FREIGHTWAYS LIMITED

Half Year Report
December 2022

HALF YEAR REVIEW
From the Chairman and Chief Executive Officer

Freightways' half year result benefited from its diversification across our 4 key *pick up, process and delivery* activities and 2 geographies despite an environment of higher interest rates, slower growth and higher labour costs. The first half of this financial year has delivered pleasing overall top-line revenue growth of 25% and NPAT growth of 3.5%. This represents an EBITA growth of 8%. We are also pleased that this was achieved whilst retaining our focus on the health and safety of our people and despite the challenge posed by a tight labour market and the increased use of temporary labour over the past 6 months.

Express Package delivered a steady NZ result against the prior comparable period (pcp) in 2022, which featured exceptional, covid-related pre-Xmas courier volumes. The ability to improve the per item pricing and to carefully manage costs assisted NZ while the addition of Allied Express (AEX) to the group provided a strong contribution and a platform for growth in Australia.

AEX joined the group at the start of Q2 and has enjoyed strong growth in the Australian market by increasing its market share as a result of its compelling service proposition. Despite taking on additional warehouse space to boost capacity for future growth, AEX improved its financial performance by focusing on operating efficiencies and is ready to leverage both organic and inorganic growth opportunities.

The Information Management and Waste Renewal division rebounded well in core information management services but was hampered by a decline in medical waste volume and pricing along with a higher operating cost base (which included costs related to a number of initiatives to grow our platform for the longer term). The decline in Information Management earnings was exclusively attributable to these factors. Our focus over the next 6 months is to complete these growth-related IT and facility projects, increase our market share and drive cost efficiencies through the fleet.

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

The Directors have declared an interim dividend of 18 cents per share, fully imputed at a tax rate of 28%, in line with the pcp interim dividend. This represents a payout of approximately $32 million, also in line with the pcp. The dividend will be paid on 3 April 2023. The record date for determination of entitlements to the dividend is 10 March 2023. The Directors have determined that the Freightways Dividend Reinvestment Plan (DRP) will be offered for the above interim dividend at a 2% discount.

Divisional performance

Each division's key features are listed below.

Express Package (EP) & Business Mail

- Revenue for the EP division grew by 28% compared to the pcp aided by the addition of AEX to the business at the start of Q2.
- EBITA grew by 19%, supported by a strong performance from AEX and more modest activity in NZ.
- Average daily volume for the NZ courier businesses was 1.3% below the pcp (allowing for the additional public holiday in H1). As signalled in our 1st quarter trading update, we expected Q2 volumes in NZ to fall short of the very strong pcp which was driven by significant eCommerce activity after the various lockdowns of 2022.

Note: EBITA is a non-GAAP (Generally Accepted Accounting Principles) measure. Refer to the Income Statement and Note 3 within the financial statements in the following pages for a reconciliation from EBITA to NPAT. NPAT is GAAP compliant.

- The proportion of Business to Customer (B2C) deliveries in NZ was 21% for the half with Pricing For Effort (PFE) averaging $1.53 per item over the period. B2C volume has abated from its post-lockdown highs and we expect it to track more predictably than it has over the past 2 years.
- AEX contributed $68.1m in revenue over the period and $4.9m in NPAT. Their volumes remained robust through the peak period and we observe that the trading environment in Australia for our sector seems more resilient than in NZ.
- Big Chill Transport grew by 5% over the period (with fuel recovery revenue also at higher levels than in the pcp and neutral to margins). Third Party Logistics (3PL) revenue was flat given the already high levels of utilisation within the Highbrook facility and we eagerly await the opening of new capacity at Ruakura in late 2023.
- DX Mail revenue was up 13% on the pcp reflecting a return to normal activity for most businesses compared to the pcp.
- Labour costs increases were the key cost feature in H1 as the pressure of a very tight labour market resulted in higher wage rates for drivers and depot teams in particular, as well as additional costs related to temporary labour. While we have noted a slight improvement in the number and quality of new job applicants in recent months, the market still remains challenging.

