Freightways

FREIGHTWAYS GROUP LIMITED

Half Year Report
December 2023

HALF YEAR REVIEW
From the Chairman and Chief Executive Officer

It is more of the same in this half year, as conditions remained relatively consistent with those experienced before the Q1 trading update provided at the Annual Shareholders Meeting in October.

The half year result reflected the general state of the economies of both NZ and Australia (AU), with volumes marginally up on the prior comparative period (pcp) in Express Package (EP), with positive market share gains offset by continued lower same-customer volumes. Information Management (IM) provided a small improvement on the pcp with a number of profit improvement initiatives in Waste Renewal gaining traction and good performances in digitalisation and AU storage utilisation.

Top-line revenue growth for the half year of 12.4% was mainly driven by Allied Express (AEX) in Australia. Flat earnings before interest, tax and amortisation (EBITA) reflected the flow through of higher labour costs, Big Chill's rent (Ruakura) and a slow-down of some of our customers, especially in temperature-controlled transport in the half. The decline in net profit after tax (NPAT) of 9.5% was a result of higher interest costs of $4m and higher amortisation, following the recent acquisition of AEX.

NZ network couriers delivered a steady result against the pcp, with volumes up 1.8% on the pcp, aided by a contribution (of around 3% of total volumes) from international inbound eCommerce. Same-customer volumes continued at a similar rate to Q1 with an approximate 5% decline on the pcp whilst market share gains provided the growth.

AEX have grown their revenue, again as a result of market share gains. The New South Wales automated sortation system was successfully commissioned, helping to deliver a smooth performance over the peak November / December months.

The Information Management and Waste Renewal division slightly improved profitability in the half with a number of price and cost saving initiatives beginning to gain traction. Paper prices stabilised and then showed a small recovery in Q2. The Medical Waste facility in Victoria is now expected to be operational in Q4 after a number of frustrating consenting delays.

We expect that FY24 will reflect the tail of much higher-than-average labour cost increases, as a result of very tight labour markets in both NZ and Australia, as well as of a muted organic growth profile in most areas in which we pick up, process and deliver.

Freightways is well positioned to take advantage of the opportunities that are in front of us with loyal customers, high-performing businesses, disciplined balance sheet management as well as experienced and adaptable customer-focused teams. Our focus will be on restoring margins in FY25 and FY26 with labour markets appearing to return to normal levels and Temperature Controlled Logistics and Waste Renewal both well-resourced for growth.

The Directors have declared an interim dividend of 18 cents per share, fully imputed in New Zealand 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 2 April 2024. The record date for determination of entitlements to the dividend is 8 March 2024.

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.

Divisional performance

Each division's key features are listed below.

Express Package (EP) & Business Mail

- Revenue for the EP division grew by 15% compared to the pcp thanks to the contribution of AEX to the business division.
- EBITA was flat on the pcp, a solid performance from AEX and NZ network couriers was offset by lower margins at Big Chill as they take on the rent cost for Ruakura and same-customer volumes were down by 6%.
- Average daily volume for NZ network couriers was 1.8% above the pcp.
- The proportion of Business to Customer (B2C) deliveries in NZ was 21% for the half with Pricing For Effort (PFE) averaging $1.62 per item over the period.
- AEX contributed c. NZ$137m in revenue over the period. 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's transport revenue declined by 6% over the period. Utilisation in the new 3PL facility at Ruakura was 48% at the end of the half year and is forecast to increase to 70% by the end of the full year.
- EBITA margin impacted by AEX operating at a lower margin than the NZ EP businesses and the lower profitability of Big Chill.
- DX Mail revenue was up 5% on the pcp, largely reflecting pricing improvements in the half year.
- Labour costs are now moderating from the double-digit growth we had experienced in the previous year and we expect FY25 to return to normal levels of increase to retain and attract talent.

