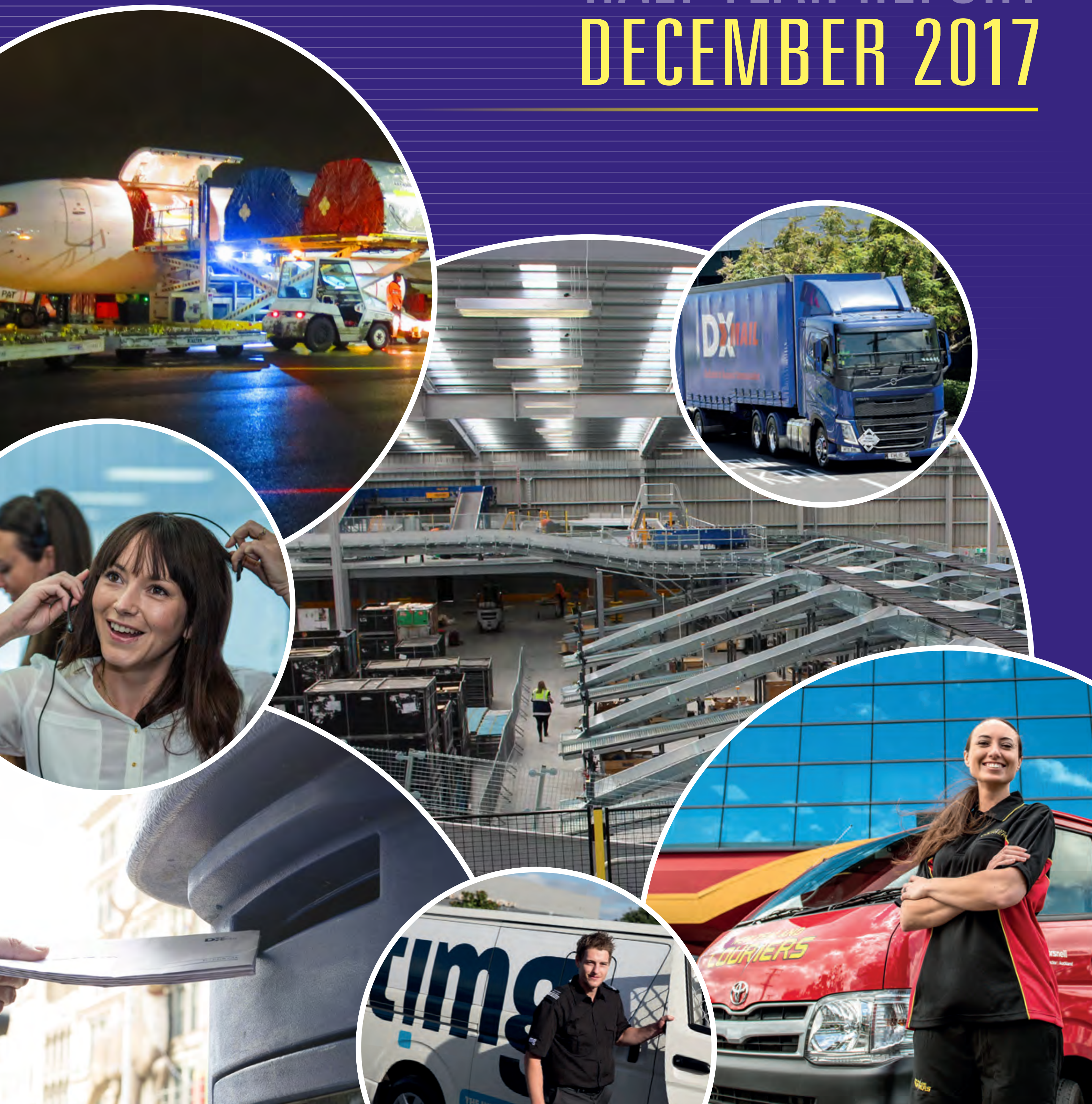
Freightways

HALF YEAR REPORT
DECEMBER 2017



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

www.statewaste.com.au

HALF YEAR REVIEW FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Freightways Limited (Freightways) is pleased to present its consolidated financial result for the half year ended 31 December 2017. This report discusses the result, reviews the operations of each division and provides an outlook for the financial year ending 30 June 2018.