Information Management & Waste Renewal

- Information Management returned to higher levels of activity without the disruptions of lockdowns, delivering a revenue growth of 15% for the half.
- EBITA was impacted, however, by the performance of the medical waste business, which resulted in a decline in divisional EBITA of $4m for the period.
- The decline in medical waste revenue was slightly larger than we expected (due to a reduction in collections of PPE, vaccines and testing kits from public & private health and aged care facilities) and that, along with a significantly higher cost of operating (driver and fleet costs), led to a decline in earnings in the medical waste portion of the business. We expect medical waste revenue of approximately $20m for the full year, an overall decline of $6m for FY22, before resuming growth in FY24. We have also invested in the operating and IT platform during the half with new IT capability and the preparation of a new processing facility in Victoria resulting in $1.2m of additional cost during the half. We expect a similar impact in H2 before returning to normal margins in FY24.
- Digitalisation revenue grew in the half by 24% and we expect a strong full year performance with the expectation of a number of large jobs over the remainder of the year on both sides of the Tasman.
- Our Litsupport business, which provides print and eDiscovery services to the legal and government sectors in Australia, grew by 7% for the first half. A gradual return to customers working back in the office environment assisted growth. Document destruction volumes recovered strongly compared to the pcp in both NZ and Australia and were supported by steady paper pricing during the half.

Disciplined Balance Sheet management

Capital expenditure for FY23 is forecast to be in a range of $28-30 million and covering a number of IT development projects, the part payment for the A$10m automated freight sort system in Sydney, a medical waste plant, and the replacement of vehicles and freight handling equipment. We remain committed to a solid investment-grade credit profile and will continue to manage our balance sheet accordingly. This has led to the decision to re-open the Dividend Reinvestment Plan for the Half-Year dividend.

Note: EBITA is a non-GAAP (Generally Accepted Accounting Principles) measure. Refer to the Income Statement and Note 3 within the financial statements in the following pages for a reconciliation from EBITA to NPAT. NPAT is GAAP compliant.

Outlook

Whilst the economic climate will be a tougher one to operate in in the near term, we remain positive about the resilience of our business model, given its diversification across a number of segments and geographies.

Our NZ Express Package businesses will respond by driving efficiency and implementing pricing initiatives to mitigate the decline we are seeing in volume and increase in labour cost. We have also invested in the resources to successfully grow our KiwiOversize business in NZ and AEX in Australia.

In Information Management and Waste Renewal we expect to continue to grow our horizon two digitalisation business and continue to foster our emerging (horizon 3) Stocka and SaveBoard investments while implementing a number of business growth and improvement initiatives for medical waste.

Across both divisions we will continue to support our existing customers and help manage activity with them closely as well as seek out profitable market share opportunities.

In the short term we are cautious about the impact of a slowing economy, in NZ in particular, We will continue to review the portfolio of services we provide, with a view to delivering superior long-term value to shareholders through short, medium and long-term initiatives. We will do so whilst monitoring costs closely and acting quickly if we see additional pressure on our margins.

The company will continue to consider acquisition opportunities that are complementary to our existing operations and capabilities and are considered accretive to our shareholders.

The Freightways Directors would again like to acknowledge the efforts of every one of our team across Australasia during what have been, and remain, highly challenging times.

Mark Cairns **Chairman**	**Mark Troughear** **Chief Executive Officer**

20 February 2023

Note: EBITA is a non-GAAP (Generally Accepted Accounting Principles) measure. Refer to the Income Statement and Note 3 within the financial statements in the following pages for a reconciliation from EBITA to NPAT. NPAT is GAAP compliant.

Independent auditor's review report

To the shareholders of Freightways Limited

Report on the consolidated financial statements

Our conclusion
We have reviewed the consolidated financial statements of Freightways Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2022, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period ended on that date, and significant accounting policies and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2022, and its financial performance and cash flows for the six month then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

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

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements.

Certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services and relationships have not impaired our independence as auditor of the Group.

