactional mailhouse services, increased market share in all of its service lines, both physical and digital.

Information Management

Operating revenue of \$71.1 million was 3% higher than the pc. EBITA of \$13.4 million was 6% lower than the pc.

The information management division operates under the brands of The Information Management Group (TIMG) and Shred-X.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

Strong results from Shred-X and TIMG New Zealand were primarily offset by poor performance from TIMG Australia's LitSupport business, which led to some restructuring and related costs. Key matters:

- LitSupport has performed at the bottom end of the range of expectations set at the time of acquiring the business. While forecast revenue growth has been achieved, forecast EBITDA growth has not occurred. This outcome was anticipated as a possibility at that time and hence the payment for this business was structured to reduce Freightways' financial risk should this occur. As previously announced, the vendors of LitSupport refunded A\$5 million of the initial A\$17.1 million purchase price in March 2016. Based on the forecast for the current year, the effective multiple of EBITDA applicable to the reduced purchase price remains at approximately the same level as originally expected. This has, however, meant that an earn-out payment of \$5.3 million previously accrued is not now anticipated to be paid to the vendors and accordingly it has been written back to the income statement as a non-cash, non-recurring benefit. Recent restructuring of LitSupport and the winning of a number of new contracts is expected to assist in improving LitSupport's performance over time.
- During the prior year, it was announced that Freightways would invest in the relocation of three Sydney-based information management facilities into a single purpose-built facility. The cost of this relocation has at this stage been \$1.6 million of the \$2.5 million budget for this project and overall is tracking to budget expectations and timetable. Operating from a single site will deliver operating efficiencies that will contribute to a positive return on this investment from the completion of this project in June this year.
- Demand for the digital services offered by TIMG and the e-destruction services offered by Shred-X continues to gain momentum. It is expected that these new revenue streams will become an increasingly important part of the overall information management division's revenue and earnings in the near to medium term.
- The severity of the North Canterbury earthquake had repercussions for the division's document storage facilities in Wellington. While the racking did its job and withstood the impact of the earthquake, its structural integrity was compromised, particularly in the major site located in Porirua. This has resulted in the likelihood of having to repair or replace most, if not all, of the Porirua racking and will involve repositioning boxes while repairs are made or replacement racking is installed. Freightways carries comprehensive insurance for events such as this. The related deductible has been expensed as a corporate cost. Thanks to the strong service culture within the TIMG business, the quick actions of its people and the support of key suppliers, the service disruption to TIMG's customers has been minimal. Again the support of customers during this period is acknowledged and appreciated.

Internal service providers

Fieldair Holdings, through its subsidiary of Air Freight NZ, operates a joint venture company that leases and operates the Boeing 737-400 aircraft fleet that provides Freightways' overnight airfreight linehaul service. Fieldair also provides specialist engineering and contracting services to the general aviation market. Parceline Express provides Freightways' road linehaul service. As volumes have grown, the services provided by these businesses have adapted to ensure the provision of quality sustainable capacity.

Freightways Information Services provides IT development and support to the express package & business mail division. This team is responsible for providing the front line businesses with robust and secure information management systems and supporting their technology-related strategic objectives.

Corporate

Corporate costs have increased compared to the pcp, primarily due to expensing the insurance deductibles related to earthquake insurance claims.

Net debt levels are unchanged from the pcp at \$159 million. A finance facility has also been established with a US-based lender on the same terms as those that are in place with Freightways' existing banking syndicate.

Capital expenditure during the half year of \$10 million, including the investment made in the new Christchurch and Sydney premises, has been funded from operating cash flows.

HALF YEAR REVIEW FROM THE CHAIRMAN AND MANAGING DIRECTOR

OUTLOOK

Volumes and activity evidenced in this first half result support Freightways' expectations of again improving its overall year-on-year performance. The markets in which Freightways operates in both New Zealand and Australia remain positive and the company is experiencing increasing demand for the services it provides.