Highlights of the result include:

- the volume and revenue growth achieved in the express package & business mail division and related earnings margins, that have more than offset the cost impact of significant recent investment in capacity;
- the overall revenue and earnings growth of the information management division compared to the prior comparative period (pcp) following the completion of a significant premises relocation project in New South Wales; and
- Freightways' further diversification through its entry into the Medical Waste industry.

Operating performance

The below table presents the latest half year result compared to the pcp, both before and after the inclusion of non-recurring items that were reported in the pcp:

	Note	Dec-17 $M	Dec-16 $M	Increase %
Revenue		292.1	272.8	7.1%
EBITA, before non-recurring items	(i)	49.2	46.1	6.9%
Non-recurring items		-	4.0	
EBITA	(ii)	49.2	50.1	(1.7%)
NPAT, before non-recurring items	(iii)	31.4	29.5	6.5%
Non-recurring items after tax		-	4.5	
NPAT	(iv)	31.4	34.0	(7.6%)
Basic EPS (cents), before non-recurring items		20.3	19.0	

Notes:

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

The results discussed throughout this commentary exclude the impact in the pcp of a non-recurring benefit before tax of $5.6 million (no tax applicable) relating to previously accrued final acquisition payables that were no longer expected to be required and 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.

HALF YEAR REVIEW FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dividend

The Directors have declared an interim dividend of 14.5 cents per share, fully imputed at a tax rate of 28%, being a 12% increase above the pcp interim dividend of 13 cents per share. This represents a payout of approximately $22.5 million compared with $20.1 million for the pcp. The dividend will be paid on 3 April 2018. The record date for determination of entitlements to the dividend is 16 March 2018. 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.

REVIEW OF OPERATIONS

Divisional results for the half year ended 31 December 2017 are provided below for the express package & business mail division and the information management division.

Express Package & Business Mail

Operating revenue of $216.7 million was 7% higher than the pcp. EBITA of $36.4 million was 4.6% higher than the pcp.

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.

Recent investment in aircraft, premises and IT has been essential to accommodate and appropriately service the volume growth from existing and new customers throughout this half year. While this investment results in higher operating costs it means that quality capacity exists to support the division's current and expected future growth. Overall earnings margins remain sound, particularly when allowing for the additional cost of this capacity and expenses incurred in relation to the relocation of our Christchurch businesses during the half year. Key matters:

- The recently introduced Boeing 737-400 aircraft are performing well. The introduction of a fourth aircraft will continue to be considered. In the meantime, the current operating model using 3 Boeings and the charter of a Convair, as required, is providing sufficient airfreight capacity.
- The relocation of the Christchurch express package businesses from four independent sites to one purpose-built airside facility at Christchurch Airport was completed during the half year.
- Good progress was made by Freightways' IT team in addressing the many initiatives planned in support of Freightways' strategic intent to be a technology leader in the markets it operates in.
- New Zealand Couriers relocated to significantly larger premises on Auckland's North Shore during October 2017, with Post Haste and Castle Parcels to follow in July 2018. This site will enable the operation of a twin-Auckland city operation to accommodate the current and expected growth in volume from the North Harbour and West Auckland areas for many years to come. These new premises complement, and effectively extend the life of, the existing Penrose site, south of the city.
- Overall volume mix within the customer base continues to evolve as consumers increasingly shop online, resulting in Business to Consumer (B2C) deliveries growing faster than Business to Business (B2B) deliveries. A number of wide-ranging initiatives are being developed to ensure these B2C deliveries are completed as efficiently as possible and to the satisfaction of customers. Ensuring integrity in pricing is also important to properly enable the support required to service this volume.
- Freightways' business mail operators, DX Mail and Dataprint, while small, continue to perform profitably. Both revenue and earnings have remained on par with the pcp. The organic decline in physical mail volumes has been offset by market share gains and an increase in the contribution from Dataprint's digital mail offering.