Other than as disclosed above, we have no relationship with, or interests in, the Group.

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

Auditor's responsibilities for the review of the consolidated financial statements
Our responsibility is to express a conclusion on the consolidated financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the consolidated financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34.

A review of consolidated financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these consolidated financial statements.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
20 February 2023

Auckland

FREIGHTWAYS LIMITED
CONSOLIDATED INCOME STATEMENT
for the half year ended 31 December 2022 (unaudited)

	Note	6 mths ended 31 Dec 2022 $000	6 mths ended 31 Dec 2021 $000	Variance %
Operating revenue	3 & 4	**552,082**	**441,985**	**24.9%**
Transport and logistics expenses		(231,555)	(173,419)	33.5%
Employee benefits expenses		(149,807)	(126,362)	18.6%
Occupancy expenses		(3,592)	(3,310)	8.5%
General and administrative expenses		(53,407)	(36,566)	46.1%
Depreciation and software amortisation		(33,346)	(27,883)	19.6%
Amortisation of intangibles		(4,981)	(3,861)	29.0%
Operating profit before interest and income tax	3	**75,394**	**70,584**	**6.8%**
Net interest and finance costs		(13,110)	(10,068)	30.2%
Profit before income tax		**62,284**	**60,516**	**2.9%**
Income tax		(17,097)	(16,846)	1.5%
Profit for the period		**45,187**	**43,670**	**3.5%**
Profit for the period attributable to:				
Owners of the parent		45,112	43,625	3.4%
Non-controlling interests		75	45	66.7%
		45,187	**43,670**	**3.5%**
Earnings per share for the period:				
Basic earnings per share (cents)		26.3	26.4	
Diluted earnings per share (cents)		26.3	26.3	

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

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year ended 31 December 2022 (unaudited)

	Note	6 mths ended 31 Dec 2022 $000	6 mths ended 31 Dec 2021 $000
Profit for the period		**45,187**	**43,670**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	5	(9,506)	(554)
Cash flow hedges taken directly to equity, net of tax		23	1,490
Total other comprehensive income after income tax		**(9,483)**	**936**
Total comprehensive income for the period		**35,704**	**44,606**
Total comprehensive income for the period is attributable to:			
Owners of the parent		35,629	44,561
Non-controlling interests		75	45
		35,704	**44,606**

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

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year ended 31 December 2022 (unaudited)

	Note	Contributed equity	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Non-controlling interests	Total equity
		$000	$000	$000	$000	$000	$000
Balance at 1 July 2022		**184,349**	**173,879**	**2,178**	**(4,026)**	**234**	**356,614**
Profit for the period		-	45,112	-	-	75	45,187
Exchange differences on translation of foreign operations		-	-	-	(9,506)	-	(9,506)
Cash flow hedges taken directly to equity, net of tax		-	-	23	-	-	23
Total Comprehensive Income		**-**	**45,112**	**23**	**(9,506)**	**75**	**35,704**
Dividend payments		-	(31,527)	-	-	-	(31,527)
Shares issued	5 & 9	112,851	-	-	-	-	112,851
Balance at 31 December 2022		**297,200**	**187,464**	**2,201**	**(13,532)**	**309**	**473,642**
Balance at 1 July 2021		**182,571**	**166,643**	**(1,195)**	**(6,945)**	**148**	**341,222**
Impact of restating accounting treatment of cloud computing arrangement		-	(3,129)	-	-	-	(3,129)
Restated Balance at 1 July 2021		**182,571**	**163,514**	**(1,195)**	**(6,945)**	**148**	**338,093**
Profit for the period		-	43,625	-	-	45	43,670
Exchange differences on translation of foreign operations		-	-	-	(554)	-	(554)
Cash flow hedges taken directly to equity, net of tax		-	-	1,490	-	-	1,490
Total Comprehensive Income		**-**	**43,625**	**1,490**	**(554)**	**45**	**44,606**
Dividend payments		-	(29,833)	-	-	-	(29,833)
Shares issued		1,301	-	-	-	-	1,301
Balance at 31 December 2021		**183,872**	**177,306**	**295**	**(7,499)**	**193**	**354,167**