Information Management & Waste Renewal

- Information Management revenue grew by 2% with digitalisation revenue growing by 22% over the pcp.
- Stronger destruction revenues in both NZ and AU reflecting our strong positioning in both geographies.
- Paper prices appear at this stage to have stabilised – we expect the full year impact of lower pricing will be negative $2.7m (with 75% of that within H1).
- LitSupport revenues are now consistent and finished the half up 4% on pcp.
- The Victorian facility for Med-X has been through public notification and is expected to commence operations by Q4 FY24.
- EBITA improved by $1m with most gains made in Australia.

Disciplined Balance Sheet management

Capital expenditure for FY24 is forecast to be lower than initially budgeted at $35m for the year. We remain committed to a solid investment-grade credit profile and will continue to manage our balance sheet accordingly. Our gearing is expected to remain in the top half of our target range by the end of the year.

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.

- Volumes have remained stable in Australia and New Zealand but will continue to be subject to the economic environment in both countries
- Labour markets have eased, particularly in NZ and we expect labour rate increases to normalise in FY25
- Our Victorian Med-X facility is expected to be operational from Q4
- We expect to continue to grow utilisation at the Ruakura facility through FY24 such that we are breakeven by Q1 FY25 and generate positive returns from then on
- Paper pricing has stabilised and has recovered slightly from the lows seen in Q1
- Full year capital expenditure is expected to be $35m including the second automated sortation system at AEX in Victoria
- Our focus will be on restoring margins for both divisions in FY25 and FY26 as labour rates ease and modest organic growth occurs
- The Group 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.

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

19 February 2024

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 Group Limited

Report on the consolidated financial statements

Our conclusion

We have reviewed the consolidated financial statements of Freightways Group Limited (the Company) and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2023, 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-months ended on that date, and notes, comprising material accounting policy information and other explanatory information.

Based on our review, nothing has come to our attention that causes us to believe that these 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 2023, 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 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 relationships have not impaired our independence as auditor of 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
19 February 2024

Auckland

FREIGHTWAYS GROUP LIMITED
CONSOLIDATED INCOME STATEMENT
for the half year ended 31 December 2023 (unaudited)

	Note	6 mths ended 31 Dec 2023 $000	6 mths ended 31 Dec 2022 $000	Variance %
Operating revenue	3 & 4	**620,693**	**552,082**	**12.4%**
Transport and logistics expenses		(273,070)	(231,555)	17.9%
Employee benefits expenses		(171,252)	(149,807)	14.3%
Occupancy expenses		(3,035)	(3,592)	(15.5%)
General and administrative expenses		(53,832)	(53,407)	0.8%
Depreciation and software amortisation		(38,734)	(33,346)	16.2%
Amortisation of intangibles		(6,401)	(4,981)	28.5%
Operating profit before interest and income tax	3	**74,369**	**75,394**	**(1.4%)**
Net interest and finance costs		(17,173)	(13,110)	31.0%
Profit before income tax		**57,196**	**62,284**	**(8.2%)**
Income tax		(16,316)	(17,097)	(4.6%)
Profit for the period		**40,880**	**45,187**	**(9.5%)**
Profit for the period attributable to:				
Owners of the parent		40,802	45,112	(9.6%)
Non-controlling interests		78	75	4.0%
		40,880	**45,187**	**(9.5%)**
Earnings per share for the period:				
Basic earnings per share (cents)		23.0	26.3	
Diluted earnings per share (cents)		23.0	26.3	

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

FREIGHTWAYS GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year ended 31 December 2023 (unaudited)

	Note	6 mths ended 31 Dec 2023 $000	6 mths ended 31 Dec 2022 $000
Profit for the period		**40,880**	**45,187**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	5	(2,067)	(9,506)
Cash flow hedges taken directly to equity, net of tax		(1,533)	23
Total other comprehensive income after income tax		**(3,600)**	**(9,483)**
Total comprehensive income for the period		**37,280**	**35,704**
Total comprehensive income for the period is attributable to:			
Owners of the parent		37,202	35,629
Non-controlling interests		78	75
		37,280	**35,704**