HALF YEAR REVIEW FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Information Management

Operating revenue of $76.3 million was 7.3% higher than the pcp. EBITA of $14.6 million was 9.2% higher than the pcp.

This division operates under the brands of The Information Management Group (TIMG), Shred-X and, following the recent acquisition in the medical waste industry, Med-X.

Positive results were achieved in all businesses within this division, while investment occurred in resources to support the growing suite of digital information management services. Key matters:

- Within TIMG Australia, the performance of the LitSupport business improved, albeit the project nature of this business means that revenue does fluctuate from month to month. This requires careful management attention to appropriately align resources with activity.
- The new consolidated Sydney site is providing important quality capacity to accommodate current and expected volume growth.
- Demand for the broad suite of digital services offered by TIMG in New Zealand and Australia, and the e-destruction services offered by Shred-X, continues to gain momentum. Accordingly, further investment has been made in resources to support these growing revenue streams.
- A project is underway to replace all racking in TIMG's Porirua document storage facility that was damaged in the North Canterbury earthquake. Freightways carries comprehensive insurance for events such as this. The $1.4 million write-off of the written down book value of the structurally-compromised racking in the division's half year result has been offset by the recognition of insurance proceeds received during the half year. Importantly, this project is being managed in a way that ensures no service disruption to customers.

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. The service provided by both these businesses throughout the half year, but particularly during the peak December volume month, was outstanding. Freightways Information Services provides IT development and support to both operating divisions. Good progress is being made by this team in support of our front line businesses' technology-related strategic objectives.

Corporate

Corporate costs decreased compared to the pcp, primarily due to higher one-off costs in the pcp which included expensing insurance deductibles in respect of the November 2016 earthquake.

Net debt increased by approximately $7 million to $165 million during the half year, driven mostly by the acquisition of a small medical waste business in Australia for an initial payment of $5 million. Investment in operating capacity has been funded from operating cash flows.

HALF YEAR REVIEW FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

OUTLOOK

The markets in which Freightways operates in both New Zealand and Australia remain positive. In particular, the growth in express package volume and activity levels throughout this half year supports Freightways in targeting the delivery of year-on-year earnings growth again for the 2018 financial year.

Within the express package & business mail division, investment will continue to be made in IT development and new initiatives to service projected B2B and B2C volume growth. As a significant employer of around 2,300 team members and while working alongside 1,200 business partners in New Zealand, Freightways will continue to carefully monitor any further proposed changes to workplace legislation. The recently announced minimum wage increases are not expected to have a material impact on Freightways' overall cost base, given that its employees are all paid above the minimum wage. Freightways will continue to consider pricing annually to mitigate necessary cost increases, including the projected impact of ensuring its workforce remains above the minimum wage as it progressively steps-up. Within the information management division, increased utilisation of existing capacity will support improving margins, while also enabling continued investment in digital information management services.

Overall capital expenditure for the 2018 financial year is expected to be approximately $16 million. Operating cash flows are expected to remain strong throughout the balance of the 2018 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 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. This result has benefited from recent capacity investment decisions, which have been important in providing capacity for current volumes and also to ensure sufficient quality capacity is available to enable servicing of future expected growth.

The Board and Chief Executive Officer acknowledge the outstanding work and ongoing dedication of the Freightways team of people throughout New Zealand and Australia.

