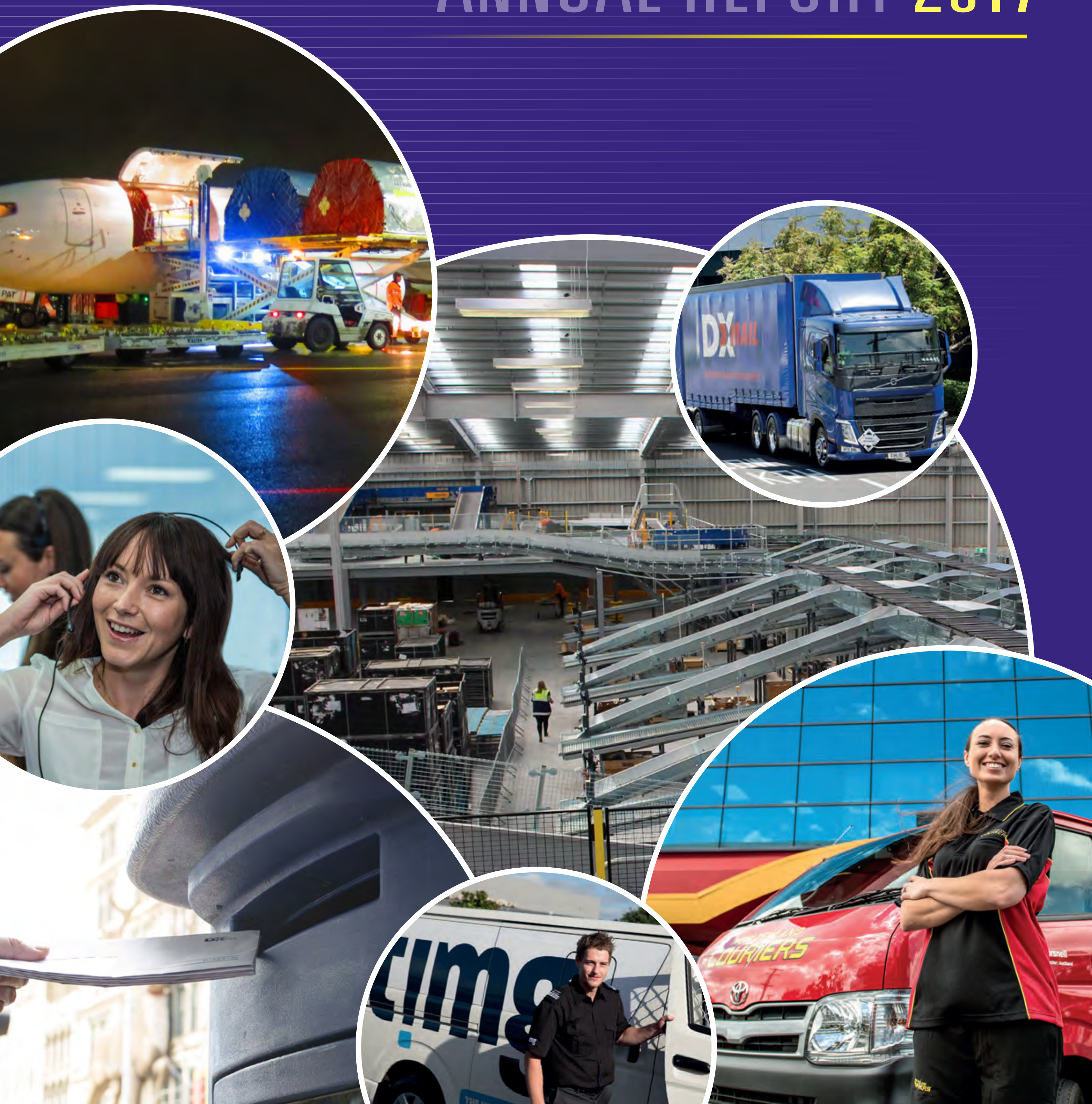
Freightways

ANNUAL REPORT 2017



Freightways

New Zealand Couriers
www.nzcouriers.co.nz

Post Haste Couriers
www.posthaste.co.nz

Castle Parcels
www.castleparcels.co.nz

Now Couriers
www.nowcouriers.co.nz

SUB60
www.sub60.co.nz

Kiwi Express Couriers
www.kiwiexpress.co.nz

Security Express
www.securityexpress.co.nz

Pass The Parcel
www.passtheparcel.co.nz

Stuck
www.stuck.co.nz

DX Mail
www.dxmail.co.nz

Dataprint
www.dataprint.co.nz

Air Freight NZ

Fieldair Engineering
www.fieldair.co.nz

Parceline Express

Freightways Information Services

The Information Management Group
www.timg.co.nz

Archive Security
www.timg.co.nz

Data Security Services
www.timg.co.nz

Document Destruction Service
www.timg.co.nz

Databank
www.timg.com

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

Filesaver
www.filesaver.com.au

LitSupport
www.litsupport.com.au

COMPANY PARTICULARS

BOARD OF DIRECTORS

Sue Sheldon (Chairman)
Dean Bracewell (Managing Director)
Kim Ellis
Peter Kean
Mark Rushworth
Mark Verbiest

REGISTERED OFFICE

32 Botha Road
Penrose
DX CX10120
Telephone: (09) 571 9670
Facsimile: (09) 571 9671
www.freightways.co.nz

AUDITORS

PricewaterhouseCoopers
188 Quay Street
Auckland

SHARE REGISTRAR

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna
Auckland 0622
DX CX10247

STOCK EXCHANGE

The fully paid ordinary shares of Freightways Limited are listed on the NZX (the New Zealand Stock Exchange).

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GROUP PROFILE

FREIGHTWAYS' STRATEGY

Freightways' business strategy is to develop organic growth opportunities that exist in the express package, business mail and information management industries, diversify its operations further into the information management industry, including geographically, and execute acquisition and alliance opportunities in areas that complement its existing capabilities.

Express package & business mail

Freightways delivers over 200,000 items each business day and over 50 million items each year. In addition to its extensive nationwide network, Freightways offers a worldwide delivery service through alliances with international express package operators.

Freightways employs a multi-brand strategy within the network courier segment of the Express Package market via New Zealand Couriers, Post Haste Couriers, Castle Parcels and NOW Couriers. This strategy allows Freightways to successfully segment the market by meeting varying customer service and price requirements.

Freightways services the point-to-point segment through its SUB60, Kiwi Express, Pass The Parcel and STUCK brands, and provides a secure service for valuables through Security Express.

DX Mail operates in the New Zealand postal services market. It provides a full range of domestic and international mail solutions to business customers. DX Mail is represented in all towns and cities throughout New Zealand. Its services include the processing of letters and parcels for box-to-box and street delivery. It also offers a full suite of mailhouse services for both physical and electronic transactional mail through its Dataprint business.

Information management

Freightways' information management division offers a complete range of physical and digital information management services throughout New Zealand and Australia. Physical services include archive management services for documents, storage and retrieval of computer media, print & copy and document destruction. Complementary digital services include data conversion, online back-up, digitisation, workflow and electronic discovery services.

In New Zealand, The Information Management Group (TIMG) provides a nationwide service from its locations in Auckland, Hamilton, New Plymouth, Palmerston North, Wellington, Christchurch and Dunedin. It operates the brands of Archive Security, Document Destruction Services and Data Security Services.

In Australia, TIMG operates in all states and territories, through the brands of Archive Security, Filesaver, DataBank and LitSupport. Shred-X operates as the document destruction brand in Australia.

Internal service providers

Freightways manages its road and air linehaul requirements through the Parceline Express and Fieldair businesses, and its Parcelair joint venture. Fieldair also provides a wide range of avionics and engineering services to the NZ aviation industry. Information technology systems are provided to Freightways' various businesses via Freightways Information Services.

FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	2017 $000	2016 $000	INCREASE
Operating revenue		545,262	505,360	7.9%
EBITA	(i)	93,031	81,361	14.3%
NPAT	(ii)	60,856	49,774	22.3%
EBITA, excluding non-recurring items		89,345	87,698	1.9%
NPAT, excluding non-recurring items, net of tax		56,587	54,337	4.1%
Non-recurring items:				
- reversal of accrued earn-out payables		5,630	-	
- relocation costs of TIMG in Sydney		(1,944)	-	
- write-down of aircraft		-	(4,944)	
- write-down of aircraft-related inventory		-	(1,393)	
Total		3,686	(6,337)	
Tax benefit applicable to non-recurring items		583	1,774	
Non-recurring items, net of tax		4,269	(4,563)	

Note:

(i) Operating profit before interest, income tax and amortisation of intangibles.

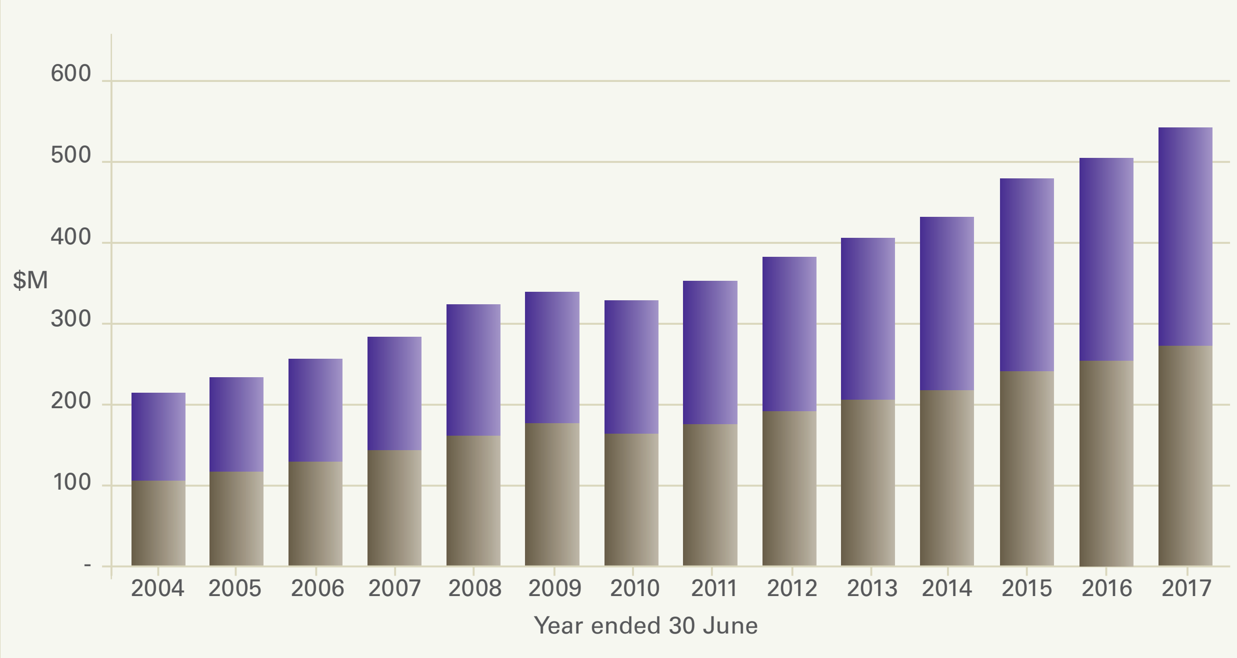
(ii) Profit for the year attributable to the shareholders.

The Directors believe that the non-recurring items detailed above should not be included when assessing the underlying trading performance of the Group.

