

Freightways

FREIGHTWAYS LIMITED

Half Year Report
December 2021

HALF YEAR REVIEW

From the Chairman and Chief Executive Officer

Freightways' business model again demonstrated its resilience as both NZ and Australia operated in various states of lockdown or restrictions for much of the first half of FY22. Throughout level 4 lockdown in NZ and in particular during the extended lockdown of Auckland, we continued to see express package and information management activity decrease materially as businesses were forced to remain closed. Those express package volumes then rebounded strongly as online shopping was permitted and NZ began to slowly re-open for business-to-business freight. Australia also experienced material lockdowns, initially in Victoria, but then eventually across all states in some form. While this hindered core information management activity, it provided an opportunity for our burgeoning medical waste business which benefitted from extremely strong customer demand.

Our "half of two quarters" has delivered pleasing top-line revenue growth of 7.7%, EBITA growth of 5.6% and NPAT growth of 7.4% (before changes in the fair value of contingent consideration for the Big Chill earn out). We are also pleased that this was achieved whilst remaining focused on the health and safety of our people in what has been a particularly challenging period to operate in.

While the first quarter of the year was challenging with revenue and EBITA down by 4.1% and 9.2% respectively primarily due to the financial impact of lockdowns, the second quarter generated revenue growth of 20.3% and EBITA growth of 20%, as the network benefitted from a surge in volumes for express courier items and perishables carried through our Big Chill network; a material increase in the amount of medical waste which required collection and processing in Australia; and an increase in Business Process Outsourcing activity within information management. Revenue growth in these three areas was driven by a combination of organic growth, market share gains and improved pricing versus the same period last year.

During the half year, we also announced the acquisition of ProducePronto which complements Big Chill with its same-day temperature-controlled delivery and 4PL capabilities. We also announced a \$2.7 million investment in SaveBoard: a building product made from packaging waste such as courier satchels and TetraPak cartons. The plant has produced over 13,000m² of board for a building sector that welcomed the introduction of 100% recycled building products.

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

The Board has announced an interim dividend of 18 cents for the first half of the year, based on the strong performance of the businesses.

Divisional performance

Each division's key features are listed below for HY22.

Express Package & Business Mail

- Strong volume growth from new and existing customers after the level 4 lockdown. The express package & business mail division was successful in winning market share and helping new-to-market customers with their logistics needs. This resulted in 7.2% improvement in revenue over the same period last year.
- B2C deliveries also contributed positively to revenue and contractor incomes, without weighing on margins. B2C deliveries increased by 16% over the pcp with peaks during level 2 and 3 lockdowns establishing a sustainable higher base volume for 2022.
- Pricing For Effort (PFE) peaked at \$1.41 per item by December, which has assisted courier income to grow by an average of 8.4% on the pcp.
- Volumes placed pressure on existing facilities at the very end of 2021 and, as a result, the EP brands will add further capacity in South Auckland and Christchurch in 2022.

- Big Chill 3PL utilisation approached 95% for the Auckland facility. We have committed to a new 16,000 pallet facility in Tainui's Ruakura logistics hub which should be ready for completion by July 2023.
- DX Mail volumes were up 3% on the pcp despite the impact of lockdowns.
- Labour costs are forecast to increase in 2022 as the labour market further tightens and the new minimum wage pushes up the overall base rates for labour. We expect to recover these costs in the pricing strategies we will execute over the coming year, to ensure we have the right level of resource and capability so our customers to continue to receive the levels of service they have come to expect.

Information Management & Waste Renewal

- The first half year was characterised by solid revenue and strong earnings gains for the division, off the back of digitisation wins and extremely strong medical waste volumes at premium rates.
- We achieved incremental gains in storage volume through the half year even though the main metro markets are still challenged by Covid-related disruption to their businesses.
- There were a number of contracts signed for digitalisation revenue for FY22 and FY23 on both sides of the Tasman representing \$10 million and \$21 million respectively.
- Our litigation support services –print and eDiscovery – operated at lower levels for most of the HY due to customers predominantly working from home over that period.
- Document destruction volumes were steady at slightly higher levels of paper pricing during the HY.
- Medical waste revenue increased by 67% on the pcp as Covid required many more sites to be serviced. While we expect some of that pricing to moderate over the second half of the year revenue for FY22 should exceed \$20 million for the first time for the full year which would represent a 7x fold increase on the small business we acquired in 2018.