As had been stated in the prior annual result announcement and as is evident in this half year announcement, results from the express package & business mail division will be partly offset by the investment being made in increased capacity in the information management division to accommodate current and future expected growth and poor performance of LitSupport in this half year. Expectations are for improved performance from LitSupport in the second half of the financial year.

The next six months will see the completion of the major projects that are underway to relocate the businesses in Sydney and Christchurch, with the full benefits relating to these projects on target to be realised in the 2018 financial year.

Capital expenditure for the full year is expected to be approximately \$24 million. Overall cash flows are expected to remain strong for the remainder of the 2017 financial year.

Strategic growth opportunities, including acquisitions and alliances that complement existing capabilities, will be executed where they make commercial sense.

CONCLUSION

The strength of the Freightways business models, the expertise of its people and the positive features of the markets it operates in are once again evident in this half year result.

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



Susan Sheldon
Chairman

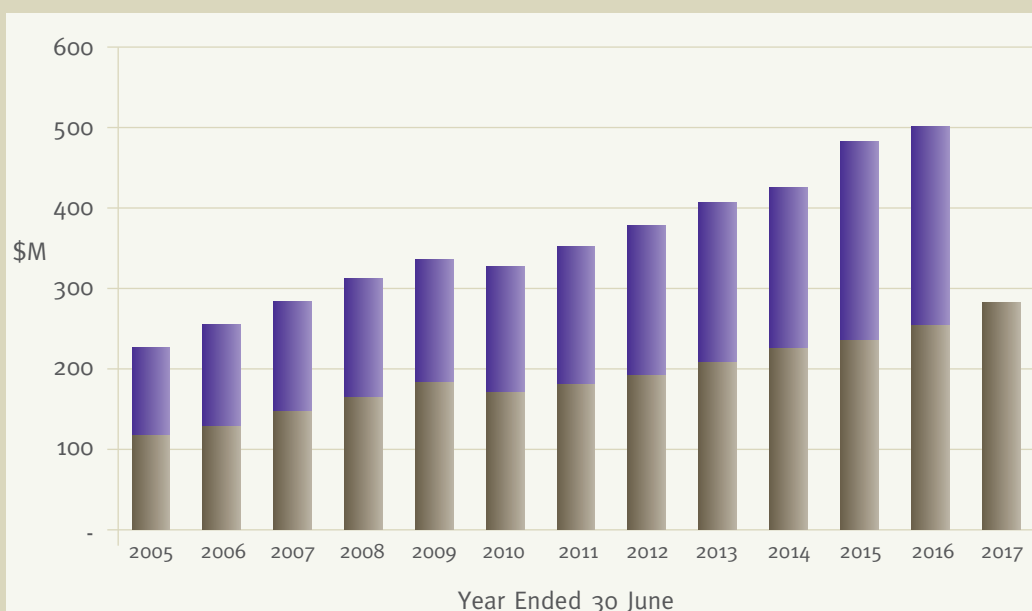


Dean Bracewell
Managing Director

20 February 2017

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



INDEPENDENT REVIEW REPORT

To the shareholders of Freightways Limited

Report on the Half Year Financial Statements

We have reviewed the accompanying Group financial statements of Freightways Limited ("the Company") on pages 7 to 19, which comprise the condensed balance sheet as at 31 December 2016, and the condensed income statement, the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors 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 (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the area of Executive Remuneration Benchmarking and other related assurance services. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on Use of Our Report

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.

For and on behalf of:

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

Leo Foliaki
Chartered Accountants, Auckland
20 February 2017

CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)

	Note	6 mths ended 31 Dec 2016 \$000	6 mths ended 31 Dec 2015 \$000	Variance %
Operating revenue	4	272,782	254,898	7%
Transport and logistics expenses		(107,862)	(97,104)	11%
Employee benefits expenses		(75,157)	(70,140)	7%
Occupancy expenses		(12,082)	(11,708)	3%
General and administrative expenses		(25,920)	(24,759)	5%
Non-recurring items	3	4,031	-	-
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles		55,792	51,187	9%
Depreciation and software amortisation		(5,690)	(6,188)	(8%)
Operating profit before interest, income tax and amortisation of intangibles		50,102	44,999	11%
Amortisation of intangibles		(806)	(963)	(16%)
Operating profit before interest and income tax	4	49,296	44,036	12%
Net interest and finance costs		(4,711)	(5,741)	(18%)
Profit before income tax		44,585	38,295	16%
Income tax		(10,598)	(10,547)	-
Profit for the period attributable to shareholders		33,987	27,748	22%
Earnings per share for the period*:				
Basic earnings per share (cents)		21.9	17.9	
Diluted earnings per share (cents)		21.9	17.9	