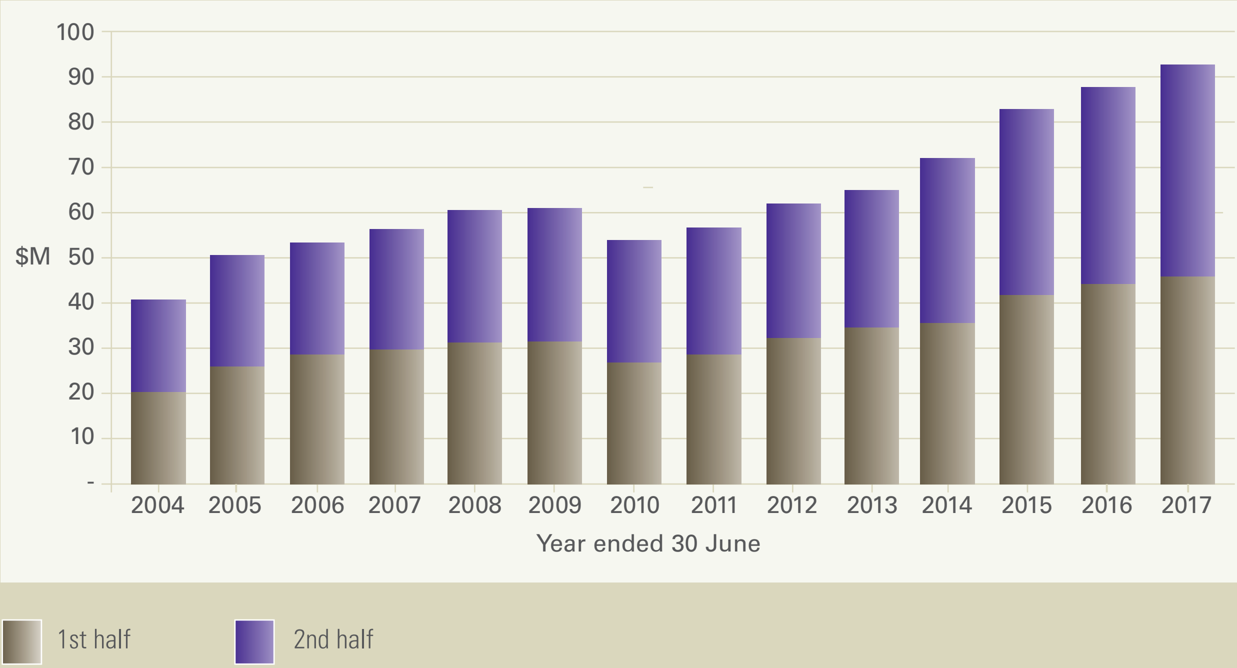
FINANCIAL SUMMARY

FOR THE YEAR ENDED 30 JUNE 2017

FREIGHTWAYS OPERATING REVENUE



FREIGHTWAYS EBITA*



* This EBITA graph represents the operating results of the company, exclusive of any non-recurring items.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

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

Highlights of the result include the strength of the underlying volume growth and margin in the express package & business mail division, the completion of a number of significant projects that ensure important future capacity for both divisions of the Group, the execution of robust contingency plans that minimised service disruption following the significant impact of the North Canterbury earthquake and the performance of the information management businesses, other than TIMG Australia, which demonstrated improved results in the second half of the financial year.

Operating performance

The below table presents the reported 2017 result compared to the prior comparative period (pcp), both before and after the inclusion of non-recurring items:

	NOTE	2017 $M	2016 $M	Increase %
Revenue		545.3	505.4	7.9%
EBITA, before non-recurring items	(i)	89.3	87.7	1.9%
Non-recurring items		3.7	(6.3)	
EBITA	(ii)	93.0	81.4	14.3%
NPAT, before non-recurring items	(iii)	56.6	54.4	4.1%
Non-recurring items after tax		4.3	(4.6)	
NPAT	(iv)	60.9	49.8	22.3%
Basic EPS (cents), before non-recurring items		36.5	35.1	

Notes:

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

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

- 2017: A non-recurring benefit before tax of $5.6 million (no tax applicable) relating to previously accrued final acquisition payables that are no longer expected to be required. A non-recurring cost before tax of $1.9 million ($1.3 million after tax) relating to the relocation of the TIMG business in Sydney.
- 2016: A total non-recurring charge of $6.3 million ($4.6 million after tax) that comprised a one-off expense relating to the write-down of the carrying value of the Convair fleet of aircraft that were retired during 2016, and related spare parts.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

Dividend

The Directors have declared a final dividend of 14.75 cents per share, fully imputed at a tax rate of 28%, being a 2% increase above the pcp final dividend of 14.5 cents per share. This represents a payout of approximately $22.9 million compared with $22.5 million for the pcp. The dividend will be paid on 2 October 2017. The record date for determination of entitlements to the dividend is 15 September 2017.

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

REVIEW OF OPERATIONS

Divisional results for the year ended 30 June 2017 are provided below for the express package & business mail division and the information management division.

Express package & business mail

Operating revenue of $402.6 million was 8.7% higher than the pcp. EBITA of $65.3 million was 5.1% higher than the pcp.

The express package & business mail division operates a multi-brand strategy in the domestic market through New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express, Stuck, Pass The Parcel, DX Mail and Dataprint.

Volume growth throughout the year was consistently strong, particularly so in the peak month of December. This growth, from both existing and new customers, created pressure on the service capability of this division at a time when it was transitioning to a new model of freighter aircraft, relocating its primary South Island freight hub and implementing wide-reaching operational contingencies in the aftermath of the North Canterbury earthquake. Modest price increases were implemented to offset rising costs and disruption surcharges were introduced to offset earthquake-related contingency costs. Overall, costs were well contained. Key matters:

- The transition to Boeing 737-400 aircraft is in most respects materially complete. The four superseded Convair aircraft and related parts were all sold during the year for a combined book loss of $0.5 million ($0.3 million after tax).
- A decision in February to introduce additional airfreight capacity through regularly operating an extra inter-island return flight of a 737-400 aircraft and/or the chartering back of a Convair aircraft was made to provide essential capacity, as referred to above, for the greater than anticipated airfreight volume growth and for service reasons. While this additional capacity comes at a cost, due to it not being fully utilised, it is required to ensure a sustainable premium service offer.
- Due diligence is under way on permanently introducing a fourth Boeing 737-400 aircraft that will effectively replace this additional return flight/charter for a similar cost and provide continuity in case of maintenance or related issues to the existing aircraft fleet.
- The Christchurch businesses relocated from four independent sites to one purpose-built air-side facility at Christchurch Airport. This project was completed on time and within budget. The benefits from being in the one modern and automated facility will be seen throughout the 2018 year and beyond.
- Increased resourcing of the IT team enabled the progression of a number of key projects in support of Freightways' strategic intent to be a technology leader in the markets it operates in.
- Auckland's growth north and west of the city has led to a decision to run a twin-city operation within the greater metropolitan area, commencing during 2018. As such, new premises have been leased in Albany on Auckland's North Shore to accommodate the current and expected growth in volume from these areas for many years to come. These new premises will complement, and effectively extend, the life of the existing site south of the city in Penrose.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

- Overall volume mix within the customer base is gradually changing as consumers increasingly shop online, resulting in Business to Consumer (B2C) deliveries growing faster than Business to Business (B2B) deliveries. A wide range of initiatives are being implemented to ensure these B2C deliveries are completed as efficiently as possible and to the satisfaction of customers.

Freightways' business mail operator, DX Mail, again expanded its postal delivery network in several locations throughout New Zealand to satisfy increasing demand for its overnight and 5-day per week delivery of standard-priced letters. Despite the decline of the overall letter market, DX Mail's postal delivery volumes and physical and digital transactional mailhouse services continue to grow profitably.

Information management

Operating revenue of $144.2 million was 5.4% higher than the pcp. EBITA of $27.7 million was 2.7% lower than the pcp.

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

Good results from Shred-X and TIMG New Zealand were in contrast to the performance from TIMG Australia, which was not to expectation. Key matters:

- Within TIMG Australia, its LitSupport business performed at the bottom end of the range of expectations set at the time of acquiring the business (and below the pcp). This outcome was anticipated as a possibility at that time and hence the payment for this business was structured to reduce Freightways' financial risk should this occur, as was explained in the Freightways Half Year result commentary. Restructuring that occurred in November/December and the winning of a number of new contracts has, as expected, improved LitSupport's performance in the second half of the financial year, but not to the extent that any earn-out is expected to be paid to the previous owners.
- The relocation of three Sydney-based information management facilities into a single, purpose-built facility was completed in the second half of the year, on time and within budget. This new facility provides much needed capacity for the growing Sydney operations and delivers operating efficiencies that will contribute to a positive return on this investment.
- Demand for the broad suite of digital services offered by TIMG in New Zealand and Australia, and the e-destruction services offered by Shred-X, continues to gain momentum. It is expected that these new revenue streams will become an increasingly important part of the overall information management division's revenue and earnings in the near to medium term.
- The severity of the North Canterbury earthquake had repercussions for the division's document storage facilities in Wellington. While the racking did its job and withstood the impact of the earthquake, its structural integrity was compromised, particularly in the major site located in Porirua. This is likely to result in the need to replace all of the Porirua racking and would involve repositioning boxes to enable service continuity while replacement racking is installed. Freightways carries comprehensive insurance for events such as this. The related deductible was expensed as a corporate cost.

REPORT FROM THE CHAIRMAN AND MANAGING DIRECTOR

Internal service providers

Fieldair Holdings, through its subsidiary of Air Freight NZ, operates a joint venture company that leases and operates the Boeing 737-400 aircraft fleet that provides Freightways' overnight airfreight linehaul service. Fieldair also provides specialist engineering and contracting services to the general aviation market. Parceline Express provides Freightways' road linehaul service. Contingencies implemented by these linehaul businesses following the North Canterbury earthquake, which will continue in place until the reinstatement of State Highway 1, are minimising the disruption to the ultimate service provided to customers.

Freightways Information Services provides IT development and support to both operating divisions. This team is responsible for providing the front-line businesses with robust and secure information management systems and supporting their technology-related strategic objectives.

Corporate

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

Net debt of $158 million is $6 million higher than the pcp, in a year when Freightways has invested $24 million of capital expenditure in its new Christchurch and Sydney premises, IT infrastructure and in the provision of capacity for growth for both divisions.

OUTLOOK

The markets in which Freightways operates in both New Zealand and Australia remain positive. Volumes and activity levels experienced throughout 2017 are expected to increase during 2018, from both existing and new customers. Accordingly, Freightways is again targeting year-on-year earnings growth.

Within the express package & business mail division, investment will be made during 2018 in capacity, both in regards to airfreight and premises (notably Auckland), to accommodate current volumes and projected growth. Within the information management division, better results are expected following the completion of the Sydney relocation and through maintaining the recent improvement in performance achieved at TIMG Australia.

Overall capital expenditure for the 2018 financial year is expected to be approximately $17 million. Operating cash flows are expected to remain strong throughout the 2018 financial year.

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

CONCLUSION

The strength of Freightways' business models, the expertise of its people and the positive features of the markets it operates in are once again evident in this full year result. This result has been achieved in a year that has included the challenges of a significant natural disaster, the completion of a number of major capacity-related projects and at a time of strong growth in volumes and related activity.

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

Susan Sheldon

Susan Sheldon
Chairman
14 August 2017

Dean Bracewell
Managing Director

DIRECTORS' REPORT

The Directors of Freightways Limited (**Freightways**) resolved to submit the following report with respect to the financial position of the Group as at 30 June 2017 and its financial performance and cash flows for the year ended on that date.

DIRECTORS

The names of the Directors of the Company in office at the date of this report are:

Sue Sheldon CNZM (B.COM, FCA, M INST D)

Sue was appointed a Director of Freightways in July 2003 and appointed Chairman in October 2010. She is a Chartered Accountant and full-time professional director, and is currently a Director of Contact Energy Limited and Real Journeys Limited. Sue is Independent Chair of the Audit & Risk Management Committee of Christchurch City Council, Independent Chair of the Audit & Risk Management Committee of Auckland City Council and a former President of the New Zealand Institute of Chartered Accountants.

Dean Bracewell (MANAGING DIRECTOR)

Dean has been Managing Director of the Freightways Group since 1999. He joined the Group in 1979 and other than a 5-year period, including time overseas, he has spent his entire career with the Freightways Group. Dean held a range of senior executive and general management roles in a number of the Freightways businesses prior to his appointment as Managing Director.

Kim Ellis

Kim was appointed a Director in August 2009. He spent 28 years in chief executive roles in a number of sectors, including 13 years as Managing Director of Waste Management NZ Ltd until its sale in 2006 to Transpacific Industries Pty Limited, and has developed businesses in both New Zealand and Australia. Kim is now a professional director working with both private and listed companies. His current Board appointments include Port of Tauranga Limited, FSF Management Company Limited, Ballance Agri-Nutrients Limited, NZ Social Infrastructure Fund Limited and Metlifecare Limited.

Peter Kean

Peter was appointed a Director in July 2016. He brings to Freightways many years of senior executive experience with the Lion group of companies in both New Zealand and Australia. Peter's last executive roles were as Managing Director of Lion Nathan New Zealand and Managing Director of Lion Dairy and Drinks, based in Melbourne. He retired from Lion in 2014 and has since developed his career in governance. Peter is also a Director of Sanford Limited, the New Zealand Rugby Union and a number of private companies.