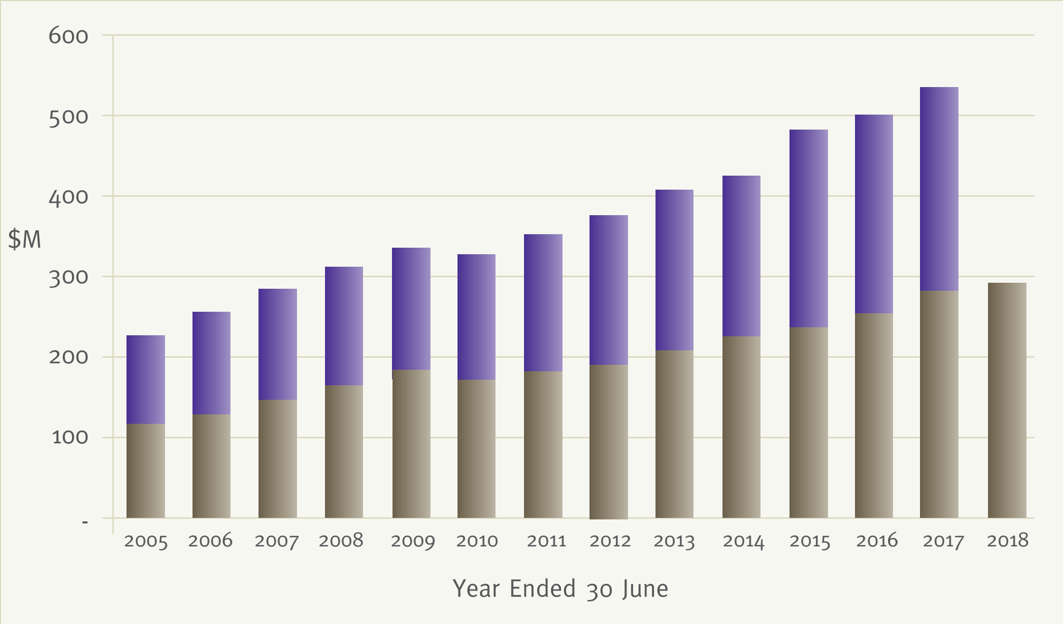
Susan Sheldon
Chairman

Mark Troughear
Chief Executive Officer

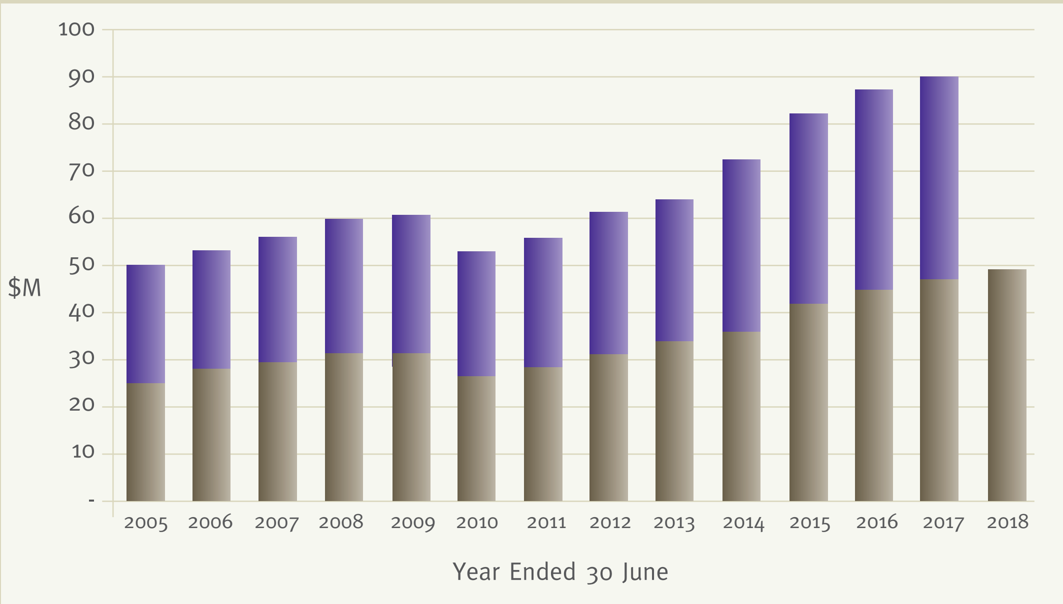
19 February 2018

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 Interim Consolidated Financial Statements

We have reviewed the accompanying interim consolidated financial statements of Freightways Limited (the Company) including its subsidiaries (the Group), on pages 7 to 19, which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half year ended on that date, and the notes to the consolidated financial statements which include accounting policies and other explanatory information.