* Basic and diluted earnings per share calculated on the profit for the period attributable to shareholders, excluding non-recurring items, net of tax, are both 19.0 cents (2015: nil non-recurring items).

NB: All revenue and earnings are from continuing operations.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)

	6 mths ended 31 Dec 2016 \$000	6 mths ended 31 Dec 2015 \$000
Profit for the period	33,987	27,748
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(1,008)	(2,011)
Cash flow hedges taken directly to equity, net of tax	3,320	272
Total other comprehensive income after income tax	2,312	(1,739)
Total comprehensive income for the period attributable to the shareholders	36,299	26,009

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 2016 (UNAUDITED)

	Note	6 mths ended 31 Dec 2016 \$000	6 mths ended 31 Dec 2015 \$000
Equity at the beginning of the period		214,856	207,804
Adjustments for acquisition accounting		-	583
Restated equity at the beginning of the period		214,856	208,387
Profit for the period		33,987	27,748
Exchange differences on translation of foreign operations		(1,008)	(2,011)
Cash flow hedges taken directly to equity, net of tax		3,320	272
Total comprehensive income for the period		36,299	26,009
Dividends paid		(22,466)	(19,345)
Issue of ordinary shares, net of costs		452	878
Equity at the end of the period	6	229,141	215,929

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2016 (UNAUDITED)

	Note	As at 31 Dec 2016 \$000	As at 31 Dec 2015 \$000	As at 30 Jun 2016 \$000
ASSETS				
Current assets				
Cash and cash equivalents		10,690	12,378	7,065
Trade and other receivables		77,483	73,062	68,865
Income tax receivable		222	-	-
Inventories		6,190	6,432	5,248
		94,585	91,872	81,178
Assets held for sale		750	5,797	1,000
Total current assets		95,335	97,669	82,178
Non-current assets				
Trade and other receivables		1,950	421	190
Property, plant and equipment	5	91,946	84,851	88,621
Intangible assets		312,493	309,091	307,843
Total non-current assets		406,389	394,363	396,654
Total assets		501,724	492,032	478,832
LIABILITIES				
Current liabilities				
Trade and other payables		64,460	57,954	54,679
Finance lease liabilities		70	9	79
Income tax payable		1,690	4,411	6,145
Provisions		1,101	1,563	1,115
Derivative financial instruments		871	72	779
Unearned income		16,044	16,308	16,391
Total current liabilities		84,236	80,317	79,188
Non-current liabilities				
Trade and other payables		3,034	6,019	6,368
Borrowings (secured)	7	169,196	170,976	158,801
Deferred tax liability		5,239	7,182	4,430
Provisions		3,323	2,832	3,035
Finance lease liabilities		-	-	32
Derivative financial instruments		7,555	8,777	12,122
Total non-current liabilities		188,347	195,786	184,788
Total liabilities		272,583	276,103	263,976
NET ASSETS		229,141	215,929	214,856
EQUITY				
Contributed equity	6	124,304	123,736	123,852
Retained earnings		117,345	103,531	105,824
Cash flow hedge reserve		(6,097)	(6,509)	(9,417)
Foreign currency translation reserve		(6,411)	(4,829)	(5,403)
TOTAL EQUITY	6	229,141	215,929	214,856

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 2016 (UNAUDITED)