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

FREIGHTWAYS GROUP LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year ended 31 December 2023 (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 2023		**298,075**	**185,618**	**2,404**	**(9,883)**	**388**	**476,602**
Profit for the period		-	40,802	-	-	78	40,880
Exchange differences on translation of foreign operations		-	-	-	(2,067)	-	(2,067)
Cash flow hedges taken directly to equity, net of tax		-	-	(1,533)	-	-	(1,533)
Total Comprehensive Income		**-**	**40,802**	**(1,533)**	**(2,067)**	**78**	**37,280**
Dividend payments		-	(33,884)	-	-	-	(33,884)
Shares issued	5	9,673	-	-	-	-	9,673
Balance at 31 December 2023		**307,748**	**192,536**	**871**	**(11,950)**	**466**	**489,671**
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		112,851	-	-	-	-	112,851
Balance at 31 December 2022		**297,200**	**187,464**	**2,201**	**(13,532)**	**309**	**473,642**

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

FREIGHTWAYS GROUP LIMITED
CONSOLIDATED BALANCE SHEET
as at 31 December 2023 (unaudited)

	Notes	As at 31 Dec 2023 $000	As at 31 Dec 2022 $000	As at 30 Jun 2023 $000 (Audited)
Current assets				
Cash and cash equivalents		34,089	65,188	44,485
Trade and other receivables		173,007	156,439	150,434
Inventories		10,554	9,979	9,650
Contract assets		1,769	1,585	1,875
Derivative financial instruments		340	828	1,126
Total current assets		**219,759**	**234,019**	**207,570**
Non-current assets				
Trade receivables and other non-current assets		7,644	6,182	5,999
Property, plant and equipment		153,335	145,419	155,200
Right-of-use assets		355,278	311,974	315,536
Intangible assets		671,209	680,937	677,639
Derivative financial instruments		895	2,229	2,212
Investment in associates and joint venture		13,990	12,088	12,480
Total non-current assets		**1,202,351**	**1,158,829**	**1,169,066**
Total assets		**1,422,110**	**1,392,848**	**1,376,636**
Current liabilities				
Trade and other payables		146,012	139,414	138,602
Borrowings	6	-	71,001	-
Lease liabilities		48,777	40,403	44,774
Income tax payable		18,550	15,312	16,807
Provisions		3,704	2,232	3,552
Contract liability		13,790	15,382	14,407
Total current liabilities		**230,833**	**283,744**	**218,142**
Non-current liabilities				
Trade and other payables		2,000	3,709	4,159
Borrowings	6	285,706	252,407	297,194
Deferred tax liability		52,366	57,924	56,824
Provisions		10,530	9,812	10,216
Lease liabilities		350,977	311,610	313,499
Derivative financial instruments		27	-	-
Total non-current liabilities		**701,606**	**635,462**	**681,892**
Total liabilities		**932,439**	**919,206**	**900,034**
NET ASSETS		**489,671**	**473,642**	**476,602**
EQUITY				
Contributed equity	5	307,748	297,200	298,075
Retained earnings		192,536	187,464	185,618
Cash flow hedge reserve		871	2,201	2,404
Foreign currency translation reserve		(11,950)	(13,532)	(9,883)
		489,205	473,333	476,214
Non-controlling interests		466	309	388
TOTAL EQUITY		**489,671**	**473,642**	**476,602**

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

FREIGHTWAYS GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
for the half year ended 31 December 2023 (unaudited)