Mark Rushworth (BE(HONS), MEM)

Mark was appointed a Director of Freightways in September 2015. He has extensive experience in the technology sector, with a decade's governance experience, predominantly in the high tech and innovation space. An electrical engineer by training, with widespread operations and marketing experience, he spent four years on the senior executive team of Vodafone NZ through until 2010, where among other things he had executive accountability for the fixed line business and as executive director of marketing. Mark previously served as chief executive of Pacific Fibre, Paymark Limited and internet provider ihug.

DIRECTORS' REPORT

Mark Verbiest (LLB, CF INST D)

Mark was appointed a Director in February 2010. He is a professional director who has a strong working knowledge of technology and technology-related businesses, as well as having extensive capital markets experience. A lawyer by training, with widespread corporate legal experience in private practice, he spent 7.5 years on the senior executive team of Telecom NZ through until mid-2008, where among other things he had executive accountability for two business units. Mark is Chairman of Spark New Zealand Limited and Willis Bond Capital Partners Limited. He is also a director of ANZ Bank New Zealand Limited, Meridian Energy Limited and MyCare Limited, a consultant to law firm Simpson Grierson and a member of both the Advisory Board of The Treasury and the Commercial Operations Advisory Board of The Treasury.

The Board has determined for the purposes of the NZSX Listing Rules that, as at 30 June 2017, Sue Sheldon, Kim Ellis, Peter Kean, Mark Rushworth and Mark Verbiest are independent Directors and Dean Bracewell as Managing Director is not an independent Director.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year ended 30 June 2017 were the operation of express package & business mail services and information management services.

CONSOLIDATED RESULT FOR THE YEAR

	2017 $000	2016 $000
Operating revenue	545,262	505,360
Operating profit before interest, income tax and amortisation of intangibles	93,031	81,361
Amortisation of intangibles	(1,679)	(1,685)
Profit before interest and income tax	91,352	79,676
Net interest and finance costs	(9,570)	(11,055)
Profit before income tax	81,782	68,621
Income tax	(20,926)	(18,847)
Profit for the year attributable to the shareholders	60,856	49,774

DIRECTORS HOLDING OFFICE DURING THE YEAR WERE:

Parent:

Sue Sheldon (Chairman)

Dean Bracewell (Managing Director)

Roger Corcoran (resigned 27 October 2016)

Kim Ellis

Peter Kean (appointed 1 July 2016)

Mark Rushworth

Mark Verbiest

Subsidiaries:

Dean Bracewell

Mark Royle

DIRECTORS' REPORT

REMUNERATION OF DIRECTORS

	GROUP 2017 $	GROUP 2016 $
Sue Sheldon	150,767	148,300
Dean Bracewell	1,370,140	1,376,475
Roger Corcoran (resigned 27 October 2016)	25,676	80,532
Kim Ellis	81,417	75,000
Peter Kean (appointed 1 July 2016)	79,333	-
Mark Rushworth	79,333	57,750
Mark Verbiest	89,767	85,300
Mark Royle	679,007	680,868
	2,555,440	2,177,866

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2017 in respect of the two previous six-month performance periods (1 January to 30 June 2016 and 1 July to 31 December 2016). No amount is included above in respect of incentive payments for the period 1 January to 30 June 2017, as these were paid in August 2017. Remuneration of the Managing Director comprises a fixed remuneration package representing 70% of his total remuneration and an 'at risk' portion representing 30%, payable on achievement of short-term financial objectives. He also participates in the Freightways Senior Executive Performance Share Plan described in Note 21 of the Financial Statements by way of an annual allocation of partly-paid shares equivalent to 55% of his fixed remuneration, but otherwise on the same terms and conditions as other Freightways executives. The partly-paid shares have a 3-year vesting period and are subject to the achievement of financial hurdles, as described in Note 21.

DIRECTORS' REPORT

REMUNERATION OF EMPLOYEES

The number of employees, not being directors, within the Group receiving annual remuneration and benefits above $100,000 are as indicated in the following table:

	GROUP	
	2017	2016
$100,000 – $109,999	49	37
$110,000 – $119,999	31	39
$120,000 – $129,999	21	25
$130,000 – $139,999	24	11
$140,000 – $149,999	19	11
$150,000 – $159,999	6	13
$160,000 – $169,999	16	7
$170,000 – $179,999	10	9
$180,000 – $189,999	7	3
$190,000 – $199,999	10	8
$200,000 – $209,999	6	9
$210,000 – $219,999	5	3
$220,000 – $229,999	4	2
$230,000 – $239,999	-	3
$240,000 – $249,999	2	-
$250,000 – $259,999	1	5
$260,000 – $269,999	-	1
$270,000 – $279,999	-	1
$280,000 – $289,999	2	1
$290,000 – $299,999	2	-
$300,000 – $309,999	2	3
$320,000 – $329,999	1	-
$370,000 – $379,999	1	-
$380,000 – $389,999	1	2
$390,000 – $399,999	1	-
$400,000 – $409,999	-	1
$410,000 – $419,999	1	-
$420,000 – $429,999	-	2
$450,000 – $459,999	1	-
$470,000 – $479,999	-	1
$510,000 – $519,999	1	-
$530,000 – $539,999	-	1

ENTRIES IN THE REGISTER OF DIRECTORS' INTERESTS

The Register of Directors' Interests records that the following directors of Freightways Limited and its subsidiaries have an equity interest in the Company. These Directors therefore have an interest in any transactions between Freightways Limited and any of its subsidiaries:

DIRECTORS' REPORT

Freightways Limited shares

At balance date Directors held the following number of equity securities in the Company:

DIRECTOR	FULLY PAID ORDINARY SHARES BENEFICIALLY	FULLY PAID ORDINARY SHARES NON-BENEFICIALLY	PARTLY-PAID ORDINARY SHARES BENEFICIALLY
Sue Sheldon	-	121,262	-
Dean Bracewell	-	2,504,048	128,439
Kim Ellis	-	50,000	-
Peter Kean	-	-	-
Mark Rushworth	-	-	-
Mark Verbiest	-	10,000	-
Mark Royle	-	164,092	27,999

The following table shows transactions recorded in respect of securities acquired or disposed of by Directors of the Group during the year ended 30 June 2017:

	NOTE	NUMBER ACQUIRED / (DISPOSED)	$ COST / (SALE)
Dean Bracewell			
Non-beneficial ownership in shares acquired 12 September 2016	(i)	49,889	204,809
Beneficial ownership in partly-paid shares acquired 12 September 2016	(ii)	37,824	378
Non-beneficial ownership in partly-paid shares disposed of 12 September 2016	(iii)	(20)	-
Mark Royle			
Non-beneficial ownership in shares acquired 12 September 2016	(i)	12,134	49,806
Beneficial ownership in partly-paid shares acquired 12 September 2016	(ii)	7,394	74
Non-beneficial ownership in partly-paid shares disposed of 12 September 2016	(iii)	(6)	-

Notes: (i) Partly-paid shares fully paid-up under the Freightways Senior Executive Performance Share Plan.
(ii) Allocation of partly-paid shares under the Freightways Senior Executive Performance Share Plan.
(iii) Partly-paid shares redeemed for one cent each and cancelled by the Company under the Freightways Senior Executive Performance Share Plan.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Deeds of indemnity have been granted by the Company in favour of the Directors of the Company and its subsidiaries, to the fullest extent permitted by the Companies Act 1993. In accordance with the deeds of indemnity, the Company has insured all its Directors and the Directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as Directors. The insurance does not cover liabilities arising from criminal actions.

For and on behalf of the Board this 14th day of August 2017.

Susan Sheldon

Susan Sheldon
Chairman

Dean Bracewell
Managing Director

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF FREIGHTWAYS LIMITED

The financial statements comprise:

- the balance sheet as at 30 June 2017;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the financial statements of Freightways Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of Executive Remuneration Benchmarking and other related assurance services. The provision of these other services has not impaired our independence as auditor of the Group.

OUR AUDIT APPROACH

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $4 million, which represents 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We have the following key audit matters:
- Impairment assessment of goodwill and brands
- Prepaid Ticket Liability.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF FREIGHTWAYS LIMITED

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industries in which the Group operates.

We conducted full scope audit work at four divisions which make up 71% of external revenue and 81% of profit before tax in New Zealand and Australia. The remaining divisions in the Group were not considered individually significant and depending on our risk assessment were subject to other audit procedures such as analytical review, enquiry, testing key balances or reconciliations.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and brands As disclosed in Note 13 of the financial statements the Group has goodwill at 30 June 2017 of $197 million and brands valued at $114 million. The Group is required to perform an annual impairment assessment of both goodwill and brands, which are accounted for as indefinite life intangible assets. This is a key focus of our audit due to the value of these assets on the balance sheet and the inherent judgement in assessing these assets for impairment. Management prepared an impairment assessment for the Group based on the latest forecasts for each Cash Generating Unit ('CGU') using a discounted cash flow model to support the goodwill balance on a value-in-use basis. The key assumptions used by management in creating their cash flow model are included in Note 13 of the financial statements and include: • Growth rates; • Terminal growth rates; and • Discount rates. As detailed in Note 13, as a result of these impairment assessments the Directors have not identified any impairment in the current year.	Our audit procedures included the following: • We tested the calculation of the valuation model including the inputs and mathematical accuracy of the model and comparison to the net assets value of each CGU. • We assessed whether forecast earnings and growth rates were supportable by performing the following: - Assessing the reliability of management's historical budgets and forecasts by reference to actual performance - Assessing whether the growth rates used over the 5-year forecast period were supported by historic growth - Where appropriate, we understood the key changes between the performance for the year to 30 June 2017 and the 2018 budget, in particular key movements in revenue streams and expenditure. We considered these with reference to past performance and changes that have been made within the business. • We assessed whether terminal growth rates were supportable by comparing them against New Zealand and Australian long-term inflation rates. • We utilised our internal expert to assist us in the review of the methodology utilised by management in their value-in-use model and to assess the discount rates based on our experts market and valuation knowledge. • We performed sensitivity analysis over management's key assumptions. We have no matters to report from the procedures we have undertaken.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF FREIGHTWAYS LIMITED

Key audit matter	How our audit addressed the key audit matter
Prepaid Ticket Liability ('PTL') The prepaid ticket liability is disclosed as 'unearned income' on the balance sheet which represents the deferral of revenue in relation to courier sales in advance of the service having been provided. The PTL at 30 June 2017 was $15.4 million. The PTL is an area of focus due to the extent of audit effort that is required to test the liability. At each balance sheet date, the calculation of the PTL is based on the likely utilisation of the prepaid tickets outstanding at year end. This is based on historical prepaid ticket utilisation. The percentage of tickets not expected to be used is released from the PTL to the income statement as revenue.	Our audit procedures included the following: We confirmed that the methodology applied for the year ended 30 June 2017 was consistent with previous periods. • We substantively tested the historical sales and use of prepaid tickets to assess the usage assumptions for the calculation of the liability in the current year. • We tested the system reports from which the data used in the PTL calculation and revenue recorded as follows: a) the sales of prepaid tickets during the year, which increase the liability, were sample tested to invoices issued and cash received. b) for completeness of sales of prepaid tickets we have agreed a sample of cash receipts from bank statements to ensure the sale of the prepaid ticket was recorded as an increase in the liability. c) to obtain comfort over the revenue recognised from prepaid tickets being used, for a sample of deliveries, we agreed the usage date to the date that the package was scanned as delivered per the parcel tracking website, and checked that the driver was subsequently paid for delivery. • We challenged management's underlying assumptions of usage rates and the methodology used in the PTL calculations by re-computing the usage profile calculation based on the above tested inputs, as well as assessing whether the revenue recognition policies adopted comply with the accounting standards. • We re-performed the calculation of the PTL to test the mathematical accuracy of the model. From the evidence obtained and procedures performed, the outcome of our testing was consistent with management's estimate.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF FREIGHTWAYS LIMITED

Responsibilities of the Directors for the consolidated financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at: *https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibiiities/audit-rep01t-1/*

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Leopino (Leo) Foliaki.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants, Auckland
14 August 2017

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	GROUP 2017 $000	GROUP 2016 $000
Operating revenue	2	545,262	505,360
Transport and logistics expenses		(215,883)	(195,060)
Employee benefits expenses		(149,896)	(138,868)
Occupancy expenses		(24,768)	(23,360)
General and administration expenses		(53,718)	(49,613)
Non-recurring items	3	3,686	(6,337)
Operating profit before interest, income tax, depreciation and software amortisation, and amortisation of intangibles		104,683	92,122
Depreciation and software amortisation	3	(11,652)	(10,761)
Operating profit before interest, income tax and amortisation of intangibles		93,031	81,361
Amortisation of intangibles	3	(1,679)	(1,685)
Profit before interest and income tax		91,352	79,676
Net interest and finance costs	3	(9,570)	(11,055)
Profit before income tax		81,782	68,621
Income tax	4	(20,926)	(18,847)
Profit for the year attributable to the shareholders		60,856	49,774
Earnings per share	24		
Basic earnings per share (cents)		39.3	32.2
Diluted earnings per share (cents)		39.2	32.1

NB: All revenue and earnings are from continuing operations.