Balance sheet strength

Capital expenditure for FY22 is forecast to be in a range of \$24-26 million and invested in a number of IT development projects, medical waste plant, replacement of vehicles and freight handling equipment. Thanks to strong cash flow generation, our gearing has continued to reduce as expected following the Big Chill acquisition. We remain committed to a solid investment-grade credit profile.

Director Movements

After over 11 years on the Board, Mark Verbiest, the current Chair of the Board of Directors, has announced that he will be retiring from the Board with effect from 31 March 2022. Mark joined Freightways Limited as an independent director in 2010 and has been Board Chair since June 2018.

Mark's strong commercial acumen, knowledge of Freightways and broad experience as a listed company chair, have supported Freightways' development in particular over the past 3 years. Mark has been a key figure in the expansion of Freightways' interests into temperature-controlled freight and waste renewal as well as a steady hand as the company navigated the challenges of Covid-19.

The Board has unanimously resolved to appoint Mark Cairns to replace Mark Verbiest upon his retirement. Mark joined the Board of Freightways as an independent director in April 2021. He has been Chief Executive of Port of Tauranga, New Zealand's largest and most successful port, since 2005, retiring in June 2021 to pursue a full-time governance career.

The Board has also appointed David Gibson to the Board of Freightways, effective on 1 April 2022. David will stand for election at the Annual Shareholders Meeting currently scheduled to be held on 27 October 2022. David is a professional director and investor. His current directorships include the NZX listed companies Trustpower, Goodman (NZ) Limited and NZME Limited. His background is in finance with a 20-year career in investment banking having held senior positions and governance roles with Deutsche Bank and Deutsche Craigs, in New Zealand. He holds a Bachelor of Laws (Honours) and Bachelor of Commerce from the University of Canterbury. He is actively involved with several New Zealand growth companies.

Outlook

Whilst the economic climate remains uncertain, we are encouraged by the strong trade in express package and the resilience of our information management businesses, as demonstrated in our results in HY22. The second quarter delivered strong volume growth after the lockdowns of August and September. Much of this growth was from profitable delivery of B2C and this higher level of volume will be supported by further investment in facilities in Auckland and Christchurch.

We do however expect that the impact of Covid-19 will continue in this financial year through:

- Higher volumes of home delivery (B2C) during periods of higher in-home isolation;
- Potential restrictions to either our customer's businesses or our own networks as Omicron forces workers into isolating, all in the context of a very tight labour market.

We will continue to target revenue and earnings growth in FY22 and we have plans in place to adapt to:

- A tight labour market putting upward pressure on labour costs,
- The impact of Omicron in AU & NZ;
- A constrained supply chain which could continue to disrupt the flow of goods coming in NZ and ultimately impact the volumes we receive from our customers.

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.

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

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 Verbiest
Chairman



Mark Troghear
Chief Executive Officer

21 February 2022



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 2021, 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 2021, and its financial performance and cash flows for the six months 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 responsibility is further described in the *Auditor's responsibility for the review of the 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. In addition to our role as auditor, our firm carries out other services for the Group of Executives' remuneration benchmarking. Further to this, our firm, employees and partners may purchase other services from the Group on normal terms within the normal course of the trading activities of the Group. These other services and relationships have not impaired our independence as auditors of the Group.

Directors' responsibility for the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the 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 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.

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

For and on behalf of:

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

Chartered Accountants
21 February 2022

Auckland

FREIGHTWAYS LIMITED
CONSOLIDATED INCOME STATEMENT
for the half year ended 31 December 2021 (unaudited)

	Note	6 mths ended 31 Dec 2021 \$000	6 mths ended 31 Dec 2020 \$000 (restated)	Variance %
Operating revenue	4 & 5	441,985	410,332	8%
Transport and logistics expenses		(173,419)	(162,216)	7%
Employee benefits expenses		(126,362)	(112,667)	12%
Occupancy expenses		(3,310)	(3,585)	(8%)
General and administrative expenses	2	(36,566)	(32,627)	12%
Change in fair value of contingent consideration – Big Chill Distribution Limited	10	-	(19,200)	(100%)
Depreciation and software amortisation	2	(27,883)	(28,761)	(3%)
Amortisation of intangibles		(3,861)	(3,791)	2%
Operating profit before interest and income tax	4	70,584	47,485	49%
Net interest and finance costs		(10,068)	(11,222)	(10%)
Profit before income tax		60,516	36,263	67%
Income tax		(16,846)	(14,814)	14%
Profit for the period		43,670	21,449	104%
Profit for the period attributable to:				
Owners of the parent		43,625	21,412	104%
Non-controlling interests		45	37	22%
		43,670	21,449	104%
Earnings per share for the period*:				
Basic earnings per share (cents)		26.4	13.0	
Diluted earnings per share (cents)		26.3	12.9	