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

FREIGHTWAYS LIMITED
CONSOLIDATED BALANCE SHEET
as at 31 December 2022 (unaudited)

	Notes	As at 31 Dec 2022 $000	As at 31 Dec 2021 $000	As at 30 Jun 2022 $000
Current assets				
Cash and cash equivalents		65,188	28,815	24,137
Trade and other receivables		156,439	130,822	127,072
Inventories		9,979	8,248	8,674
Contract assets		1,585	1,381	1,332
Derivative financial instruments		828	-	963
Total current assets		**234,019**	**169,266**	**162,178**
Non-current assets				
Trade receivables and other non-current assets		6,182	4,209	6,070
Property, plant and equipment		145,419	128,719	134,180
Right-of-use assets		311,974	261,789	271,020
Intangible assets	9	680,937	499,942	501,668
Derivative financial instruments		2,229	622	2,061
Investment in associates and joint venture		12,088	9,899	11,407
Total non-current assets		**1,158,829**	**905,180**	**926,406**
Total assets		**1,392,848**	**1,074,446**	**1,088,584**
Current liabilities				
Trade and other payables		139,414	167,598	172,822
Borrowings	6	71,001	-	-
Lease liabilities		40,403	31,276	34,735
Income tax payable		15,312	5,389	7,209
Provisions		2,232	1,647	1,550
Derivative financial instruments		-	213	-
Contract liability		15,382	14,740	15,876
Total current liabilities		**283,744**	**220,863**	**232,192**
Non-current liabilities				
Trade and other payables		3,709	3,792	3,709
Borrowings	6	252,407	182,160	176,210
Deferred tax liability		57,924	38,470	37,087
Provisions		9,812	6,999	7,382
Lease liabilities		311,610	267,995	275,390
Total non-current liabilities		**635,462**	**499,416**	**499,778**
Total liabilities		**919,206**	**720,279**	**731,970**
NET ASSETS		**473,642**	**354,167**	**356,614**
EQUITY				
Contributed equity	5	297,200	183,872	184,349
Retained earnings		187,464	177,306	173,939
Cash flow hedge reserve		2,201	295	2,178
Foreign currency translation reserve		(13,532)	(7,499)	(4,087)
		473,333	353,974	356,379
Non-controlling interests		309	193	235
TOTAL EQUITY		**473,642**	**354,167**	**356,614**

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

FREIGHTWAYS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the half year ended 31 December 2022 (unaudited)

	Note	6 mths ended 31 Dec 2022 $000	6 mths ended 31 Dec 2021 $000
		Inflows (Outflows)	**Inflows (Outflows)**
Cash flows from operating activities			
Receipts from customers		542,542	421,147
Payments to suppliers and employees		(428,816)	(332,176)
Cash generated from operations		**113,726**	**88,971**
Interest received		365	14
Interest and other costs of finance paid		(13,475)	(9,718)
Income taxes paid		(20,833)	(23,301)
Net cash inflows from operating activities		**79,783**	**55,966**
Cash flows from investing activities			
Payments for property, plant & equipment		(15,125)	(6,800)
Payments for software		(1,442)	(2,099)
Proceeds from disposal of property, plant & equipment		430	157
Payments for businesses acquired (net of cash acquired) *	9	(128,472)	(12,070)
Payments for investment in associates		-	(910)
Receipts from joint venture		1,686	766
Cash flows from other investing activities		(500)	(117)
Net cash outflows from investing activities		**(143,423)**	**(21,073)**
Cash flows from financing activities			
Dividends paid		(31,527)	(29,833)
Increase (decrease) in bank borrowings		154,240	19,472
Proceeds from issue of ordinary shares		-	318
Principal elements of lease payments		(19,926)	(15,867)
Net cash inflow (outflows) from financing activities		**102,787**	**(25,910)**
Net increase in cash and cash equivalents		39,147	8,983
Cash and cash equivalents at the beginning of the period		24,137	19,940
Exchange rate adjustments		1,904	(108)
Cash and cash equivalents at the end of the period		**65,188**	**28,815**

* Significant non-cash investing and financing activities that related to the consideration paid in the business combination of Allied Express Transport Pty Ltd and settled through Freightways shares and the issue of a promissory note, are disclosed in note 9.