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

		GROUP	
	NOTE	2017 $000	2016 $000
Profit for the year (NPAT)		60,856	49,774
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	20	(41)	(2,585)
Cash flow hedges taken directly to equity, net of tax	20	2,927	(2,636)
Total other comprehensive income after income tax		2,886	(5,221)
Total comprehensive income for the year attributable to the shareholders		63,742	44,553

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

GROUP	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
	$000	$000	$000	$000	$000
Balance at 1 July 2016	123,852	105,824	(9,417)	(5,403)	214,856
Profit for the year	-	60,856	-	-	60,856
Exchange differences on translation of foreign operations	-	-	-	(41)	(41)
Cash flow hedges taken directly to equity, net of tax	-	-	2,927	-	2,927
Total comprehensive income	-	60,856	2,927	(41)	63,742
Dividend payments	-	(42,608)	-	-	(42,608)
Shares issued	578	-	-	-	578
Balance at 30 June 2017	124,430	124,072	(6,490)	(5,444)	236,568

GROUP	CONTRIBUTED EQUITY	RETAINED EARNINGS	CASH FLOW HEDGE RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL EQUITY
	$000	$000	$000	$000	$000
Balance at 1 July 2015	122,858	95,128	(6,781)	(2,818)	208,387
Profit for the year	-	49,774	-	-	49,774
Exchange differences on translation of foreign operations	-	-	-	(2,585)	(2,585)
Cash flow hedges taken directly to equity, net of tax	-	-	(2,636)	-	(2,636)
Total comprehensive income	-	49,774	(2,636)	(2,585)	44,553
Dividend payments	-	(39,078)	-	-	(39,078)
Shares issued	994	-	-	-	994
Balance at 30 June 2016	123,852	105,824	(9,417)	(5,403)	214,856

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

The Board of Directors of Freightways Limited authorised these financial statements for issue on the date below.

For and on behalf of the Board this 14th day of August 2017.

Susan Sheldon

Susan Sheldon
Chairman

Dean Bracewell
Managing Director

BALANCE SHEET

AS AT 30 JUNE 2017

	NOTE	GROUP 2017 $000	GROUP 2016 $000 (Restated)
Current assets			
Cash and cash equivalents	6	8,423	7,065
Trade and other receivables	7	77,184	68,865
Inventories	8	5,190	5,248
Income tax receivable		705	-
		91,502	81,178
Assets held for sale	9	-	1,000
Total current assets		91,502	82,178
Non-current assets			
Trade receivables and other non-current assets	7	2,914	190
Property, plant and equipment	12	101,934	88,621
Intangible assets	13	343,543	337,904
Total non-current assets		448,391	426,715
Total assets		539,893	508,893
Current liabilities			
Trade and other payables	15	65,722	54,679
Finance lease liabilities		147	79
Income tax payable		3,350	6,145
Provisions	17	1,008	1,115
Derivative financial instruments	10	2,054	779
Unearned income	18	15,446	16,391
Total current liabilities		87,727	79,188
Non-current liabilities			
Trade and other payables	15	2,867	6,368
Borrowings (secured)	19	166,241	158,801
Deferred tax liability	14	35,606	34,491
Provisions	17	3,691	3,035
Finance lease liabilities		204	32
Derivative financial instruments	10	6,989	12,122
Total non-current liabilities		215,598	214,849
Total liabilities		303,325	294,037
Net assets		236,568	214,856
Equity			
Contributed equity		124,430	123,852
Retained earnings		124,072	105,824
Cash flow hedge reserve		(6,490)	(9,417)
Foreign currency translation reserve		(5,444)	(5,403)
Total equity	20	236,568	214,856

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	GROUP 2017 $000 INFLOWS (OUTFLOWS)	GROUP 2016 $000 INFLOWS (OUTFLOWS)
Cash flows from operating activities			
Receipts from customers		535,943	506,676
Payments to suppliers and employees		(436,385)	(413,629)
Cash generated from operations		99,558	93,047
Interest received		78	129
Interest and other costs of finance paid		(9,820)	(10,050)
Income taxes paid		(24,559)	(21,332)
Net cash inflows from operating activities	22	65,257	61,794
Cash flows from investing activities			
Payments for property, plant and equipment		(21,507)	(14,992)
Payments for software		(3,689)	(2,051)
Proceeds from disposal of property, plant and equipment		1,064	268
Payments for businesses acquired (net of cash acquired)	29	(2,648)	(269)
Payments to associate		(1,671)	-
Cash flows from other investing activities		(517)	(1,078)
Net cash outflows from investing activities		(28,968)	(18,122)
Cash flows from financing activities			
Dividends paid		(42,608)	(39,078)
Increase (decrease) in bank borrowings		7,174	(11,829)
Proceeds from issue of ordinary shares		716	658
Finance lease liabilities repaid		(174)	(81)
Net cash outflows from financing activities		(34,892)	(50,330)
Net increase (decrease) in cash and cash equivalents		1,397	(6,658)
Cash and cash equivalents at the beginning of year		7,065	13,946
Exchange rate adjustments		(39)	(223)
Cash and cash equivalents at end of year	6	8,423	7,065

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting entity and statutory base

Freightways Limited is a company 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 Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules. In accordance with the Financial Markets Conduct Act 2013, group financial statements are prepared and presented for Freightways Limited and its subsidiaries. Accordingly, separate financial statements for Freightways Limited are no longer required to be prepared and presented.

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

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

Certain comparatives have been restated to align with current year presentation.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value and assets held for sale which are stated at fair value less estimated costs to sell.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates, where necessary, and may require management to exercise judgement in the process of applying the Group's accounting policies. There are no judgements made that are considered to have a significant risk of causing a material adjustment to the carrying value of assets or liabilities. Specific areas of critical accounting estimates and assumptions used are as follows:

(i) Carrying value of indefinite life intangible assets

Impairment reviews are performed by management, at least annually, to assess the carrying value of indefinite life intangible assets, including goodwill and brand names. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Refer to Note 13.

(ii) Accounting for unearned income

An unearned income liability is recorded in the balance sheet reflecting the future service obligation for products that have been sold in advance of their use. The balance is supported by reference to historical customer prepaid product usage patterns. Accordingly, the balance is sensitive to movements in the future level of customer purchases and use of prepaid products, which involves estimates. Management regularly review the historical usage patterns to ensure adequate unearned income is recognised.

(iii) Fair value of derivatives

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of valuation methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

(iv) Customer relationships

The estimation of the useful lives of customer relationships has been based on historical experience. The useful lives are reviewed at least once per year and adjustments to useful lives are made when considered necessary.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(v) Acquisition earn-out amounts payable

The valuations of the Group's acquisition earn-out amounts payable are based on the post-acquisition performance of the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired business and judgement on time value of money. Acquisition earn-out amounts payable shall be remeasured at their fair value resulting from events or factors that emerge after the acquisition date, with any resulting gain or loss recognised in the income statement. Judgement is applied to determine key assumptions (such as growth in sales and margins) adopted in the estimate of post-acquisition performance of the acquired business. Judgement is also applied to determine the appropriate discount rate applied to calculate the present value of the amount payable. Changes to key assumptions may impact the future payable amount. Refer also to Note 29.

(vi) Carrying value of aircraft and related inventory

In June 2015, the Group announced that it would, through a joint venture with Airwork Limited, be transitioning from its fleet of Convair aircraft to a fleet of Boeing 737-400 freighter aircraft during the year ended 30 June 2016 and wrote down the owned Convair aircraft and related inventory to their fair value less costs to sell. The transition was completed during the year ended 30 June 2017 and the owned Convair aircraft and related inventory were sold prior to 30 June 2017. Determining the amount of the write-down as at 30 June 2016 required significant judgement. In making this judgement, management of the Group evaluated, among other factors, market demand and pricing of similar aircraft. Refer to Notes 8 and 9.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities that are controlled either directly by the Company or where the substance of the relationship between the Company and the entity indicates the Company controls it. The results of businesses acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

The consolidated financial statements include the Company and its subsidiaries accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of acquisition. Costs directly attributable to the acquisition are expensed to the income statement. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

All material transactions between subsidiaries or between the Company and subsidiaries are eliminated on consolidation. Accounting policies of subsidiaries are consistent with those adopted by the Group.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with NZ IAS 39 either in the income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

(ii) Joint arrangements and joint ventures

The Group applies NZ IFRS 11 to all joint arrangements. Under NZ IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures are changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is the Company's functional currency and the Group's presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(iii) Foreign operations

The results and balance sheets of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for the balance sheet presented are translated at the closing rate at the date of the balance sheet
- income and expenses for the income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions)
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(d) Revenue recognition

(i) Goods and services

Revenue is measured at the fair value of the consideration received and receivable for goods and services supplied to customers in the ordinary course of business. The Group recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity. Income invoiced and received in advance of a service being provided is recorded in the balance sheet as 'Unearned Income'. This income is brought to account in the year in which the service is provided.

(ii) Interest income

Interest income is recognised on a time-proportionate basis using the effective interest method, which takes into account the effective yield on the relevant financial asset.

(iii) Dividend income

Dividend income from investments is recognised when the shareholder's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(e) Impairment of non-financial assets

Assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(f) Financial assets

Regular purchases and sales of financial assets are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Group has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance date.

(ii) Loans and receivables

Loans and receivables are non-derivative instruments with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are classified as non-current assets. Loans and receivables are reported separately in Trade and other receivables and Cash and cash equivalents on the balance sheet.

(g) Derivative financial instruments

Derivative financial instruments, such as interest rate caps and collar contracts and fixed rate agreements are entered into from time to time to manage interest rate exposure on borrowings. Forward exchange contracts are also entered into from time to time to manage foreign exchange exposures. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured and restated to their fair value at the reporting date. The method of recognising the resultant gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates derivative financial instruments as either fair value hedges (hedges of the fair value of recognised assets or liabilities or a firm commitment) or cash flow hedges (hedges of highly probable forecast transactions).

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedge transaction. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivative financial instruments that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedges

Changes in the fair value of derivative financial instruments that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated and qualify as cash flow hedges is recognised in equity in the cash flow hedge reserve. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are immediately transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken immediately to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative financial instruments do not qualify for hedge accounting or hedge accounting has not been adopted. Changes in the fair value of these derivative financial instruments are recognised immediately in the income statement.

(h) Fair value estimation

The fair value of financial assets and financial liabilities is estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using accepted treasury valuation techniques, such as estimated discounted cash flows, by an external treasury management system provider. The carrying value of trade receivables (less provision for doubtful receivables) and payables approximates their fair values.

(i) Employee entitlements

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services rendered up to the reporting date. They are measured for recognition by assessing the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

Liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by the employee. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan for senior executives, under which the Group receives services from employees as consideration for partly-paid ordinary shares in the Company. The fair value of the employee services received in exchange for the partly-paid ordinary shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the partly-paid ordinary shares allotted, taking into account market vesting conditions (for example, total shareholder return measures such as outperforming the median of the NZX50 Index), but excluding the impact of any non-market service and performance vesting conditions (for example, compound growth rates for earnings per share and remaining an employee of the Group over a specified time period). Non-market vesting conditions are included in assumptions about the number of partly-paid ordinary shares that are expected to vest. The total amount expensed is recognised over the relevant vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of partly-paid ordinary shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(j) Capitalised interest and finance costs

Interest and finance costs incurred for the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other interest and finance costs are expensed.

(k) Goods and services tax (GST)

The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of trade receivables and payables, which include GST invoiced.

(l) Changes in accounting policies

The accounting policies and methods of computation are consistent with those used in the prior year.