Directors' Responsibility for the Interim Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of interim consolidated 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 interim consolidated 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 interim consolidated financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and 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 interim consolidated financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs 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 interim consolidated financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of Data Integrity audit, the specified procedures over the poll for the shareholder resolutions at the Annual General Meeting 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 interim consolidated financial statements of the Group are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.

Who We Report To

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters, which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Leopino (Leo) Foliaki
Chartered Accountants, Auckland
19 February 2018

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 2017 (UNAUDITED)

	Note	6 mths ended 31 Dec 2017 $000	6 mths ended 31 Dec 2016 $000	Variance %
Operating revenue	4	292,133	272,782	7%
Other income	5	2,913	-	-
Transport and logistics expenses		(115,158)	(107,862)	7%
Employee benefits expenses		(79,233)	(75,157)	5%
Occupancy expenses		(13,124)	(12,082)	9%
General and administrative expenses		(28,490)	(25,920)	10%
Other expenses	5	(2,913)	-	-
Non-recurring items	3	-	4,031	-
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles		56,128	55,792	1%
Depreciation and software amortisation		(6,895)	(5,690)	21%
Operating profit before interest, income tax and amortisation of intangibles		49,233	50,102	(2%)
Amortisation of intangibles		(979)	(806)	21%
Operating profit before interest and income tax	4	48,254	49,296	(2%)
Net interest and finance costs		(5,127)	(4,711)	9%
Profit before income tax		43,127	44,585	(3%)
Income tax		(11,718)	(10,598)	11%
Profit for the period attributable to shareholders		31,409	33,987	(8%)
Earnings per share for the period:				
Basic earnings per share (cents)		20.3	21.9*	
Diluted earnings per share (cents)		20.2	21.9*	

***** Basic and diluted earnings per share for 2016 calculated on the profit for the period attributable to shareholders, excluding non-recurring items, net of tax, were both 19.0 cents (There are no non-recurring items for 2017).

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 2017 (UNAUDITED)

	6 mths ended 31 Dec 2017 $000	6 mths ended 31 Dec 2016 $000
Profit for the period	31,409	33,987
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	2,274	(1,008)
Cash flow hedges taken directly to equity, net of tax	1,006	3,320
Total other comprehensive income after income tax	3,280	2,312
Total comprehensive income for the period attributable to the shareholders	34,689	36,299

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 2017 (UNAUDITED)

	Note	6 mths ended 31 Dec 2017 $000	6 mths ended 31 Dec 2016 $000
Equity at the beginning of the period		236,568	214,856
Profit for the period		31,409	33,987
Exchange differences on translation of foreign operations		2,274	(1,008)
Cash flow hedges taken directly to equity, net of tax		1,006	3,320
Total comprehensive income for the period		34,689	36,299
Dividends paid		(22,880)	(22,466)
Issue of ordinary shares, net of costs		680	452
Equity at the end of the period	6	249,057	229,141

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2017 (UNAUDITED)