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

1. Basis of Preparation

The interim financial statements are those of Freightways Limited (the 'Company') and its subsidiary companies (together with the Company, referred to as the 'Group'). The Company is registered under the Companies Act 1993 and is an FMC Reporting Entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

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

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand Equivalent to the International Accounting Standard 34: Interim Financial Reporting (NZ IAS 34) and International Accounting Standard 34: Interim Financial Reporting (IAS 34) and consequently, do not include all the information required for full financial statements. These condensed Group interim financial statements should be read in conjunction with the annual report for the year ended 30 June 2022.

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

2. Significant Accounting Policies

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

3. Segment Reporting

(a) Description of segments

A segment is a component of the Group that can be distinguished from other components of the Group by the products or services it sells, the primary market it operates in and the risks and returns applicable to it. Operating segments are reported upon in a manner consistent with the internal reporting used by the Chief Executive Officer, as the chief operating decision maker, and the Board for allocating resources, assessing performance and strategic decision making.

The Group is organised into the following reportable operating segments:

Express package & business mail
Comprises network (hub & spoke) courier, express freight, refrigerated transport, point-to-point courier and postal services.

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

Corporate and other
Comprises corporate, financing and property management services.

The Group has no individual customer that represents more than 4% of external sales revenue.

(b) Segment analysis

	Express package & business mail $000	Information management $000	Corporate $000	Inter-segment elimination $000	Consolidated operations $000
Half year ended 31 December 2022					
Sales to external customers	448,611	103,471	-	-	552,082
Inter-segment sales	1,651	164	3,960	(5,775)	-
Total revenue	450,262	103,635	3,960	(5,775)	552,082
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	92,131	26,270	(4,680)	-	113,721
Depreciation and software amortisation	(20,722)	(11,833)	(791)	-	(33,346)
Operating profit (loss) before interest, income tax and amortisation of intangibles	71,409	14,437	(5,471)	-	80,375
Amortisation of intangibles, excluding software amortisation	(3,801)	(1,180)	-	-	(4,981)
Operating profit (loss) before interest and income tax	67,608	13,257	(5,471)	-	75,394
Net interest and finance costs	(3,982)	(2,323)	(6,805)	-	(13,110)
Profit (loss) before income tax	63,626	10,934	(12,276)	-	62,284
Income tax	(17,353)	(3,384)	3,640	-	(17,097)
Profit (loss) for the period attributable to the shareholders	46,273	7,550	(8,636)	-	45,187

Segment Reporting (continued)

	Express package & business mail $000	Information management $000	Corporate $000	Inter-segment elimination $000	Consolidated operations $000
Half year ended 31 December 2021					
Sales to external customers	350,197	91,788	-	-	441,985
Inter-segment sales	928	(1,772)	4,170	(3,326)	-
Total revenue	351,125	90,016	4,170	(3,326)	441,985
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	76,292	29,289	(3,253)	-	102,328
Depreciation and software amortisation	(16,447)	(10,670)	(766)	-	(27,883)
Operating profit (loss) before interest, income tax and amortisation of intangibles	59,845	18,619	(4,019)	-	74,445
Amortisation of intangibles, excluding software amortisation	(2,737)	(1,124)	-	-	(3,861)
Operating profit (loss) before interest and income tax	57,108	17,495	(4,019)	-	70,584
Net interest and finance costs	(3,037)	(2,380)	(4,651)	-	(10,068)
Profit (loss) before income tax	54,071	15,115	(8,670)	-	60,516
Income tax	(14,797)	(4,497)	2,448	-	(16,846)
Profit (loss) for the period attributable to the shareholders	39,274	10,618	(6,222)	-	43,670