(m) Restatement of prior year

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

Following this additional guidance, the Group has reviewed the expected recovery of the carrying amount of the indefinite life brand names and concluded that the carrying amounts are expected to be recovered through use of the brand names within its businesses. As a result, the Group has recognised an additional deferred tax liability of $30.1 million on the brand names, with a corresponding increase in the carrying amount of goodwill. Comparatives for goodwill and deferred tax liability as at 30 June 2016 have also been increased by $30.1 million. This adjustment has no impact on profit or net assets in the reported periods.

As the restatement amount only affects two line items in the balance sheet as described above, a full third balance sheet has not been presented.

NOTE 2. SEGMENT REPORTING

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 Managing Director, 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 courier, 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 2% of external sales revenue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

As at and for the year ended 30 June 2017:

	EXPRESS PACKAGE & BUSINESS MAIL $000	INFORMATION MANAGEMENT $000	CORPORATE $000	INTER-SEGMENT ELIMINATION $000	CONSOLIDATED OPERATIONS $000
Income statement					
Sales to external customers	401,071	144,190	1	-	545,262
Inter-segment sales	1,522	47	4,510	(6,079)	-
Total revenue	402,593	144,237	4,511	(6,079)	545,262
Operating profit before non-recurring items, interest, income tax, depreciation and software amortisation, and amortisation of intangibles	70,353	32,727	(2,083)	-	100,997
Non-recurring items	-	3,686	-	-	3,686
Operating profit before interest, income tax, depreciation and software amortisation, and amortisation of intangibles	70,353	36,413	(2,083)	-	104,683
Depreciation and software amortisation	(5,083)	(5,050)	(1,519)	-	(11,652)
Operating profit before interest, income tax and amortisation of intangibles	65,270	31,363	(3,602)	-	93,031
Amortisation of intangibles	(50)	(1,629)	-	-	(1,679)
Profit before interest and income tax	65,220	29,734	(3,602)	-	91,352
Net interest and finance costs	(30)	(320)	(9,220)	-	(9,570)
Profit before income tax	65,190	29,414	(12,822)	-	81,782
Income tax	(18,050)	(6,883)	4,007	-	(20,926)
Profit for the year attributable to the shareholders	47,140	22,531	(8,815)	-	60,856
Balance sheet					
Segment assets	292,718	206,126	41,049	-	539,893
Segment liabilities	83,065	32,940	187,320	-	303,325
Additions to non-current assets, excluding deferred tax asset	19,456	12,567	96	-	32,119

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

As at and for the year ended 30 June 2016:

	EXPRESS PACKAGE & BUSINESS MAIL $000	INFORMATION MANAGEMENT $000	CORPORATE $000	INTER-SEGMENT ELIMINATION $000	CONSOLIDATED OPERATIONS $000
Income statement					
Sales to external customers	368,536	136,821	3	-	505,360
Inter-segment sales	1,805	12	4,501	(6,318)	-
Total revenue	370,341	136,833	4,504	(6,318)	505,360
Operating profit before non-recurring items, interest, income tax, depreciation and software amortisation, and amortisation of intangibles	66,515	33,238	(1,294)	-	98,459
Non-recurring items	(6,337)	-	-	-	(6,337)
Operating profit before interest, income tax, depreciation and software amortisation, and amortisation of intangibles	60,178	33,238	(1,294)	-	92,122
Depreciation and software amortisation	(4,440)	(4,799)	(1,522)	-	(10,761)
Operating profit before interest, income tax and amortisation of intangibles	55,738	28,439	(2,816)	-	81,361
Amortisation of intangibles	(50)	(1,635)	-	-	(1,685)
Profit before interest and income tax	55,688	26,804	(2,816)	-	79,676
Net interest and finance costs	(2)	(928)	(10,125)	-	(11,055)
Profit before income tax	55,686	25,876	(12,941)	-	68,621
Income tax	(15,790)	(7,885)	4,828	-	(18,847)
Profit for the year attributable to the shareholders	39,896	17,991	(8,113)	-	49,774
Balance sheet					
Segment assets (restated)	271,658	194,898	42,337	-	508,893
Segment liabilities (restated)	78,232	33,276	182,529	-	294,037
Additions to non-current assets, excluding deferred tax asset	11,022	11,637	10	-	22,669

Segment assets and liabilities are disclosed net of inter-company balances.

For the year ended 30 June 2017, external revenue from customers in the Group's New Zealand and Australian operations was $444.1 million and $101.2 million, respectively (2016: $410.4 million and $95.0 million, respectively). As at 30 June 2017, non-current assets in respect of the New Zealand and Australian operations (excluding deferred tax assets) were $308.2 million and $140.2 million, respectively (2016: $293.4 million and $133.3 million, respectively).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3. INCOME AND EXPENSES

Profit before income tax includes the following specific income and expenses:

		GROUP	
	NOTE	2017 $000	2016 $000
Income:			
Interest income		443	170
Operating expenses:			
Net loss (gain) on disposal of property, plant and equipment		229	17
Depreciation	12	9,838	9,384
Amortisation of intangible assets	13	1,679	1,685
Amortisation of software	13	1,814	1,377
Operating lease expenses		23,062	23,503
Auditors' fees:			
Audit of annual financial statements and review of interim financial statements		369	320
Annual Shareholders Meeting scrutineering		7	7
Directors' benchmarking fees		10	9
Costs of offering credit:			
Impairment loss (gain) on trade receivables		23	(35)
Interest and finance costs:			
Interest on bank borrowings		9,606	10,318
Interest on finance leases		30	2
Derivative fair value movement		208	82
Unwinding of discount on acquisition earn-out liability		169	823
Other:			
Net foreign exchange loss (gain)		18	(11)
Directors' fees		506	447
Donations		300	199
Non-recurring (gain) loss:*			
Reversal of earn-out payables		(5,630)	-
Premises relocation cost		1,944	-
Write-down of aircraft		-	4,944
Write-down of aircraft-related inventory		-	1,393

* Non-recurring expense items for the years ended 30 June 2017 and 30 June 2016, as applicable, relate to:

- reversal of previously-accrued earn-out payables that are no longer expected to be paid;
- relocation cost of the TIMG business in Sydney;
- write-down of aircraft to their estimated fair value, less costs to sell (2016); and
- write-down of aircraft-related inventory to their estimated fair value, less estimated costs to sell (2016).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4. INCOME TAX EXPENSE

The income tax expense for the year is the tax payable on the current year's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose as a result of a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable income.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts that have been recognised directly in equity, are also taken directly to equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

	GROUP	
	2017 $000	2016 $000
Current tax:		
Current tax on profit for the year	21,037	21,244
Deferred tax (Note 14):		
Reversal of temporary differences	(111)	(2,397)
Total deferred tax	(111)	(2,397)
Income tax expense	20,926	18,847

Income tax applicable to the Group's net profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits of the consolidated entities, as follows:

	2017	2016
Profit before income tax	81,782	68,621
Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries	23,151	19,412
Tax-effect of amounts which are treated differently when calculating taxable income:		
- Additional amounts deductible	(2,578)	(456)
- Other	353	(109)
Income tax expense	20,926	18,847

The Group has no tax losses (2016: Nil) and no unrecognised temporary differences (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	GROUP 2017 $000	GROUP 2016 $000
Imputation credits account		
Imputation credits available for use in subsequent reporting periods	30,284	28,477

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

(a) Imputation credits that will arise from the payment of the amount of the provision for income tax;

(b) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Imputation credits that will be attached to the final dividend for 2017 which was declared subsequent to 30 June 2017 will reduce the above-stated available balance of imputation credits by approximately $8.9 million.

The tax (charge)/credit relating to components of other comprehensive income is as follows:

2017 ($000)	BEFORE TAX	TAX (CHARGE) / CREDIT	AFTER TAX
Exchange difference on translation of foreign operations	(41)	-	(41)
Cash flow hedges taken directly to equity	4,066	(1,139)	2,927
Other comprehensive income	4,025	(1,139)	2,886
Current tax		-	
Deferred tax		(1,139)	
		(1,139)	

2016 ($000)	BEFORE TAX	TAX (CHARGE) / CREDIT	AFTER TAX
Exchange difference on translation of foreign operations	(2,585)	-	(2,585)
Cash flow hedges taken directly to equity	(3,661)	1,025	(2,636)
Other comprehensive income	(6,246)	1,025	(5,221)
Current tax		-	
Deferred tax		1,025	
		1,025	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 5. DIVIDENDS

	GROUP 2017 $000	GROUP 2016 $000
Recognised amounts		
Fully imputed dividends declared and paid during the year:		
Final dividend for 2016 at 14.5 cents per share (2015: 12.5 cents)	22,466	19,345
Interim dividend for 2017 at 13.0 cents per share (2016: 12.75 cents)	20,142	19,733
	42,608	39,078
Unrecognised amounts		
Final dividend for 2017 at 14.75 cents per share (2016: 14.5 cents)	22,884	22,473

Subsequent to balance date the above unrecognised dividend was approved by a directors' resolution dated 14 August 2017. This amount has not been recognised as a liability at the reporting date, but will be brought to account when paid.

NOTE 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and overnight deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Bank overdrafts are shown within borrowings in the current liabilities on the balance sheet to the extent they exceed the legal right of off-set against cash included in current assets.

	GROUP 2017 $000	GROUP 2016 $000
Comprises:		
- Cash at bank	8,318	6,960
- Overnight deposits	105	105
Cash and cash equivalents in statement of cash flows	8,423	7,065

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 7. TRADE RECEIVABLES AND OTHER NON-CURRENT ASSETS

Trade and other receivables are recognised at their fair value and subsequently measured at amortised cost using the effective interest rate, less provision for impairment.

	GROUP	
	2017 $000	**2016 $000**
Current:		
Trade receivables	67,249	60,965
Provision for doubtful receivables	(1,655)	(1,649)
	65,594	59,316
Other debtors and prepayments	11,321	9,174
Share plan loans receivable from employees	269	375
	77,184	68,865
Non-current:		
Share plan loans receivable from employees	140	172
Other non-current assets	2,774	18
	2,914	190

Trade receivables are non-interest bearing and are generally on 7-30 day terms.

Recoverability of trade and other receivables is reviewed on an ongoing basis. Amounts that are known to be uncollectible are written-off when identified. An allowance for doubtful receivables is raised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

The movements in the provision for doubtful receivables for the Group were as follows:

	GROUP	
	2017 $000	**2016 $000**
Opening balance	1,649	1,742
Provision for doubtful receivables	192	108
Receivables written off during the year as uncollectible	(188)	(164)
Exchange rate movement	2	(37)
Closing balance (Note 27.1(b))	1,655	1,649

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 8. INVENTORIES

Inventories are stated at the lower of cost, determined on a first-in-first-out basis, and net realisable value. Full provision is made for obsolescence, where applicable. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories recognised as an expense and included in 'general and administration expenses' amounted to $12.3 million (2016: $13.6 million).

	GROUP	
	2017 $000	**2016 $000**
Finished goods	1,682	1,727
Convair parts (refer Note 9 below)	-	500
Ticket stocks, uniforms and consumables	3,508	3,021
	5,190	5,248

NOTE 9. ASSETS HELD FOR SALE

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction. They are stated at the lower of carrying amount and fair value less estimated costs to sell and the Group intends to sell these assets within a year.

	GROUP	
	2017 $000	**2016 $000**
Aircraft held for sale	-	1,000

In June 2015, the Group announced that it would, through a joint venture with Airwork Limited, be transitioning from its fleet of Convair aircraft to a fleet of Boeing 737-400 freighter aircraft during the year ended 30 June 2016. In accordance with IFRS 5, the Group wrote down the owned Convair aircraft and related inventory to their fair value less costs to sell. The write-down was a non-recurring fair value adjustment which had been measured using observable inputs, including among other factors, market demand and pricing of similar aircraft and was therefore within Level 2 of the fair value hierarchy, as defined in Note 27.1(d). The aircraft and related parts (refer Note 8 above) were sold during the year ended 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP	
	2017 $000	2016 $000
	Asset (Liability)	Asset (Liability)
Current:		
Interest rate swaps – cash flow hedge	(1,470)	(289)
Forward foreign exchange contracts – cash flow hedge	(584)	(490)
	(2,054)	(779)
Non-current:		
Interest rate swaps – cash flow hedge	(5,584)	(10,898)
Forward foreign exchange contracts – cash flow hedge	(1,405)	(1,224)
	(6,989)	(12,122)

The notional or principal contract amounts of derivative financial instruments outstanding at balance date are:

	NZD		AUD	
	2017 $000	2016 $000	2017 $000	2016 $000
Interest rate swaps	79,000	80,000	68,000	73,000
Forward foreign exchange contracts	25,021	28,039	-	-

An expense of $0.2 million, representing the amortisation of the ineffective portion of the derivative financial instruments, was recognised in the income statement during the year (2016: $0.1 million).