*Basic and diluted earnings per share for the 6 months ended 31 December 2020 calculated on the profit for the period attributable to shareholders, excluding Change in fair value of contingent consideration – Big Chill Distribution Limited, are 24.6 cents and 24.5 cents, respectively.

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 2021 (unaudited)
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	6 mths ended 31 Dec 2021 \$000	6 mths ended 31 Dec 2020 \$000 (restated)
Profit for the period	43,670	21,449
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(554)	(2,817)
Cash flow hedges taken directly to equity, net of tax	1,490	(701)
Total other comprehensive income after income tax	936	(3,518)
Total comprehensive income for the period	44,606	17,931
Total comprehensive income for the period is attributable to:		
Owners of the parent	44,561	17,894
Non-controlling interests	45	37
	44,606	17,931

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 2021 (unaudited)

GROUP	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 2021	182,571	166,643	(1,195)	(6,945)	148	341,222
Impact of restating accounting treatment of cloud computing arrangement	2	(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
Balance at 1 July 2020	180,630	142,746	(2,075)	(4,635)	114	316,780
Impact of restating accounting treatment of cloud computing arrangement	2	(1,382)	-	-	-	(1,382)
Restated Balance at 1 July 2020	180,630	141,364	(2,075)	(4,635)	114	315,398
Profit for the period (restated)	-	21,412	-	-	37	21,449
Exchange differences on translation of foreign operations	-	-	-	(2,817)	-	(2,817)
Cash flow hedges taken directly to equity, net of tax	-	-	(701)	-	-	(701)
Total Comprehensive Income (restated)	-	21,412	(701)	(2,817)	37	17,931
Shares issued	1,391	-	-	-	-	1,391
Balance at 31 December 2020 (restated)	182,021	162,776	(2,776)	(7,452)	151	334,720

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 2021 (unaudited)

	Notes	As at 31 Dec 2021 \$000	As at 31 Dec 2020 \$000 (restated)	As at 30 Jun 2021 \$000 (restated)
<u>Current assets</u>				
Cash and cash equivalents		28,815	27,437	19,940
Trade and other receivables		130,822	106,989	103,947
Inventories		8,248	6,708	-
Contract assets		1,381	-	-
Income tax receivable		-	-	7,438
Total current assets		169,266	141,134	131,325
<u>Non-current assets</u>				
Trade receivables and other non-current assets		4,209	7,421	6,825
Property, plant and equipment		128,719	131,227	128,338
Right-of-use assets		261,789	273,220	275,849
Intangible assets	2	499,942	496,611	491,374
Derivative financial instruments		622	-	-
Investment in associates		9,899	7,692	7,510
Total non-current assets		905,180	916,171	909,896
Total assets		1,074,446	1,057,305	1,041,221
<u>Current liabilities</u>				
Trade and other payables		167,598	100,747	102,944
Borrowings (secured)	7	-	3,861	-
Lease liabilities		31,276	38,602	31,078
Income tax payable		5,389	19,564	11,982
Provisions		1,647	1,638	1,562
Derivative financial instruments		213	422	1,082
Contract liability		14,740	14,925	14,593
Total current liabilities		220,863	179,759	163,241
<u>Non-current liabilities</u>				
Trade and other payables		3,792	46,798	51,352
Borrowings (secured)	7	182,160	176,744	163,696
Deferred tax liability		38,470	40,493	36,726
Provisions		6,999	6,519	6,979
Lease liabilities		267,995	268,838	280,557
Derivative financial instruments		-	3,434	577
Total non-current liabilities		499,416	542,826	539,887
Total liabilities		720,279	722,585	703,128
NET ASSETS		354,167	334,720	338,093
EQUITY				
Contributed equity	6	183,872	182,021	182,571
Retained earnings	2	177,306	162,776	163,514
Cash flow hedge reserve		295	(2,776)	(1,195)
Foreign currency translation reserve		(7,499)	(7,452)	(6,945)
		353,974	334,569	337,945
Non-controlling interests		193	151	148
TOTAL EQUITY	6	354,167	334,720	338,093