4. Revenue from Contracts with Customers

The Group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Express Package & Refrigerated Transport	Postal	Storage & Handling	Destruction Activities	Other	Total
Half year ended 31 December 2022	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue from external customers	421,067	27,544	32,556	43,881	27,034	552,082
Timing of revenue recognition:						
At a point in time	-	1,383	-	13,725	9,504	24,612
Over time	421,067	26,161	32,556	30,156	17,530	527,470
	421,067	27,544	32,556	43,881	27,034	552,082
Half year ended 31 December 2021						
Revenue from external customers	321,299	23,762	29,807	42,015	25,102	441,985
Timing of revenue recognition:						
At a point in time	-	1,335	-	10,775	5,761	17,871
Over time	321,299	22,427	29,807	31,240	19,341	424,114
	321,299	23,762	29,807	42,015	25,102	441,985

5. Equity

Contributed equity

Fully paid ordinary shares
As at 31 December 2022, there were 177,431,358 fully paid ordinary shares on issue (2021: 165,803,446). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Share rights
On 16 September 2022, 127,565 share rights vested upon achievement of certain financial hurdles set by the Board and each of the share rights converted to one Freightways fully paid ordinary share (2021: Nil). The issue price per share was $8.06 (2021: Nil).

On 21 September 2022, 46,839 share rights were redeemed and cancelled (2021: Nil).

As at 31 December 2022, there were 239,846 share rights on issue (2021: 402,638). Share rights do not carry a dividend entitlement and are non-transferable.

Employee share plan

On 5 December 2022, the Company issued 65,000 fully paid ordinary shares at $9.16 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2021: 65,000 fully paid ordinary shares at $11.49 each). In total, participating employees were provided with interest-free loans of $0.6 million to fund their purchase of the shares in the Share Plan (2021: $0.7 million). The loans are repayable over three years and repayment commenced in December 2022.

Issue of fully paid ordinary shares

On 30 September 2022, the company issued 11,435,347 fully paid ordinary shares as part of a placement to the vendors of Allied Express Transport Pty Ltd (AEX) in connection with the acquisition of AEX by the Group. (Refer Note 9)

Exchange differences on translation of foreign operations

Exchange differences on translation of foreign operations comprise all foreign exchange differences arising from the translation of the financial statement of foreign operations into New Zealand dollars. The increase from the prior comparative period reflects:

- increased value of foreign operations and balance sheet following the acquisition of AEX (refer Note 9 for fair value of assets and liabilities arising from the AEX acquisition); and
- a change in the NZD:AUD closing exchange rate from 1:0.9031 at 30 June 2022 to 1:0.9366 at 31 December 2022.

6. Borrowings

As at 31 December 2022, the Group's debt facilities with its banking syndicate comprised NZ$150 million and A$150 million (2021: NZ$150 million and A$80 million), of which NZ$110 million and A$80.7 million (2021: NZ$71 million and A$35.2 million) had been drawn, respectively.

The Group has a US$160 million uncommitted finance facility with a US-based lender on the same terms as the banking syndicate. Of this facility, the US dollar equivalent of NZ$20 million and A$100 million were drawn as at 31 December 2022 (2021: NZ$20 million and A$50 million).

The Group had an undrawn bank overdraft facility of NZ$8 million available (2021: NZ$8 million).

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

7. Transactions with Related Parties

Trading with related parties: The Group has not entered into any material external related party transactions which require disclosure. The Group does trade, on normal commercial terms, with certain companies in which there are common directorships.

Purchases from entities controlled by key management personnel: The Group leases a property, on normal commercial terms, from an entity that is controlled by a member of the Group's key management personnel.

Intercompany loan: An intercompany promissory note of $14.5 million and intercompany receivable which arose on the acquisition of AEX, exists between IMS Group Australia Pty Ltd (IMS) and Allied Express Transport Pty Ltd (AEX). The receivable and promissory note are eliminated in the consolidated financial statements of Freightways. (refer to Note 9).