(i) Forward foreign exchange contracts

The forward foreign exchange contracts hedge highly probably forecast transactions denominated in foreign currency and are timed to mature when payments are scheduled to be made. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 30 June 2017 are recognised in the income statement in the period during which the hedged forecast transaction affects the income statement. The cash flows are expected to occur monthly for the next five years.

(ii) Interest rate swaps

The interest rate derivatives are 100% effective as cash flow hedges against the future interest payments of the Group (2016: 100%).

Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 30 June 2017 will be continuously released to the income statement within finance costs until the repayment of the applicable bank borrowings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 11. INVESTMENTS IN SUBSIDIARIES

The Company's investment in its only directly-owned subsidiary, Freightways Express Limited (FEL), comprises shares at cost. Listed below are all the significant subsidiaries wholly-owned directly or indirectly by FEL. All subsidiaries have a balance date of 30 June.

Name of entity	Principal activities	Country of Incorporation
Air Freight NZ Limited*	Express package linehaul	New Zealand
Castle Parcels Limited	Express package services	New Zealand
Fieldair Engineering Limited*	General & aviation engineering services	New Zealand
Fieldair Holdings Limited*	Holding company (refer * below)	New Zealand
Freightways Finance Limited	Group treasury management	New Zealand
Freightways Information Services Limited	IT infrastructure support services	New Zealand
Freightways Properties Limited	Property management	New Zealand
Freightways Trustee Company Limited	Trustee of Freightways Employee Share Plan	New Zealand
Info Management Services Australia LP	Australian treasury services	Australia
Information Management Group Limited	Information management	New Zealand
LitSupport Pty Limited	Information management	Australia
Messenger Services Limited	Express package services	New Zealand
New Zealand Couriers Limited	Express package services	New Zealand
New Zealand Document Exchange Limited	Business mail	New Zealand
NOW Couriers Limited	Express package services	New Zealand
Parceline Express Limited	Express package linehaul	New Zealand
Post Haste Limited	Express package services	New Zealand
Shred-X Pty Limited	Information management	Australia
The Information Management Group (NZ) Limited	Information management	New Zealand
The Information Management Group Pty Limited	Information management	Australia

* Fieldair Holdings Limited is a subsidiary of New Zealand Couriers Limited. Fieldair Engineering Limited and Air Freight NZ Limited are subsidiaries of Fieldair Holdings Limited.

There has been no change in investments in subsidiaries during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 12. PROPERTY, PLANT & EQUIPMENT

Property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes all expenditure directly attributable to the acquisition or construction of the item, including interest.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated will flow to the Group and the cost of the asset can be measured reliably. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated on a straight-line basis on all tangible fixed assets, other than land and leasehold improvements, so as to expense the cost of the assets to their estimated residual values over their estimated useful lives. Land is not depreciated. Leasehold improvements are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the improvements. Estimated useful lives are as follows:

	Estimated useful life
Buildings	- 25 to 50 years
Leasehold alterations	- period of the lease or estimated useful life
Motor vehicles	- 5 to 10 years
Equipment	- 3 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

	LAND	BUILDINGS	LEASEHOLD ALTERATIONS	MOTOR VEHICLES	EQUIPMENT	TOTAL
2017 ($000)						
Opening net book value	13,744	25,061	4,201	4,851	40,764	88,621
Additions	-	-	1,110	2,156	19,968	23,234
Acquisitions through business combinations (Note 29)	-	-	-	-	144	144
Depreciation expense	-	(1,607)	(638)	(1,269)	(6,324)	(9,838)
Disposals	-	(7)	(118)	(6)	(161)	(292)
Exchange rate movement	4	5	5	7	44	65
Closing net book value	13,748	23,452	4,560	5,739	54,435	101,934
As at end of year						
Cost	13,748	39,434	9,943	13,750	112,311	189,186
Accumulated depreciation	-	(15,982)	(5,383)	(8,011)	(57,876)	(87,252)
Net book value	13,748	23,452	4,560	5,739	54,435	101,934

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	LAND	BUILDINGS	LEASEHOLD ALTERATIONS	MOTOR VEHICLES	EQUIPMENT	TOTAL
2016 ($000)						
Opening net book value	13,842	26,770	3,927	5,094	34,878	84,511
Additions	-	13	936	1,104	12,971	15,024
Acquisitions through business combinations	-	-	55	160	393	608
Depreciation expense	-	(1,612)	(604)	(1,220)	(5,948)	(9,384)
Disposals	-	-	(6)	(24)	(221)	(251)
Exchange rate movement	(98)	(110)	(107)	(263)	(1,309)	(1,887)
Closing net book value	13,744	25,061	4,201	4,851	40,764	88,621
As at end of year						
Cost	13,744	39,434	9,454	12,447	85,615	160,694
Accumulated depreciation	-	(14,373)	(5,253)	(7,596)	(44,851)	(72,073)
Net book value	13,744	25,061	4,201	4,851	40,764	88,621

No amount has been included in the cost of equipment in respect of assets under construction for which depreciation has not commenced (2016: $3.4 million).

The latest independent valuations of land and buildings (performed in June 2016) assess these assets to have a total fair value of $61.7 million. The fair values have been derived using the direct capitalisation approach. The valuation technique uses significant unobservable inputs, namely capitalisation rate and potential new market income of land and buildings. Therefore these are considered Level 3 valuations, as defined in Note 27.1(d).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 13. INTANGIBLE ASSETS

(i) Goodwill

Goodwill represents the excess of the consideration transferred in an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is not amortised, but is tested for impairment annually or whenever events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Brand names

Acquired brand names are recognised at cost, being their fair value at the date of acquisition if acquired in a business combination. Brand names with indefinite useful lives are not subject to amortisation, but are tested for impairment annually or whenever events or changes in circumstances indicate that they might be impaired, and are carried at cost less amortisation and impairment losses. The useful lives and amortisation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Brand names are allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the brand names.

An independent valuation of the brand names was conducted by Deloitte in August 2017. This independent report assessed the fair market value of the brand names as at 30 June 2017 to be between $251 million and $387 million, using the value-in-use approach. The valuation technique uses significant unobservable inputs, namely discount rate, growth rate and cash flow. Therefore these are considered Level 3 valuations, as defined in Note 27.1(d).

(iii) Computer software

External software costs, together with payroll and related costs for employees directly associated with the development of software, are capitalised. Costs associated with upgrades and enhancements are capitalised to the extent they result in additional functionality. Amortisation is charged on a straight-line basis over the estimated useful life of the software which ranges between 3 and 10 years. Included in the cost of software is work in progress of $2.9 million (2016: $1.6 million) for which amortisation has not commenced.

(iv) Customer relationships

- ***Contractual***

An intangible asset is recorded at fair value in respect of the amount of any contractual termination fees payable by customers of businesses acquired in respect of their document holdings. As it is not known when permanent retrieval fees may arise, this asset is only amortised upon the actual retrieval fee being charged to the respective customer.

- ***Other***

Non-contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. These customer relationships have an estimated finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected useful life of the customer relationship which ranges between 10 and 20 years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	GOODWILL	BRAND NAMES	SOFTWARE	CUSTOMER RELATIONSHIPS	OTHER	TOTAL
2017 ($000)						
Opening net book value	193,037	113,976	10,297	17,946	2,648	337,904
Additions	-	-	3,689	-	517	4,206
Acquisition through business combinations (Note 29)	3,972	-	-	554	-	4,526
Amortisation expense	-	-	(1,814)	(1,498)	(181)	(3,493)
Exchange rate movement	278	69	7	42	4	400
Closing net book value	197,287	114,045	12,179	17,044	2,988	343,543
As at end of year						
Cost	215,949	114,045	23,099	22,118	4,215	379,426
Accumulated amortisation	(18,662)	-	(10,920)	(5,074)	(1,227)	(35,883)
Net book value	197,287	114,045	12,179	17,044	2,988	343,543

	GOODWILL (RESTATED)	BRAND NAMES	SOFTWARE	CUSTOMER RELATIONSHIPS	OTHER	TOTAL (RESTATED)
2016 ($000)						
Opening net book value	165,563	115,476	9,744	18,880	1,900	311,563
Additions	-	-	2,051	-	1,070	3,121
Acquisition through business combinations	2,659	-	-	1,257	-	3,916
Amortisation expense	-	-	(1,377)	(1,484)	(201)	(3,062)
Prior period deferred tax adjustment (Note 1(m))	30,061	-	-	-	-	30,061
Exchange rate movement	(5,246)	(1,500)	(121)	(707)	(121)	(7,695)
Closing net book value	193,037	113,976	10,297	17,946	2,648	337,904
As at end of year						
Cost	211,699	113,976	19,403	21,522	3,694	370,294
Accumulated amortisation	(18,662)	-	(9,106)	(3,576)	(1,046)	(32,390)
Net book value	193,037	113,976	10,297	17,946	2,648	337,904

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Impairment tests for indefinite life intangible assets

Goodwill and brand names are allocated to those cash-generating units (CGU's) or groups of CGU's that are expected to benefit from them. The carrying amount of intangible assets allocated by CGU or group of CGU's is outlined below:

	GOODWILL		BRAND NAMES	
	2017 $000	2016 $000 (Restated)	2017 $000	2016 $000
Messenger Services	8,766	8,766	5,100	5,100
New Zealand Couriers	47,752	47,752	58,500	58,500
New Zealand Document Exchange	10,967	10,967	5,900	5,900
Dataprint	4,125	4,125	1,310	1,310
Post Haste, Castle Parcels and NOW Couriers	27,159	27,159	18,395	18,395
Total Express Package & Business Mail	98,769	98,769	89,205	89,205
The Information Management Group (New Zealand)	17,577	17,577	4,400	4,400
The Information Management Group (Australia)	53,489	49,327	17,191	17,133
Shred-X	27,453	27,364	3,249	3,238
Total Information Management	98,519	94,268	24,840	24,771
Total	197,288	193,037	114,045	113,976

The Information Management Group (Australia), Filesaver and LitSupport were previously disclosed as separate CGU's. Filesaver and LitSupport were acquired by The Information Management Group (Australia) in previous years and had been disclosed as separate CGU's while there was a need to measure performance as if they were standalone operations for the purposes of calculating related earn-outs. The Group derives benefit from the synergies of integrating or combining acquired businesses and the cash inflows of these businesses are not considered independent of each other. The combined businesses represent the lowest level within the Group at which the intangible assets are monitored for internal management purposes. Therefore The Information Management Group (Australia), Filesaver and LitSupport have been combined as at 30 June 2017 as a single CGU in the disclosure above.

(i) Key assumptions used for value-in-use calculations

On an annual basis, the recoverable amount of goodwill and brand names is determined based on value-in-use calculations specific to the CGU associated with both goodwill and brand names.

These calculations use pre-tax cash flow projections based on financial budgets prepared by management and approved by the Board for the year ended 30 June 2018. Cash flows beyond June 2018 have been extrapolated using growth rates which do not exceed the historical compound annual earnings growth rates for each respective CGU, taking into consideration current and forecast economic conditions. The compound annual earnings growth rate for the Express Package & Business Mail segment over the past 10 years has been approximately 3% (2016: 3%). A 1% (2016: 1%) growth rate and 1% (2016: 1%) terminal growth rate have been applied to the express package & business mail businesses in the value-in-use calculation. For the Information Management segment, the compound annual earnings growth rate for the last 5 years of approximately 10% (2016: 14%) is considered indicative of the growth in this segment since the Company's expansion into Australia. A 3% (2016: 3%) growth rate and 2.5% (2016: 3%) terminal growth rate have been applied to the Information Management businesses in the value-in-use calculation.

A pre-tax discount rate of 11% (2016: 11%) has been applied to all CGU's.

The value-in-use calculations indicate that the recoverable amounts of goodwill and brand names exceed their carrying values and therefore there is no impairment in the value of goodwill and brand names.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(ii) Sensitivity to changes in assumptions

With regard to the value-in-use assessment for all CGU's, management believes that no reasonably possible change in any of the above assumptions would cause the carrying values of goodwill and brand names to materially exceed their respective recoverable amounts.