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 2021 (unaudited)
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	6 mths ended 31 Dec 2021 \$000	6 mths ended 31 Dec 2020 \$000
	Inflows (Outflows)	Inflows (Outflows)
<u>Cash flows from operating activities</u>		
Receipts from customers	421,147	405,524
Payments to suppliers and employees	(332,176)	(301,907)
Cash generated from operations	88,971	103,617
Interest received	14	18
Interest and other costs of finance paid	(9,718)	(11,042)
Income taxes paid	(23,301)	(17,147)
Net cash inflows from operating activities	55,966	75,446
<u>Cash flows from investing activities</u>		
Payments for property, plant & equipment	(6,800)	(6,112)
Payments for software	(2,099)	(3,163)
Proceeds from disposal of property, plant & equipment	157	93
Payments for businesses acquired (net of cash acquired)	(12,070)	16
Payments for investment in associates	(910)	-
Receipts from joint venture	766	1,450
Cash flows from other investing activities	(117)	(63)
Net cash outflows from investing activities	(21,073)	(7,779)
<u>Cash flows from financing activities</u>		
Dividends paid	(29,833)	-
Increase (decrease) in bank borrowings	19,472	(40,717)
Proceeds from issue of ordinary shares	318	423
Principal elements of lease payments	(15,867)	(16,645)
Net cash outflows from financing activities	(25,910)	(56,939)
Net increase in cash and cash equivalents	8,983	10,728
Cash and cash equivalents at the beginning of the period	19,940	16,686
Exchange rate adjustments	(108)	23
Cash and cash equivalents at the end of the period	28,815	27,437

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

FREIGHTWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the half year ended 31 December 2021 (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 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 2021.

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

2. Significant Accounting Policies

Other than Accounting Treatment for Cloud Computing Arrangements described below, the accounting policies and methods of computation are consistent with those used in the most recent annual report.

Accounting Treatment of Cloud Computing Arrangements

The Group previously capitalised costs incurred in configuring or customising certain suppliers' application software in certain cloud computing arrangements as intangible assets, as the Group considered that it would benefit from those costs to implement the cloud-based software over the expected terms of the cloud computing arrangements. Following the International Financial Reporting Standards Interpretations Committee (IFRIC) agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement in March 2021 (ratified by the International Accounting Standards Board (IASB) in April 2021), the Group has completed a review of these capitalised costs to determine whether they would need to be expensed or reclassified as prepayments. The IFRIC concluded that costs incurred in configuring or customising software in a cloud computing arrangement can be recognised as intangible assets only if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the cloud-based software to significantly customise the cloud-based software for the Group, in which case the costs paid upfront are recorded as prepayments for services and amortised over the expected terms of the cloud computing arrangements.

As a result of this change in accounting policy, the Group has determined that certain costs relating to the implementation of cloud-based software would need to be expensed when they were incurred, as the amounts were paid to third parties who were not subcontracted by the supplier of the cloud-based software and did not create separate intangible assets controlled by the Group, or significantly customise the cloud-based software for the Group.

The change in policy has been applied retrospectively and comparative information has been adjusted. The impact on the consolidated financial statements is as follows:

- General and administrative expenses in the consolidated income statement for the half year ended 31 December 2020 has increased by \$0.6 million.

FREIGHTWAYS LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the half year ended 31 December 2021 (unaudited)

- Depreciation and software amortisation in the consolidated income statement for the half year ended 31 December 2020 has decreased by \$0.05 million.
- Intangible assets in the consolidated balance sheet at 31 December 2020 and 30 June 2021 have reduced by \$1.9 million and \$3.1 million, respectively.
- Retained earnings in the consolidated balance sheet at 31 December 2020 and 30 June 2021 have reduced by \$1.9 million and \$3.1 million, respectively.
- Earnings per share for the half year ended 31 December 2020 has reduced from 13.3 cents per share to 13.0 cents per share.
- Net tangible assets per security as at 31 December 2020 has reduced from (\$0.88) to (\$0.89).

3. Impact of COVID-19

On 18 August 2021, New Zealand entered an alert level 4 lockdown. Freightways businesses are deemed to provide essential services in New Zealand and have well established protocols to ensure that all staff and contractors can operate safely under all alert levels. However, under alert level 4, activity levels are significantly impacted across all the New Zealand businesses. The move from level 4 to level 3 in September 2021, and later to the traffic lights framework, saw the express package businesses recover quickly and experienced a significant increase in volumes. The information management business activities are weaker during lockdown but not at a material level during the half year.