Payments to associates: During the period, the following transactions occurred with Sweetspot Goup Limited (GSS), an entity incorporated in New Zealand and is 33.3% owned by the Group:

	Group	
	2022	**2021**
	$000	**$000**
Sale of courier services to GSS	6,954	8,483
Purchase of goods and services from GSS	914	800
Receivables from GSS at end of period	1,808	2,251
Payables to GSS at end of period	137	159

Payments to joint venture: During the period, the Group paid Parcelair Limited $8.5 million (2021: $7.5 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 2022 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2022	**2021**
	$000	**$000**
Short-term employee benefits	4,980	7,126
Share-based payments	189	554

Short-term employee benefits paid during the period are lower than the prior comparative period (pcp) due predominantly to:

- a higher number of partly-paid shares vesting in the pcp upon achievement of agreed performance targets in accordance with the terms of the Freightways Senior Executives Performance Share Plan; and
- short-term incentives paid to key management during the pcp were higher due to achievement of predetermined company profit levels and individual performance objectives.

8. Financial Risk Management

The Group has a treasury policy which is used to assist in managing foreign exchange and interest rate risks. The interim financial statements do not include all financial risk management information and disclosures and should be read in conjunction with the Group's annual financial statements as at 30 June 2022 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 2022.

In the period to 31 December 2022 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 and US Private Placement (USPP)) 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;
- In respect of USPP, the fair value is calculated on a discounted cash flow basis using the USD Bloomberg curve and applying discount factors to the future USD interest payment and principal payment cash flows; and
- discounted cash flow analysis for other financial instruments.

Specific valuation techniques used to value contingent consideration in a business combination and estimated purchase price adjustments include:
- fair value is calculated as the present value of the estimated future cash flows based on management's assessment of future performance; and
- management's knowledge of the business and the industry it operates in.

The Group's derivative financial instruments and USPP 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 2022.

There have been no reclassifications of financial assets and finance liabilities since 30 June 2022.

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

9. Business Combinations

Acquisition of Allied Express Transport Pty Ltd (AEX)

Effective 30 September 2022, the Group acquired 100% of AEX, a company operating in Australia in the courier and express freight market for total consideration of $216.2 million. The consideration comprises of cash payment of $88.1 million, issue of Freightways shares of $112.1 million, promissory note of $14.5 million and an estimated completion adjustment of $1.6 million. A$50 million of the shares issued to the vendors are subject to an escrow on sale for a period of 12 months from 30 September 2022 and A$25 million of those shares will then remain subject to an escrow on sale for a further period of 12 months thereafter.

Included in AEX at the time of the acquisition was a shareholder loan of $14.5 million receivable by AEX from the vendor. Concurrent with the acquisition, this receivable of $14.5 million in AEX was satisfied through the issue of a promissory note (non-cash) from IMS Group Australia Pty Ltd (IMS), a Freightways subsidiary, to AEX. This obligation is now within the Freightways Group and is reflected in the respective Group legal entities of AEX and IMS. The receivable and promissory note are eliminated in the consolidated financial statements of Freightways.

AEX operates within the Group's express package & business mail division.

The contribution of AEX to the Group results for the half year ended 31 December 2022 was revenue of $68.1 million and net profit after tax of $4.9 million. If this acquisition had occurred at the beginning of the half year, the contribution to revenue and net profit after tax for the period is estimated at $130.2 million and $9.9 million, respectively.

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

	Preliminary
Purchase consideration	**$000**
Cash paid during the period	88,070
Issue of Freightways shares	112,066
Promissory note	14,472
Estimated completion adjustment	1,568
Total purchase consideration	216,176
Fair value of assets and liabilities arising from the acquisition	
Cash and cash equivalents	18,512
Trade and other receivables	24,460
Intercompany receivable	14,472
Plant and equipment	8,416
Right-of-use assets	12,791
Software	1,931
Brand name	30,654
Customer relationships	54,739
Non-compete agreement	3,141
Goodwill	107,793
Trade and other payables	(20,324)
Income tax payable	(2,053)
Deferred tax liability	(25,565)
Lease liabilities	(12,791)
	216,176

The goodwill of $107.8 million arising upon this acquisition is attributable to the business know-how and the premium paid for strategic reasons, including acquiring an entry point into the Australian courier and express freight market.