	Note	As at 31 Dec 2017 $000	As at 31 Dec 2016 $000 (Restated)	As at 30 Jun 2017 $000
ASSETS				
Current assets				
Cash and cash equivalents		10,450	10,690	8,423
Trade and other receivables		89,234	77,483	77,184
Inventories		4,848	6,190	5,190
Income tax receivable		657	222	705
		105,189	94,585	91,502
Assets held for sale		-	750	-
Total current assets		105,189	95,335	91,502
Non-current assets				
Trade receivables and other non-current assets		2,158	1,950	2,914
Property, plant and equipment		103,002	91,946	101,934
Intangible assets		357,817	342,504	343,543
Total non-current assets		462,977	436,400	448,391
Total assets		568,166	531,735	539,893
LIABILITIES				
Current liabilities				
Trade and other payables		71,878	64,460	65,722
Finance lease liabilities		118	70	147
Income tax payable		1,791	1,690	3,350
Provisions		795	1,101	1,008
Derivative financial instruments		1,343	871	2,054
Unearned income		15,633	16,044	15,446
Total current liabilities		91,558	84,236	87,727
Non-current liabilities				
Trade and other payables		4,887	3,034	2,867
Borrowings (secured)	7	175,778	169,196	166,241
Deferred tax liability		36,168	35,250	35,606
Provisions		4,268	3,323	3,691
Finance lease liabilities		142	-	204
Derivative financial instruments		6,308	7,555	6,989
Total non-current liabilities		227,551	218,358	215,598
Total liabilities		319,109	302,594	303,325
NET ASSETS		249,057	229,141	236,568
EQUITY				
Contributed equity	6	125,110	124,304	124,430
Retained earnings		132,601	117,345	124,072
Cash flow hedge reserve		(5,484)	(6,097)	(6,490)
Foreign currency translation reserve		(3,170)	(6,411)	(5,444)
TOTAL EQUITY	6	249,057	229,141	236,568

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 2017 (UNAUDITED)

	Note	6 mths ended 31 Dec 2017 $000 INFLOWS (OUTFLOWS)	6 mths ended 31 Dec 2016 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers		284,333	264,165
Payments to suppliers and employees		(230,720)	(214,918)
Cash generated from operations		53,613	49,247
Interest received		41	43
Interest and other costs of finance paid		(5,002)	(4,957)
Income taxes paid		(13,831)	(15,829)
Net cash inflows from operating activities	8	34,821	28,504
Cash flows from investing activities			
Payments for property, plant & equipment		(7,402)	(8,098)
Payments for software		(2,953)	(1,865)
Proceeds from disposal of property, plant & equipment		33	23
Payments for businesses acquired (net of cash acquired)		(5,374)	(1,991)
Payments to associate		-	(1,667)
Payments for other investing activities		(203)	(231)
Net cash outflows from investing activities		(15,899)	(13,829)
Cash flows from financing activities			
Dividends paid		(22,880)	(22,466)
Increase in bank borrowings		5,594	11,143
Proceeds from issue of ordinary shares		330	338
Finance lease liabilities repaid		(93)	(38)
Net cash outflows from financing activities		(17,049)	(11,023)
Net increase in cash and cash equivalents		1,873	3,652
Cash and cash equivalents at the beginning of the period		8,423	7,065
Exchange rate adjustments		154	(27)
Cash and cash equivalents at the end of the period		10,450	10,690

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 2017 (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 2017.

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.

Restatement of prior period

Prior to 30 June 2017, deferred tax had not been recognised on indefinite life brand names. In November 2016, the IFRS Interpretations Committee issued an agenda decision regarding the determination of the expected manner of recovery of intangible assets with indefinite useful life for the purposes of measuring deferred tax, in accordance with IAS 12 Income Taxes. This decision provided additional guidance on how an entity recovers the carrying value of such assets and the consequences for the measurement and recognition of deferred tax.

In response to this additional guidance, the Group reviewed the expected recovery of the carrying amount of the indefinite life brand names and concluded that the carrying amounts are expected to be recovered through use of the brand names within its businesses. As a result, as at 30 June 2017, the Group restated its comparatives to recognise an additional deferred tax liability of $30 million on the brand names, with a corresponding increase in the carrying amount of goodwill. Accordingly, the comparatives for goodwill and deferred tax liability as at 31 December 2016 have also been increased by $30 million. This adjustment has no impact on profit or net assets in the respective reported periods.

As the restatement amount only affects two line items in the balance sheet, as described above, an additional pre-restatement balance sheet as at 31 December 2016 has not been presented.