During the half year, parts of Australia have seen increased restrictions because of a resumption of COVID-19 cases. This has not had an adverse impact on the Group's business activities.

The risk of a resurgence and new variants of COVID-19 in New Zealand or Australia creates a continued level of uncertainty, although Freightways' businesses are now well prepared to operate efficiently in different COVID-19 environments.

4. 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, refrigerated transport, point-to-point courier and postal services.

Information management

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

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.

FREIGHTWAYS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the half year ended 31 December 2021 (unaudited)
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(b) Segment analysis

	Express package & business mail \$000	Information management \$000	Corporate \$000	Inter- segment elimination \$000	Consolidated operations \$000
<u>Half year ended</u>					
<u>31 December 2021</u>					
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

FREIGHTWAYS LIMITED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the half year ended 31 December 2021 (unaudited)
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Segment Reporting (continued)

	Express package & business mail \$000 (restated)	Information management \$000	Corporate \$000	Inter- segment elimination \$000	Consolidated operations \$000 (restated)
<u>Half year ended</u>					
<u>31 December 2020</u>					
Sales to external customers	325,300	84,997	35	-	410,332
Inter-segment sales	2,383	(81)	2,428	(4,730)	-
Total revenue	327,683	84,916	2,463	(4,730)	410,332
Operating profit (loss) before change in fair value of contingent consideration, interest, income tax, depreciation and software amortisation and amortisation of intangibles	73,876	26,485	(1,124)	-	99,237
Change in fair value of contingent consideration – Big Chill Distribution Limited (Note 10)	-	-	(19,200)	-	(19,200)
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	73,876	26,485	(20,324)	-	80,037
Depreciation and software amortisation	(16,947)	(10,883)	(931)	-	(28,761)
Operating profit (loss) before interest, income tax and amortisation of intangibles	56,929	15,602	(21,255)	-	51,276
Amortisation of intangibles, excluding software amortisation	(2,640)	(1,151)	-	-	(3,791)
Operating profit (loss) before interest and income tax	54,289	14,451	(21,255)	-	47,485
Net interest and finance costs	(3,201)	(2,458)	(5,563)	-	(11,222)
Profit (loss) before income tax	51,088	11,993	(26,818)	-	36,263
Income tax	(14,158)	(3,520)	2,864	-	(14,814)
Profit (loss) for the period attributable to the shareholders	36,930	8,473	(23,954)	-	21,449

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5. 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
<u>Half year ended</u> <u>31 December 2021</u>	\$000	\$000	\$000	\$000	\$000	\$000
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
<u>Half year ended</u> <u>31 December 2020</u>						
Revenue from external customers	295,974	24,835	30,042	35,545	23,936	410,332
Timing of revenue recognition:						
At a point in time	-	1,407	-	9,919	5,047	16,373
Over time	295,974	23,428	30,042	25,626	18,889	393,959
	295,974	24,835	30,042	35,545	23,936	410,332

6. Equity

Contributed equity

Fully paid ordinary shares

As at 31 December 2021, there were 165,803,446 fully paid ordinary shares on issue (2020: 165,538,104). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Share rights

On 24 November 2021, 94,370 share rights were issued to certain senior executives under the rules of the Freightways Long Term Incentive (LTI) Scheme (2020: 308,268). The LTI Scheme offers share rights to senior executives, with vesting determined at the end of a 3-year vesting period. Vesting is subject to the achievement of certain financial hurdles set by the Board and included in the annual offer of participation to executives. Each share right converts to one Freightways fully paid ordinary share upon vesting. Share rights do not carry a dividend entitlement and are non-transferable.

As at 31 December 2021, there were 402,638 share rights on issue (2020: 308,268).

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

On 31 August 2021, 200,342 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 (2020: Nil). The average issue price per share was \$7.43 (2020: Nil).

As at 31 December 2021, there were no partly-paid ordinary shares on issue (2020: 200,342). Partly-paid ordinary shares have no voting rights and no rights to dividends and surplus on winding up.

Employee share plan

On 24 December 2021, the Company issued 65,000 fully paid ordinary shares at \$11.49 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2020: 125,000 fully paid ordinary shares at \$6.64 each). In total, participating employees were provided with interest-free loans of \$0.7 million to fund their purchase of the shares in the Share Plan (2020: \$0.8 million). The loans are repayable over three years and repayment commenced in January 2022.