	Note	6 mths ended 31 Dec 2016 \$000 INFLOWS (OUTFLOWS)	6 mths ended 31 Dec 2015 \$000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers		264,165	258,554
Payments to suppliers and employees		(214,918)	(208,114)
Cash generated from operations		49,247	50,440
Interest received		43	63
Interest and other costs of finance paid		(4,957)	(5,168)
Income taxes paid		(15,829)	(13,048)
Net cash inflows from operating activities	8	28,504	32,287
Cash flows from investing activities			
Payments for property, plant & equipment		(8,098)	(6,764)
Payments for software		(1,865)	(881)
Proceeds from disposal of property, plant & equipment		23	20
Payments for businesses acquired (net of cash acquired)		(1,991)	(5,805)
Payments to associate		(1,667)	-
Payments for other investing activities		(231)	(521)
Net cash outflows from investing activities		(13,829)	(13,951)
Cash flows from financing activities			
Dividends paid		(22,466)	(19,345)
Increase (decrease) in bank borrowings		11,143	(645)
Proceeds from issue of ordinary shares		338	296
Finance lease liabilities repaid		(38)	(38)
Net cash outflows from financing activities		(11,023)	(19,732)
Net increase (decrease) in cash and cash equivalents		3,652	(1,396)
Cash and cash equivalents at the beginning of the period		7,065	13,946
Exchange rate adjustments		(27)	(172)
Cash and cash equivalents at the end of the period		10,690	12,378

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 2016 (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 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 NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting 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 2016.

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.

3. NON-RECURRING ITEMS

Non-recurring items for the period ended 31 December 2016 relate to:

- A non-recurring benefit before tax of \$5.6 million (\$5.6 million after tax) relating to the reversal of previously-accrued earn-out payments that are no longer expected to be paid.
- A non-recurring cost before tax of \$1.6 million (\$1.1 million after tax) relating to the relocation of the TIMG business in Sydney.

There were no non-recurring items for the period ended 31 December 2015.

4. 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 2016 (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 2016					
Sales to external customers	201,668	71,114	-	-	272,782
Inter-segment sales	829	19	2,255	(3,103)	-
Total revenue	202,497	71,133	2,255	(3,103)	272,782
Operating profit (loss) before non-recurring items, interest, income tax, depreciation and software amortisation and amortisation of intangibles	37,252	15,824	(1,315)	-	51,761
Non-recurring items	-	4,031	-	-	4,031
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	37,252	19,855	(1,315)	-	55,792
Depreciation and software amortisation	(2,467)	(2,458)	(765)	-	(5,690)
Operating profit (loss) before interest, income tax and amortisation of intangibles	34,785	17,397	(2,080)	-	50,102
Amortisation of intangibles, excluding software amortisation	(25)	(781)	-	-	(806)
Operating profit (loss) before interest and income tax	34,760	16,616	(2,080)	-	49,296
Net interest and finance costs	(4)	(62)	(4,645)	-	(4,711)
Profit (loss) before income tax	34,756	16,554	(6,725)	-	44,585
Income tax	(9,803)	(3,214)	2,419	-	(10,598)
Profit (loss) for the period attributable to the shareholders	24,953	13,340	(4,306)	-	33,987

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (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 2015					
Sales to external customers	185,785	69,113	-	-	254,898
Inter-segment sales	998	-	2,253	(3,251)	-
Total revenue	186,783	69,113	2,253	(3,251)	254,898
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	35,439	16,532	(784)	-	51,187
Depreciation and software amortisation	(3,052)	(2,371)	(765)	-	(6,188)
Operating profit (loss) before interest, income tax and amortisation of intangibles	32,387	14,161	(1,549)	-	44,999
Amortisation of intangibles, excluding software amortisation	(25)	(938)	-	-	(963)
Operating profit (loss) before interest and income tax	32,362	13,223	(1,549)	-	44,036
Net interest and finance costs	(2)	(454)	(5,285)	-	(5,741)
Profit (loss) before income tax	32,360	12,769	(6,834)	-	38,295
Income tax	(9,122)	(3,956)	2,531	-	(10,547)
Profit (loss) for the period attributable to the shareholders	23,238	8,813	(4,303)	-	27,748