	Note	6 mths ended 31 Dec 2023 $000	6 mths ended 31 Dec 2022 $000
		Inflows (Outflows)	**Inflows (Outflows)**
<u>Cash flows from operating activities</u>			
Receipts from customers		595,143	542,542
Payments to suppliers and employees		(502,987)	(428,816)
Cash generated from operations		**92,156**	**113,726**
Interest received		488	365
Interest and other costs of finance paid		(17,661)	(13,475)
Income taxes paid		(16,649)	(20,833)
Net cash inflows from operating activities		**58,334**	**79,783**
<u>Cash flows from investing activities</u>			
Payments for property, plant & equipment		(9,325)	(15,125)
Payments for software		(1,233)	(1,442)
Proceeds from disposal of property, plant & equipment		207	430
Net cash acquired from business combinations	9	102	(128,472)
Receipts from joint venture		-	1,686
Cash flows from other investing activities		-	(500)
Net cash outflows from investing activities		**(10,249)**	**(143,423)**
<u>Cash flows from financing activities</u>			
Dividends paid		(25,012)	(31,527)
(Decrease) increase in bank borrowings		(9,585)	154,240
Principal elements of lease payments		(23,696)	(19,926)
Net cash (outflows)/inflows from financing activities		**(58,293)**	**102,787**
Net (decrease) increase in cash and cash equivalents		(10,208)	39,147
Cash and cash equivalents at the beginning of the period		44,485	24,137
Exchange rate adjustments		(188)	1,904
Cash and cash equivalents at the end of the period		**34,089**	**65,188**

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

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1. Basis of Preparation

The interim financial statements are those of Freightways Group 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 2023.

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

The Group has negative working capital of $11.1 million. This is largely due to contract liability for deferred revenue (prepaid ticket liability) which is classified as a current liability (June 2023: $10.6 million due to contract liability; Dec 2022: $49.7 million due to contract liability and bank borrowings of $71 million repayable within 12-months).

2. Material Accounting Policy Information

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. This segment also comprises secure handling, treatment and disposal of clinical waste, waste renewal, and related 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.

(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 2023					
Sales to external customers	515,118	105,575	-	-	620,693
Inter-segment sales	1,986	155	3,009	(5,150)	-
Total revenue	517,104	105,730	3,009	(5,150)	620,693
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	96,974	27,897	(5,367)	-	119,504
Depreciation and software amortisation	(25,529)	(12,450)	(755)	-	(38,734)
Operating profit (loss) before interest, income tax and amortisation of intangibles	71,445	15,447	(6,122)	-	80,770
Amortisation of intangibles, excluding software amortisation	(5,240)	(1,161)	-	-	(6,401)
Operating profit (loss) before interest and income tax	66,205	14,286	(6,122)	-	74,369
Net interest and finance costs	(5,303)	(2,597)	(9,273)	-	(17,173)
Profit (loss) before income tax	60,902	11,689	(15,395)	-	57,196
Income tax	(17,104)	(3,403)	4,191	-	(16,316)
Profit (loss) for the period attributable to the shareholders	43,798	8,286	(11,204)	-	40,880

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 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

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 and Refrigerated Transport & Storage	Postal	Storage & Handling	Destruction Activities	Other including Digital Services	Total
Half year ended 31 December 2023	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue from external customers	486,153	28,965	33,972	47,336	24,267	620,693
Timing of revenue recognition:						
At a point in time	-	1,559	-	13,922	4,203	19,684
Over time	486,153	27,406	33,972	33,414	20,064	601,009
	486,153	28,965	33,972	47,336	24,267	620,693
Half year ended 31 December 2022						
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

5. Equity

Contributed equity

Fully paid ordinary shares
As at 31 December 2023, there were 178,712,819 fully paid ordinary shares on issue (2022: 177,431,358). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

Dividend Reinvestment Plan
On 2 October 2023, the Company issued 1,054,748 fully paid ordinary shares at $8.4115 under the Freightways dividend reinvestment plan (2022: Nil).

Share rights
On 20 October 2023, 136,713 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 (2022: 127,565). The issue price per share was $7.38 (2022: $8.06).

On 20 October 2023, 13,717 share rights were redeemed and cancelled (2022: 46,839).

As at 31 December 2023, there were 241,576 share rights on issue (2022: 239,846). Share rights do not carry a dividend entitlement and are non-transferable.