7. Borrowings (secured)

As at 31 December 2021, the Group's debt facilities with its banking syndicate comprised NZ\$150 million and A\$80 million (2020: NZ\$213.5 million and A\$90.4 million), of which NZ\$71 million and A\$35.2 million (2020: NZ\$69 million and A\$61.7 million) had been drawn, respectively.

In March 2021, the Group entered into 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\$50 million were drawn as at 31 December 2021.

The Group had an undrawn bank overdraft facility of NZ\$8 million available (2020: NZ\$8 million).

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

8. Transactions with Related Parties

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

Payments to associate: During the period, the Group paid Parcelair Limited \$7.5 million (2020: \$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 2021 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2021	2020
	\$000	\$000
Short-term employee benefits	7,126	3,530
Share-based payments	554	651

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Short-term employee benefits paid during the period is higher than prior comparative period due predominantly to:

- partly-paid shares being fully paid-up by certain Freightways senior executives during the half year ended 31 December 2021 upon achievement of agreed performance targets in accordance with the terms of the Freightways Senior Executives Performance Share Plan. The performance targets were not met in the prior comparative period and none of the partly-paid shares vested.
- short-term incentives for the year ended 30 June 2020 paid to key management during the six months ended 31 December 2020 was low as the financial performance in the second half of the year ended 30 June 2020 was adversely impacted by COVID-19.

9. 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 2021 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 2021.

In the period to 31 December 2021 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.

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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 2021.

There have been no reclassifications of financial assets and finance liabilities since 30 June 2021.

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

10. Business Combinations

Acquisition of 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/year, same-day fresh and frozen delivery to convenience outlets nationally and businesses across Auckland. This acquired business operates within the Group's express package & business mail division.

The contribution of PP to the Group results for the half year ended 31 December 2021 was revenue of \$1.2 million and operating profit before interest, income tax and amortisation of intangibles of \$0.2 million. If this acquisition had occurred at the beginning of the half year, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the period is estimated at \$3.1 million and \$0.7 million, respectively.

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

Purchase consideration	\$000
Cash paid during the period	12,070
Fair value of future earn-out payment	3,709
Total purchase consideration	15,779
 Fair value of assets and liabilities arising from the acquisition	
Contract assets	1,301
Plant and equipment	2,562
Right-of-use assets	499
Software	250
Brand name	765
Customer relationships	4,554
Non-compete agreement	525
Goodwill	7,549
Trade and other payables	(126)
Deferred tax liability	(1,601)
Lease liabilities	(499)
	15,779

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The estimated discounted future earn-out payment of \$3.7 million may be payable in August 2024 and has been accrued for in the financial statements, but is contingent upon certain financial performance hurdles being achieved over the years ending 30 June 2022, 2023 and 2024. 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 \$3.8 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill of \$7.5 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 4PL temperature-controlled transport and facilities industry.

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 year end. Plant and equipment, software, customer relationships, brand name and non-compete agreement 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.

Prior period acquisition – Big Chill Distribution Limited (“BCD”)

At 31 December 2021 the estimated discounted future payment for the acquisition of BCD was \$51.9 million (30 June 2021: \$51.3 million), with the change from 30 June 2021 arising from unwinding of discount on the future payment. This represents no change in the estimated undiscounted future 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 current trade and other payables in the balance sheet.

11. Capital Commitments and Contingent Liabilities

As at 31 December 2021, the Group had capital commitments to purchase equipment of \$8.4 million (2020: \$2.4 million).

As at 31 December 2021, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately \$4.7 million (2020: \$5.1 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 2021 (2020: nil).

12. Net Tangible Assets per security

Net tangible assets (liabilities) per security at 31 December 2021 was (\$0.80) (2020: (\$0.88)).

13. Post Balance Date Events

Dividend declared

On 21 February 2022, the Directors declared a fully imputed interim dividend of 18 cents per share (approximately \$29.8 million) in respect of the year ended 30 June 2022. The dividend will be paid on 1 April 2022. The record date for determination of entitlements to the dividend is 11 March 2022. 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 not operate for this dividend.

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COVID-19

On 23 January 2022, New Zealand moved to COVID-19 red traffic light setting. To date this has not had a material impact on the Group's business activities.

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