NOTE 14. DEFERRED LIABILITY

	2017 $000	2016 $000 (Restated)
Deferred tax liabilities		
Deferred tax liabilities to be recovered within 12 months	491	325
Deferred tax liabilities to be recovered after more than 12 months	35,115	34,166
Balance at end of year	35,606	34,491

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

	PROPERTY, PLANT AND EQUIPMENT	EMPLOYEE ENTITLEMENTS	ACCRUALS AND PROVISIONS	DERIVATIVE FINANCIAL INSTRUMENTS	INTANGIBLE ASSETS	TOTAL
2017 ($000)						
Balance at beginning of year	(4,833)	3,494	2,946	3,611	(39,709)	(34,491)
Prior period adjustment	(119)	(41)	19	-	66	(75)
Transfer to income statement	177	243	(686)	58	394	186
Amounts relating to business combinations (Note 29)	-	85	5	-	(166)	(76)
Adjustment for cash flow hedge reserve	-	-	-	(1,139)	-	(1,139)
Exchange rate movement	-	5	3	1	(20)	(11)
Balance at end of year	(4,775)	3,786	2,287	2,531	(39,435)	(35,606)

	PROPERTY, PLANT AND EQUIPMENT	EMPLOYEE ENTITLEMENTS	ACCRUALS AND PROVISIONS	DERIVATIVE FINANCIAL INSTRUMENTS	INTANGIBLE ASSETS (Restated)	TOTAL (Restated)
2016 ($000)						
Balance at beginning of year	(6,793)	3,498	2,782	2,566	(9,776)	(7,723)
Prior period adjustment	182	(145)	103	-	(19)	121
Transfer to income statement	1,783	232	118	20	123	2,276
Amounts relating to business combinations	-	29	(3)	-	(364)	(338)
Adjustment for cash flow hedge reserve	-	-	-	1,025	-	1,025
Prior period goodwill adjustment (Note 1(m))	-	-	-	-	(30,061)	(30,061)
Exchange rate movement	(5)	(120)	(54)	-	388	209
Balance at end of year	(4,833)	3,494	2,946	3,611	(39,709)	(34,491)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 15. TRADE AND OTHER PAYABLES

Trade and other payables are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services. They are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. The amounts are unsecured.

	GROUP	
	2017 $000	**2016 $000**
Current:		
Trade creditors	37,050	29,363
Employee entitlements	16,210	13,996
Other creditors and accruals	12,462	11,320
	65,722	54,679
Non-current:		
Acquisition earn-out payables	1,786	5,620
Other non-current payables	1,081	748
	2,867	6,368

NOTE 16. LEASES

Operating lease commitments (non-cancellable)

Leases in which a significant portion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group leases certain premises, motor vehicles, and plant and equipment, and as a result has the following operating lease commitments:

	2017 $000	**2016 $000**
Within one year	24,935	22,424
After one year but not more than five years	63,520	52,208
After five years	28,667	22,413
	117,122	97,045

The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 17. PROVISIONS

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The increase in the provision due only to the passage of time is recognised as an interest expense.

Explanation of provisions

Provision for customer claims relates to actual claims received from customers that are being considered for payment as at reporting date and are expected to be resolved within the next two months.

Provision for long service leave relates to the potential leave obligation for employees who reach continuous employment milestones required under Australian regulations. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Provision for lease obligations relates to estimated payments to reinstate leased buildings and equipment used to an appropriate condition upon the expiry of the respective lease terms.

	CUSTOMER CLAIMS $000	LONG SERVICE LEAVE $000	LEASE OBLIGATIONS $000	TOTAL $000
2017				
Balance at beginning of year	613	2,089	1,448	4,150
Current year provision	(83)	512	660	1,089
Amounts relating to business combinations	-	116	16	132
Expenses incurred	(25)	(235)	(384)	(644)
Movement in exchange rate	-	(27)	(1)	(28)
Balance at end of year	505	2,455	1,739	4,699
2016				
Balance at beginning of year	516	1,833	1,996	4,345
Current year provision	97	412	199	708
Amounts relating to business combinations	-	45	60	105
Expenses incurred	-	(59)	(765)	(824)
Movement in exchange rate	-	(142)	(42)	(184)
Balance at end of year	613	2,089	1,448	4,150

Analysis of total provisions:

	2017 $000	2016 $000
Current	1,008	1,115
Non-current	3,691	3,035
Total	4,699	4,150

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 18. UNEARNED INCOME

An unearned income liability is recorded in the balance sheet reflecting the future service obligation for products that have been sold in advance of their use.

NOTE 19. BORROWINGS

Interest-bearing bank loans and overdrafts are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method. Costs incurred in establishing finance facilities are amortised to the income statement over the term of the respective facilities.

	GROUP	
	2017 $000	2016 $000
Non-current:		
Bank borrowings	166,241	158,801

(a) Security for borrowings

The bank borrowings are secured by a charge over the assets of the majority of the Company's New Zealand subsidiaries in favour of its primary lenders and guarantees from the Company's primary Australian subsidiaries. As at 30 June 2017, the carrying amount of the assets pledged as security is $198 million (2016: $174 million).

(b) Finance facilities

The following finance facilities existed at the reporting date:

	FACILITIES DENOMINATED IN NEW ZEALAND DOLLARS		FACILITIES DENOMINATED IN AUSTRALIAN DOLLARS	
	2017 $000	2016 $000	2017 $000	2016 $000
Bank overdraft				
- total bank overdraft facility available	8,000	8,000	-	20
- amount of overdraft facility unused	8,000	8,000	-	20
Loan facilities				
- total loan facilities available	110,000	110,000	97,000	97,000
- maturing 1 September 2018	37,000	37,000	27,500	27,500
- maturing 1 September 2019	37,000	37,000	35,000	35,000
- maturing 1 September 2020	26,000	36,000	24,500	34,500
- maturing 15 December 2026	10,000	-	10,000	-
- amount of loan facilities used	78,000	74,000	83,900	80,900
- amount of loan facilities unused	32,000	36,000	13,100	16,100
Effective interest rate at 30 June as amended for interest rate hedges	6.15%	6.60%	5.12%	5.31%

The fair values of borrowings are not materially different to their carrying amount, since the interest payable on those borrowings is either close to market rate or the borrowings are of a short-term nature.

In December 2016, a US$125 million uncommitted finance facility was established with a US-based lender on the same terms as those that are in place with the existing banking syndicate. Of this facility, the US dollar equivalent of NZ$10 million and A$10 million has been drawn as at 30 June 2017.

The Group was in compliance with all of its banking covenants throughout the year ended 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 20. EQUITY

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a reduction in the amount of proceeds arising from the issue of shares.

	GROUP			
	2017 ORDINARY SHARES	2016 ORDINARY SHARES	2017 $000	2016 $000
Balance at beginning of year	154,757,589	154,519,061	123,852	122,858
Partly-paid ordinary shares issued	-	-	1	1
Partly-paid shares, fully paid up to ordinary shares	127,534	147,769	532	579
Employee share-based payment	-	-	(271)	(19)
Shares issued for employee share plan	50,000	90,000	307	437
(Increase) decrease in employee share plan unallocated shares	(1,445)	759	9	(4)
Balance at end of year	154,933,678	154,757,589	124,430	123,852

Contributed Equity

(i) Fully paid ordinary shares

As at 30 June 2017 there were 154,938,225 shares issued and fully paid (2016: 154,760,691). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

(ii) Partly-paid ordinary shares

On 12 September 2016, 103,682 partly-paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2016: 121,691). The issue price per share was $6.82 (2016: $5.39) and the shares have been paid up by the relevant participants to one cent per share. The balance of the issue price per share may only be paid up upon the participants meeting agreed performance hurdles and upon the expiry of the applicable three-year escrow period in accordance with the Plan rules (refer Note 21). During the year, 17,863 partly-paid shares were redeemed and cancelled (2016: 63). As at 30 June 2017 there were 342,006 partly-paid shares on issue, paid up to one cent per share (2016: 383,721). Partly-paid shares have no voting rights and no rights to dividends and surplus on winding up.

(iii) Partly-paid shares, fully paid up to ordinary shares

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

(iv) Employee Share Plan

On 13 September 2016, the Company issued 50,000 fully paid ordinary shares at $6.13 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (September 2015: 90,000 fully paid ordinary shares at $4.86 each). In total, participating employees were provided with interest-free loans of $0.3 million to fund their purchase of the shares in the Share Plan (September 2015: $0.4 million). The loans are repayable over three years and repayment commenced in October 2016.

As at 30 June 2017 the Trustee held 496,143 (2016: 539,766) fully paid ordinary shares (representing 0.3% (2016: 0.3%) of all issued ordinary shares) of which 4,547 (2016: 3,102) were unallocated. These shares are held for allocation in the future.

The Employee Share Plan operates in accordance with section DC13 of the New Zealand Income Tax Act 2007 and the Trustees are appointed by the Freightways Limited Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Nature and Purpose of Reserves

(i) Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on a hedging instrument within a cash flow hedge. The amounts are recognised in the income statement when the associated hedged transactions affect profit or loss, as described in Note 1(g).

(ii) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into New Zealand dollars, as described in Note 1(c).

NOTE 21. SHARE-BASED PAYMENTS

Freightways Senior Executive Performance Share Plan (the 'Plan')

In September 2008, the Board approved the introduction of a long-term incentive scheme for certain Freightways senior executives using a performance share plan. The Plan aligns senior executives' long-term objectives with the interests of Freightways Limited shareholders.

Payment of any benefit is dependent upon the achievement of agreed performance targets. Partly-paid shares (paid up to one cent per share) are issued at the discretion of the Board, subject to a three-year escrow period. At the end of each escrow period the Group will pay a bonus to the senior executives to the extent the performance targets have been achieved, sufficient for the shares to be fully paid up. In the event that the performance targets have not been achieved at the expiry of the escrow period, the partly-paid shares may be redeemed by the Company.

Allocations are made annually in September each year. The terms for these allocations, including the relevant performance hurdles, are determined by the Board of Directors at the time of each allocation.

Details of outstanding allocations are as follows:

Share allocation date	13 Sept 2011	10 Sept 2012	11 Sept 2013	10 Sept 2014	14 Sept 2015	12 Sept 2016
Number of partly-paid shares allocated	183,716	155,832	148,386	124,221	121,691	103,682
Market price per share at date of allocation	$3.15	$3.97	$4.12	$5.11	$5.39	$6.82
Amount paid up per share upon allocation	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Total amount paid-up upon allocation	$1,837	$1,558	$1,484	$1,242	$1,217	$1,037
Total amount paid-up upon vesting:						
- year ended 30 June 2015	$495,957	-	-	-	-	-
- year ended 30 June 2016	$25,057	$547,973	-	-	-	-
- year ended 30 June 2017	$813	$8,936	$484,401	$38,080	-	-
Escrow periods ended 30 June:	2014 (100%)	2015 (100%)	2016 (100%)	2017 (100%)	2018 (100%)	2019 (100%)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Total number of partly-paid shares on issue:

	2017	2016
Balance at beginning of the year	383,721	409,862
Issued during the year	103,682	121,691
Cancelled during the year	(17,863)	(63)
Fully paid up during the year	(127,534)	(147,769)
Balance at end of the year	342,006	383,721
Partly-paid shares eligible to be paid up at the end of the year	Nil	Nil

	2017 $000	2016 $000
Total amount expensed during the year for the senior executive performance share plan	750	657
Liability recognised at year end for estimated income tax applicable to bonuses payable to facilitate the paying-up of vested partly-paid shares	521	369

The fair value of the Plan was estimated as at the date of each allocation of partly-paid shares using both the binomial option pricing model and monte carlo simulation and taking into account the terms and conditions upon which the partly-paid shares were issued.

NOTE 22. RECONCILIATION OF PROFIT FOR THE YEAR WITH CASH FLOWS FROM OPERATING ACTIVITIES

	NOTE	GROUP 2017 $000	GROUP 2016 $000
Profit for the year		60,856	49,774
Add non-cash items:			
Depreciation and amortisation	3	13,331	12,446
Movement in provision for doubtful debts		23	(35)
Movement in deferred income tax		1,027	(3,043)
Net loss on disposal of property, plant and equipment		229	17
Net foreign exchange loss (gain)		18	(11)
Movement in derivative fair value		208	82
Non-recurring items		(5,630)	6,337
Movement in working capital, net of effects of acquisitions of businesses:			
Decrease (increase) in trade and other receivables		(10,479)	(4,110)
Decrease (increase) in inventories		61	(837)
Increase (decrease) in trade and other payables		9,130	1,280
Increase (decrease) in income taxes payable		(3,517)	(106)
Net cash inflows from operating activities		65,257	61,794

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 23. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had made capital commitments to purchase or construct buildings and equipment for $2.7 million at 30 June 2017 (2016: $9.9 million), principally relating to the completion of operating facilities throughout the Group.