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)

5. PROPERTY, PLANT & EQUIPMENT

Included in property, plant & equipment is archive box storage racking installed in the Group's Porirua storage facility with a net book value as at 31 December 2016 of \$2.1 million. This racking was impacted by the North Canterbury earthquake in November 2016 and its structural integrity may have been compromised. While the racking is still standing and serving its intended purpose, it is expected that some, if not all, of this racking will need to be repaired or replaced. As at 31 December 2016, it is too early to accurately assess the extent of damage and what proportion of the racking will require attention. The full cost of any remedial action needed will be covered by insurance. The applicable insurance deductible has been expensed to the income statement.

6. EQUITY

	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2016	123,852	105,824	(9,417)	(5,403)	214,856
Profit for the period	-	33,987	-	-	33,987
Dividend payment	-	(22,466)	-	-	(22,466)
Shares issued, net of costs	452	-	-	-	452
Cash flow hedges taken directly to equity, net of tax	-	-	3,320	-	3,320
Exchange differences on translation of foreign operations	-	-	-	(1,008)	(1,008)
Balance at 31 December 2016	124,304	117,345	(6,097)	(6,411)	229,141
Balance at 1 July 2015	122,858	94,571	(6,781)	(2,844)	207,804
Adjustment for acquisition accounting	-	557	-	26	583
Restated balance at 1 July 2015	122,858	95,128	(6,781)	(2,818)	208,387
Profit for the period	-	27,748	-	-	27,748
Dividend payment	-	(19,345)	-	-	(19,345)
Shares issued, net of costs	878	-	-	-	878
Cash flow hedges taken directly to equity, net of tax	-	-	272	-	272
Exchange differences on translation of foreign operations	-	-	-	(2,011)	(2,011)
Balance at 31 December 2015	123,736	103,531	(6,509)	(4,829)	215,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)

Contributed equity

Fully paid ordinary shares

As at 31 December 2016, there were 154,938,225 fully paid ordinary shares on issue (2015: 154,760,691). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Partly-paid ordinary shares

On 12 September 2016, 103,682 partly-paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2015: 121,691). The issue price per share was \$6.82 (2015: \$5.39) 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. During the period, 17,863 partly-paid shares were redeemed and cancelled (2015: 63). As at 31 December 2016, there were 342,006 partly-paid ordinary shares on issue (2015: 383,721). Partly-paid ordinary shares have no voting rights and no rights to dividends and surplus on winding up.

Partly-paid ordinary shares, fully paid up to ordinary shares

On 12 September 2016, 127,534 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 (2015: 147,769). The average issue price per share was \$4.17 (2015: \$3.92).

Employee share plan

On 13 September 2016, the Company issued 50,000 fully paid ordinary shares at \$6.13 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2015: 90,000 fully paid ordinary shares at \$4.86 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 (2015: \$0.4 million). The loans are repayable over three years and repayment commenced in October 2016.

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\$10 million has been drawn as at 31 December 2016.

As at 31 December 2016, the Group's debt facilities with its banking syndicate comprised NZ\$100 million and A\$87 million (2015: NZ\$110 million and A\$97 million), of which NZ\$72 million and A\$74 million (2015: NZ\$77 million and A\$88 million) had been drawn, respectively. The Group also had an undrawn bank overdraft facility of NZ\$8 million available (2015: 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 2016 (UNAUDITED)

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

	6 mths ended 31 Dec 2016 \$000	6 mths ended 31 Dec 2015 \$000
Profit for the period	33,987	27,748
<i>Add non-cash items:</i>		
Depreciation and amortisation	6,496	7,151
Movement in provision for doubtful debts	89	50
Movement in deferred income tax	885	(114)
Net loss on disposal of fixed assets	1	24
Net foreign exchange loss (gain)	4	(11)
Movement in derivative fair value	137	61
<i>Items not included in profit for the period:</i>		
Cash flow hedges taken directly to equity	(3,320)	(272)
<i>Movement in working capital, net of effects of acquisitions of businesses:</i>		
(Increase) decrease in trade and other receivables	(8,501)	(2,619)
(Increase) decrease in inventories	(942)	(608)
Increase (decrease) in trade and other payables	4,345	2,738
Increase (decrease) in income taxes payable	(4,677)	(1,861)
Net cash inflows from operating activities	28,504	32,287

9. TRANSACTIONS WITH RELATED PARTIES

Trading with related parties: The Group has not entered into any material external related party transactions which require disclosure.