The fair value of certain assets and liabilities arising from the acquisition have been determined on a provisional basis due to the acquisition being completed close to the financial half year end. Plant and equipment, software, customer relationships, brand name, non-compete agreement, other payables and income tax payable have been measured provisionally, pending confirmation of certain determinants and finalisation of independent valuations. The fair value of these assets will be finalised within 12 months from the acquisition date.

Other acquisition

During the period, the Group acquired a small IT asset disposal and recycling services business in Australia for $2.7 million. This business operates with the Group's information management division.

Prior period acquisition – ProducePronto ("PP")

Effective 1 November 2021, the Group acquired the business and assets of PP for an initial consideration of approximately $12.1 million and future earn-out of up to $3.8 million over 3 years. PP operates fourth party logistics (4PL) services with 365 day per year, same-day fresh and frozen delivery to convenience outlets in New Zealand and businesses across Auckland. This acquired business operates within the Group's express package & business mail operating segment.

As at 31 December 2022, the estimated discounted future earn-out payment for the acquisition of PP was $3.7 million (30 June 2022: $3.7 million). This represents no change in the estimated undiscounted future earn-out payment from the last balance date. The Group has forecast several scenarios and probability-weighted each to determine an updated fair value for this contingent payment arrangement. The liability is presented within non-current trade and other payables in the balance sheet.

Prior period acquisition – Big Chill Distribution Limited ("BCD")

On 1 April 2020, the Group acquired 100% of BCD, a company operating in the New Zealand temperature-controlled transport and facilities market, for an initial consideration of $114.6 million and future contingent consideration representing approximately 20% of BCD Enterprise Value as at 30 June 2022.

At 30 June 2022 the estimated discounted future contingent consideration for the acquisition of BCD was $56.2 million and this was paid in August 2022.

Reconciliation of payments for businesses acquired

	$000
Cash paid for the acquisition of AEX	88,070
Cash paid for contingent consideration for the acquisition of BCD	56,162
Cash paid for other acquisitions during the period	2,752
Cash acquired from acquisition of AEX	(18,512)
Payments for businesses acquired (net of cash acquired)	128,472

Intangible assets

Intangible assets have increased by $179.3 million. This increase reflects intangible assets arising from the acquisition of AEX totalling $198.3 million, partially offset by amortisation expense during the period and the impact of foreign exchange differences on translation of intangible assets denominated in AUD.

10. Climate Change

The acquisition of AEX is expected to increase the Group's emissions from the combustion of transport fuel. There have been no other changes to the Group's climate change risk since 30 June 2022.

11. Capital Commitments and Contingent Liabilities

As at 31 December 2022, the Group had capital commitments to purchase equipment of $7.8 million (2021: $2.4 million).

As at 31 December 2022, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $12.7 million (2021: $4.7 million). The letters of credit and bank guarantees predominantly relate to security given to various landlords in respect of leased operating facilities.

There were no other contingent liabilities as at 31 December 2022 (2021: nil).

12. Net Tangible Assets per security

Net tangible assets (liabilities) per security at 31 December 2022 was ($1.09) (2021: ($0.80)).

13. Post Balance Date Events

Dividend declared

On 20 February 2023, the Directors declared a fully imputed interim dividend of 18 cents per share (approximately $32 million) in respect of the year ended 30 June 2023. The dividend will be paid on 3 April 2023. The record date for determination of entitlements to the dividend is 10 March 2023. A supplementary dividend of 3.18 cents per share will be paid to overseas shareholders when the interim dividend is paid. The Freightways Dividend Reinvestment Plan will be offered for this dividend and a notice to shareholders inviting their participation will be sent out in due course.

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