3. NON-RECURRING ITEMS

There were no non-recurring items for the period ended 31 December 2017.

Non-recurring items for the period ended 31 December 2016 related 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; and
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2017 (UNAUDITED)

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 Chief Executive Officer, 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 3% of external sales revenue.

(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 2017					
Sales to external customers	215,815	76,318	-	-	292,133
Inter-segment sales	864	-	2,281	(3,145)	-
Total revenue	216,679	76,318	2,281	(3,145)	292,133
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	39,776	17,345	(993)	-	56,128
Depreciation and software amortisation	(3,380)	(2,749)	(766)	-	(6,895)
Operating profit (loss) before interest, income tax and amortisation of intangibles	36,396	14,596	(1,759)	-	49,233
Amortisation of intangibles, excluding software amortisation	(25)	(954)	-	-	(979)
Operating profit (loss) before interest and income tax	36,371	13,642	(1,759)	-	48,254
Net interest and finance costs	(12)	(240)	(4,875)	-	(5,127)
Profit (loss) before income tax	36,359	13,402	(6,634)	-	43,127
Income tax	(10,072)	(3,997)	2,351	-	(11,718)
Profit (loss) for the period attributable to the shareholders	26,287	9,405	(4,283)	-	31,409

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2017 (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 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 2017 (UNAUDITED)

5. IMPAIRMENT LOSS AND COMPENSATION

Included in other expenses is an impairment loss of $1.4 million related to the information management division's racking at its Porirua site in Wellington that was damaged by the North Canterbury earthquake. It has been determined that all this racking will be replaced under insurance. Also included in other expenses is an amount of approximately $1.5 million of additional costs of operations resulting from the earthquake, which are also recoverable from insurance.

An amount of $2.9 million has been included in other income in relation to insurance proceeds received from the Group's insurers to reinstate the damaged racking noted above and as compensation for the additional cost of operations resulting from the above-mentioned earthquake.

6. EQUITY

	CONTRIBUTED EQUITY $000	RETAINED EARNINGS $000	CASH FLOW HEDGE RESERVE $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	TOTAL EQUITY $000
Balance at 1 July 2017	124,430	124,072	(6,490)	(5,444)	236,568
Profit for the period	-	31,409	-	-	31,409
Dividend payment	-	(22,880)	-	-	(22,880)
Shares issued, net of costs	680	-	-	-	680
Cash flow hedges taken directly to equity, net of tax	-	-	1,006	-	1,006
Exchange differences on translation of foreign operations	-	-	-	2,274	2,274
Balance at 31 December 2017	125,110	132,601	(5,484)	(3,170)	249,057
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

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FOR THE HALF YEAR ENDED 31 DECEMBER 2017 (UNAUDITED)

Contributed equity

Fully paid ordinary shares

As at 31 December 2017, there were 155,115,946 fully paid ordinary shares on issue (2016: 154,938,225). 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 2017, 96,108 partly-paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2016: 103,682). The issue price per share was $7.83 (2016: $6.82) 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, 15,790 partly-paid shares were redeemed and cancelled (2016: 17,863). As at 31 December 2017, there were 319,513 partly-paid ordinary shares on issue (2016: 342,006). 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 13 September 2017, 102,721 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 (2016: 127,534). The average issue price per share was $5.07 (2016: $4.17).

Employee share plan

On 13 September 2017, the Company issued 75,000 fully paid ordinary shares at $7.05 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2016: 50,000 fully paid ordinary shares at $6.13 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 (2016: $0.3 million). The loans are repayable over three years and repayment commenced in October 2017.

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 2017.