Payments to associate: During the period, the Group paid \$1.7 million in security deposits to Parcelair Limited, the joint venture company that provides the airfreight linehaul to the express package businesses. Parcelair Limited is half-owned by the Group.

Key management compensation: Compensation paid during the period (or payable as at 31 December 2016 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2016 \$000	2015 \$000
Short-term employee benefits	2,854	3,242
Long-term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments	375	315

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)

10. 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 2016 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 2016.

In the period to 31 December 2016 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.

Fair values and valuation techniques

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.

Specific valuation techniques used to value aircraft held for sale include among other factors, market demand and pricing of similar aircraft.

The Group's derivative financial instruments and aircraft held for sale 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 2016.

There have been no reclassifications of financial assets and finance liabilities since 30 June 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)

10. FINANCIAL RISK MANAGEMENT (continued)

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

11. BUSINESS COMBINATIONS

On 1 July 2016, the Group acquired the business and assets of LexData Management Pty Limited (LexData), an Australian-based information management business, for initial payments in aggregate of approximately \$2.9 million (A\$2.8 million) and a future maximum earn-out of \$3.6 million (A\$3.5 million). LexData has been integrated into the Group's information management division.

The contribution of LexData to the Group results for the half year ended 31 December 2016 was revenue of \$2 million and operating profit before interest, income tax and amortisation of intangibles of \$0.5 million.

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

Purchase consideration	\$000
Initial acquisition payments	2,900
Less Allowance for liabilities assumed	(285)
Less Cash consideration payable as at the end of the period	(624)
Cash consideration paid during the period	1,991
Cash consideration payable as at the end of the period	624
Fair value of future earn-out payment	2,199
Total purchase consideration	4,814
Fair value of assets and liabilities arising from the acquisition	
Plant and equipment	73
Customer relationships	554
Goodwill	4,562
Provisions	(299)
Deferred tax liability	(76)
	4,814

The future earn-out payment of up to a maximum discounted amount of \$2.2 million may be payable in August 2019, but is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2017, 2018 and 2019. The potential undiscounted amount of the future earn-out payment that the Group expects could be required to be made in respect of this acquisition is between nil and \$3.6 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill of \$4.6 million arising upon this acquisition is attributable to the intellectual property obtained and the strategic benefit of increasing and strengthening TIMG's digital offer and increasing the national scale and coverage of LitSupport. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)

12. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2016, the Group had capital commitments to purchase equipment of \$9.3 million (2015: \$13.6 million).

As at 31 December 2016, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately \$5.7 million (2015: \$5.8 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 2016 (2015: nil)

13. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 31 December 2016 was (\$0.46) (2015: (\$0.54)).

14. POST BALANCE DATE EVENTS

Dividend declared

On 20 February 2017, the Directors declared a fully imputed interim dividend of 13 cents per share (approximately \$20.1 million) in respect of the year ended 30 June 2017. The dividend will be paid on 3 April 2017. The record date for determination of entitlements to the dividend is 17 March 2017. A supplementary dividend of 2.29 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.

Sale of aircraft

On 31 January 2017, the Group sold its three remaining Convair freighters for their combined book value of \$0.75 million. An initial payment of \$0.1m was received and the balance of the sale proceeds will be receivable in 24 equal monthly instalments, commencing February 2017.



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

DIRECTORY

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.stuck.co.nz
www.securityexpress.co.nz

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

Post Haste Limited

32 Botha Road
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Telephone: 09 579 5650
www.posthaste.co.nz
www.passtheparcel.co.nz

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163 Station Road
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PALMERSTON NORTH
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