Employee share plan

On 1 December 2023, the Company issued 90,000 fully paid ordinary shares at $6.85 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (2022: 65,000 fully paid ordinary shares at $9.16 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 (2022: $0.6 million). The loans are repayable over three years and repayment commenced in December 2023.

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.

6. Borrowings

As at 31 December 2023, the Group's debt facilities with its banking syndicate comprised NZ$150 million and A$80 million (2022: NZ$150 million and A$150 million), of which NZ$109 million and A$45.2 million (2022: NZ$110 million and A$80.7 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 2023 (2022: NZ$20 million and A$100 million).

The Group had an undrawn bank overdraft facility of NZ$8 million available (2022: 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 McDowell Properties Pty Ltd, an entity that is controlled by a member of the Group's key management personnel. During the period, the Group paid lease of $0.1 million (2022: $0.1 million) to McDowell Properties Pty Ltd.

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

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

	Group	
	2023	**2022**
	$000	**$000**
Sale of courier services to GSS	6,653	6,954
Purchase of goods and services from GSS	1,088	914
Receivables from GSS at end of period	1,738	1,808
Payables to GSS at end of period	-	137

Payments to joint venture: During the period, the Group paid Parcelair Limited $7.4 million (2022: $8.5 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 2023 in respect of the half year) to key management, which includes senior executives of the Group and non-executive independent directors, is as follows:

	2023	**2022**
	$000	**$000**
Short-term employee benefits	6,272	4,980
Share-based payments	200	189

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 2023 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 2023.

In the period to 31 December 2023 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.

<u>Fair values and valuation techniques</u>
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 2023.

There have been no reclassifications of financial assets and finance liabilities since 30 June 2023.

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 during the period

Effective 1 November 2023, the Group acquired the business and assets of First Global Logistics, an end-to-end international e-commerce logistics business in New Zealand for total consideration of $5.9 million. The consideration comprises a $3.9 million non-cash settlement of trade payables between the Group and the acquiree and a future earn-out of up to $2 million payable at the end of the 2025 financial year. The acquired business expands the Group's international e-commerce logistics know-how and operates within the Group's express package division.

Prior period acquisition – 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 $215.3 million. The consideration comprises a cash payment of $88.1 million, issue of Freightways shares of $112.1 million, promissory note of $14.5 million and a completion adjustment of $0.7 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. The completion adjustment of $0.7 million was paid during the half year ended 31 December 2023.

The fair value of certain assets and liabilities arising from the acquisition had previously been determined on a provisional basis, pending confirmation of certain determinants and finalisation of independent valuatio

The fair value of assets acquired and liabilities assumed were subsequently finalised within 12 months from the acquisition date. There was a minor adjustment to deferred tax recognised in the current period.

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 days 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 2023, the estimated discounted future earn-out payment for the acquisition of PP was $3.7 million (30 June 2023: $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 current trade and other payables in the balance sheet.

Reconciliation of payments for businesses acquired

	$000
Cash paid for completion adjustment for the acquisition of AEX	671
Cash acquired from acquisition	(773)
Payments for businesses acquired, net of cash acquired	(102)

10. Climate Change

Risks especially those associated with climate change are reviewed on a regular basis. There is no material change to the Group's climate change risk since 30 June 2023.

11. Capital Commitments and Contingent Liabilities

As at 31 December 2023, the Group had capital commitments to purchase equipment of $10.5 million (2022: $7.8 million).

As at 31 December 2023, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $14.1 million (2022: $12.7 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 2023 (2022: nil).

12. Net Tangible Assets per security

Net tangible assets (liabilities) per security at 31 December 2023 was ($0.94) (2022: ($1.09)).

13. Post Balance Date Events

Dividend declared

On 19 February 2024, the Directors declared a fully imputed interim dividend of 18 cents per share (approximately $32.2 million) in respect of the year ended 30 June 2024. The dividend will be paid on 2 April 2024. The record date for determination of entitlements to the dividend is 8 March 2024. 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.

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