As at 31 December 2017, the Group's debt facilities with its banking syndicate comprised NZ$93.5 million and A$87 million (2016: NZ$100 million and A$87 million), of which NZ$73 million and A$74 million (2016: NZ$72 million and A$74 million) had been drawn, respectively. The Group also had an undrawn bank overdraft facility of NZ$8 million available (2016: 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 2017 (UNAUDITED)

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

	6 mths ended 31 Dec 2017 $000	6 mths ended 31 Dec 2016 $000
Profit for the period	31,409	33,987
Add non-cash items:		
Depreciation and amortisation	7,874	6,496
Movement in provision for doubtful debts	4	89
Movement in deferred income tax	(236)	885
Net loss on disposal of fixed assets	7	1
Net foreign exchange loss (gain)	7	4
Movement in derivative fair value	6	137
Impairment of property, plant and equipment	1,400	-
Movement in working capital, net of effects of acquisitions of businesses:		
(Increase) decrease in trade and other receivables	(10,357)	(10,636)
(Increase) decrease in inventories	396	(942)
Increase (decrease) in trade and other payables	5,791	3,294
Increase (decrease) in income taxes payable	(1,480)	(4,811)
Net cash inflows from operating activities	34,821	28,504

9. TRANSACTIONS WITH RELATED PARTIES

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

Payments to associate: During the period, the Group paid Parcelair Limited $5.4 million for the provision of airfreight linehaul services to the express package businesses on normal commercial terms. Parcelair Limited is incorporated in New Zealand and is half-owned by the Group.

Key management compensation: Compensation paid during the period (or payable as at 31 December 2017 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2017 $000	2016 $000
Short-term employee benefits	3,631	3,372
Long-term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments	390	375

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FOR THE HALF YEAR ENDED 31 DECEMBER 2017 (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 2017 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 2017.

In the period to 31 December 2017 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 in the comparative period) 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 2017.

There have been no reclassifications of financial assets and finance liabilities since 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2017 (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

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

The contribution of Med-X to the Group results for the half year ended 31 December 2017 was revenue of $1.1 million and operating profit before interest, income tax and amortisation of intangibles of $0.3 million.

If this acquisition had occurred at the beginning of the period, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the period is estimated at $1.8 million and $0.5 million, respectively.

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

Purchase consideration	**$000**
Initial acquisition payments	6,481
Less Cash consideration payable as at the end of the period	(1,107)
Cash consideration paid during the period	5,374
Cash consideration payable as at the end of the period	1,107
Fair value of future earn-out payment	1,603
Total purchase consideration	8,084
Fair value of assets and liabilities arising from the acquisition	
Plant and equipment	659
Customer relationships	1,793
Goodwill	6,273
Provisions	(136)
Deferred tax liability	(497)
Exchange rate movement	(8)
	8,084

The cash consideration payable at the end of the period of up to a maximum amount of $1.1 million may be payable in September 2018, but is contingent upon certain financial performance hurdles being achieved for the year ended 30 June 2018.

The estimated discounted future earn-out payment of $1.6 million may be payable in September 2021, but is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2019, 2020 and 2021. The potential undiscounted amount of the future earn-out payment that the Group expects could be required to be made in respect of this acquisition is between nil and $4.5 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The goodwill of $6.3 million arising upon this acquisition is attributable to the intellectual property obtained and the premium paid for strategic reasons, including acquiring an entry point into the medical waste industry. 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.

Prior period acquisition - LexData

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.

An estimated discounted future earn-out payment of $1.6 million may be payable in September 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.

12. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2017, the Group had capital commitments to purchase equipment of $2.9 million (2016: $9.3 million).

As at 31 December 2017, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $5.8 million (2016: $5.7 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 2017 (2016: nil).

13. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 31 December 2017 was ($0.61) (2016 restated: ($0.66)).

14. POST BALANCE DATE EVENTS

Dividend declared

On 19 February 2018, the Directors declared a fully imputed interim dividend of 14.5 cents per share (approximately $22.5 million) in respect of the year ended 30 June 2018. The dividend will be paid on 3 April 2018. The record date for determination of entitlements to the dividend is 16 March 2018. A supplementary dividend of 2.56 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.

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.securityexpress.co.nz

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NOW COURIERS
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Consider it done.
SUB60
stuck
KIWI EXPRESS
COURIERS
CASTLE