As at 30 June 2017, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $5.9 million (2016: $4.8 million). The letters of credit relate predominantly to support for regular payroll payments. The bank guarantees relate to security given to various landlords in respect of leased operating facilities.

NOTE 24. EARNINGS PER SHARE*

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares outstanding during the year:

	GROUP	
	2017	2016
Profit for the year attributable to shareholders ($000)	60,856	49,774
Weighted average number of ordinary shares ('000):	154,903	154,712
Basic earnings per share (cents)	39.3	32.2

Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit for the year attributable to shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted to include all dilutive potential ordinary shares (for example, partly-paid shares on issue) as if they had been converted to ordinary shares at the beginning of the year:

	GROUP	
	2017	2016
Profit for the year attributable to shareholders ($000)	60,856	49,774
Weighted average number of ordinary shares ('000):	154,903	154,712
Effect of dilution	342	383
Diluted weighted average number of ordinary shares ('000):	155,245	155,095
Diluted earnings per share (cents)	39.2	32.1

* Basic and diluted earnings per share calculated on the profit for the year attributable to shareholders, excluding non-recurring items, net of tax (refer Note 3), are both 36.5 cents (2016: 35.1 cents and 35.0 cents, respectively).

NOTE 25. NET TANGIBLE ASSETS PER SECURITY

Net tangible assets (liabilities) per security at 30 June 2017 was ($0.42) (2016: ($0.53)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 26. 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 Spark New Zealand Limited, ANZ Bank New Zealand Limited and Contact Energy Limited.

Payments to associate: During the year, the Group paid Parcelair Limited $8.2 million for the provision of airfreight linehaul services on normal commercial terms and $1.7 million in security deposits. Parcelair Limited is incorporated in New Zealand and is half-owned by the Group.

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

	GROUP	
	2017 $000	2016 $000
Short-term employee benefits	6,846	6,835
Long-term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments (Note 21)	521	369

NOTE 27. FINANCIAL RISK MANAGEMENT

27.1 Financial risk factors

The Group's activities expose it to various financial risks, including liquidity risk, credit risk and market risk (which includes currency risk and cash flow interest rate risk). The Group's overall risk management programme focuses on the uncertainty of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Treasury activities are performed centrally by the Group's corporate team, supplemented by external financial advice and the use of derivative financial instruments is governed by a Group Treasury Policy approved by the Company's Board of Directors.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach to liquidity risk management includes maintaining sufficient cash reserves and ensuring adequate committed finance facilities are available. In assessing its exposure to liquidity risk, the Group regularly monitors rolling 3, 6 and 12-month cash requirement forecasts.

The following table analyses the Group's financial liabilities into relevant maturity groupings, based on the remaining period from the reporting date to the contractual maturity date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

The amounts disclosed below are contractual, undiscounted cash flows, except for interest rate swaps.

GROUP	LESS THAN 6 MONTHS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS	TOTAL
2017 ($000)						
Bank borrowings	3,043	3,192	72,496	100,369	25,428	204,528
Trade and other payables	54,262	8,154	-	1,786	-	64,202
Finance lease liabilities	75	75	108	93	-	351
Derivative financial instruments – interest rate swaps*	1,675	1,526	2,232	2,290	2	7,725
2016 ($000)						
Bank borrowings	2,874	2,802	5,741	175,453	-	186,870
Trade and other payables	44,462	13,215	6,367	-	-	64,044
Finance lease liabilities	40	36	35	-	-	111
Derivative financial instruments – interest rate swaps*	1,581	1,653	3,168	5,321	528	12,251

* The amounts expected to be payable in relation to the interest rate swaps have been estimated using forward interest rates applicable at the reporting date.

(b) Credit risk

Credit risk refers to the risk of a counterparty failing to discharge its obligation. Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, accounts receivable and derivative financial instruments.

The Group has credit policies that are used to manage the exposure to credit risk. As part of these policies, exposures with counterparties are monitored on a regular basis. The Group performs credit evaluations on all customers requiring credit and generally does not require collateral.

The Group's Treasury Policy ensures due consideration is given to the financial standing of the counterparty banks with which the Group holds cash reserves and transacts derivative financial instruments. A minimum Standard & Poor's long-term credit rating of A+ is required to qualify as an approved counterparty. The quantum of transactions entered into with the Group's various financial lenders is also balanced to mitigate exposure to concentrated counterparty credit risk with any one financial provider.

The Group does not have any significant concentrations of credit risk.

For counterparties to trade receivables that are neither past due nor impaired, payments have historically been received regularly and on time.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

The Group considers its maximum exposure to credit risk to be as follows:

	GROUP	
	2017 $000	**2016 $000**
Cash and cash equivalents	8,423	7,065
Trade and other receivables	70,483	64,311
	78,906	71,376

Cash and cash equivalents are held with banks with Standard & Poor's rating of AA-.

Trade receivables analysis

At 30 June aging analysis of trade receivables is as follows:

	GROUP	
	2017 $000	**2016 $000**
Current	56,169	51,472
31-60 days over standard terms	7,327	6,501
60-90 days over standard terms	1,137	1,143
91+ days over standard terms	2,616	1,849
	67,249	60,965

The Group has $9.4 million (2016: $7.8 million) of financial assets that are overdue and not impaired.

(c) Market risk

Foreign exchange risk

Exposure to foreign exchange risk arises when (i) a transaction is denominated in a foreign currency and any movement in foreign exchange rates will affect the value of that transaction when translated into the functional currency of the Company or a subsidiary; and (ii) the value of assets and liabilities of overseas subsidiaries are required to be translated into the Group's reporting currency.

The Group's Treasury Policy is used to assist in managing foreign exchange risk. In accordance with Treasury Policy guidelines, foreign exchange hedging is used as soon as a defined exposure to foreign exchange risk arises and exceeds certain thresholds.

As disclosed in Note 19, at 30 June 2017 the Group had Australian dollar denominated bank borrowings of AUD83,900,000 (2016: AUD80,900,000). Of these borrowings, AUD14,200,000 (2016: AUD14,200,000) were borrowed by a New Zealand subsidiary and have been translated at the prevailing foreign currency rate as at balance date. The rest of the Australian dollar denominated bank borrowings have been borrowed by an Australian subsidiary and are translated as part of the consolidation of the Group for reporting purposes. The Group has no other outstanding foreign currency denominated monetary items.

The table on the following page details the Group's sensitivity to the increase and decrease in the New Zealand dollar (NZD) against the Australian dollar (AUD) in respect of the Australian dollar denominated bank borrowings, borrowed in New Zealand. The sensitivity analysis only includes outstanding foreign currency denominated monetary items at the reporting date and adjusts their translation as at that date for the change in foreign currency rates. A positive number indicates a decrease in liabilities (bank borrowings) where the NZD strengthens against the AUD.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Interest rate risk

Exposure to cash flow interest rate risk arises in borrowings of the Group that are at the prevailing market interest rate current at the time of drawdown and are re-priced at intervals not exceeding 180 days.

Interest rate risk is identified by forecasting short and long-term cash flow requirements.

The Group's Treasury Policy is used to assist in managing interest rate risk. Treasury Policy requires projected annual core debt to be effectively hedged within interest rate risk control limits against adverse fluctuations in market interest rates.

The following table demonstrates the sensitivity of the Group's equity and profit after tax to a potential change in interest rates by plus or minus 100 basis points, with all other variables held constant and in relation only to that portion of the Group's borrowings that are subject to floating interest rates.

Significant assumptions used in the interest rate sensitivity analysis include:

(i) reasonably possible movements in interest rates were determined based on the Group's current mix of debt in New Zealand and Australia, the level of debt that is expected to be renewed and a review of the last two years' historical movements; and

(ii) price sensitivity of derivatives has been based on a reasonably possible movement of interest rates at balance dates by applying the change as a parallel shift in the forward curve.

Sensitivity Analysis

		INTEREST RATE MOVEMENT				NZD/AUD MOVEMENT
		IMPACT ON PROFIT		IMPACT ON EQUITY		IMPACT ON LIABILITIES & EQUITY
	CARRYING AMOUNTS	+100 BASIS POINTS	-100 BASIS POINTS	+100 BASIS POINTS	-100 BASIS POINTS	+ OR - 10% IN VALUE OF NZD
2017 ($000)						
Financial assets						
Cash and cash equivalents	8,423	61	(61)	61	(61)	-
Trade and other receivables	72,295	-	-	-	-	-
Financial liabilities						
Borrowings	166,241	(1,197)	1,197	(1,197)	1,197	1,358/(1,659)
Derivative financial instruments	9,043	745	(745)	3,456	(3,576)	-
2016 ($000)						
Financial assets						
Cash and cash equivalents	7,065	51	(51)	51	(51)	-
Trade and other receivables	64,501	-	-	-	-	-
Financial liabilities						
Borrowings	158,801	(1,143)	1,143	(1,143)	1,143	1,353/(1,654)
Derivative financial instruments	12,901	746	(746)	4,100	(4,266)	-

(d) Fair value estimation

The carrying value less impairment provision of trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables and payables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair values of financial instruments are estimated using discounted cash flows. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Unless otherwise stated, all other carrying amounts are assumed to equal or approximate fair value.

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – Quoted prices (adjusted) in active markets for identical assets or liabilities at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 – Inputs that are observable for the asset or liability, either directly (i.e., as prices; other than quoted prices referred to in Level 1 above) or indirectly (i.e., derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the fair value of an instrument is included in Level 2.

Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs). In these cases, the fair value of an instrument would be included in Level 3.

Specific valuation techniques used to value financial instruments include:

- In respect of interest rate swaps, the fair value is calculated as the present value of the estimated future cash flows based on observable yield curves;
- In respect of forward foreign exchange contracts, the fair value is calculated using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and
- discounted cash flow analysis for other financial instruments.

Specific valuation techniques used to value contingent consideration in a business combination and estimated purchase price adjustments include:

- fair value is calculated as the present value of the estimated future cash flows based on management's assessment of future performance; and
- management's knowledge of the business and the industry it operates in.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

The amounts below are for aircraft held for sale. There were no transfers between levels during the year.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
2017				
Assets				
Aircraft held for sale	-	-	-	-
Total assets	-	-	-	-
2016				
Assets				
Aircraft held for sale	-	1,000	-	1,000
Total assets	-	1,000	-	1,000

The amounts below are for the derivative financial instruments and contingent consideration in a business combination. There were no transfers between levels during the year.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	TOTAL $000
2017				
Liabilities				
Derivative financial instruments	-	9,043	-	9,043
Contingent consideration in a business combination	-	-	1,786	1,786
Total liabilities	-	9,043	1,786	10,829
2016				
Liabilities				
Derivative financial instruments	-	12,901	-	12,901
Contingent consideration in a business combination	-	-	5,620	5,620
Total liabilities	-	12,901	5,620	18,521

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

The following table presents the changes in Level 3 instruments, which are carried at fair value through profit or loss.

	CONTINGENT CONSIDERATION IN A BUSINESS COMBINATION	
	2017 $000	2016 $000
Opening balance	5,620	1,578
Acquisition of businesses	1,598	-
Losses recognised in the income statement	169	823
Settlement	-	(1,941)
Purchase price adjustment	(5,630)	5,536
Exchange rate adjustments	29	(376)
Closing balance	1,786	5,620
Total losses for the year included in the income statement for liabilities held at the end of the reporting period, under:		
- Net interest and finance costs	169	823
	169	823

Contingent consideration in a business combination mainly relates to the acquisition of the business and assets of LexData Management Pty Limited (explained in Note 29) and prior year acquisition of LitSupport Pty Ltd.

27.2 Capital Risk Management

Group capital (Shareholders Funds) consists of share capital, other reserves and retained earnings. To maintain or alter the capital structure, the Group has the ability to vary the level of dividends paid to shareholders, return capital to shareholders or issue new shares, reduce or increase bank borrowings or sell assets. The Group does not have any externally imposed capital requirements.

The Group's long-term debt facilities impose a number of banking covenants. These covenants are calculated monthly and are reported to the banks quarterly on a rolling 12-month basis. The most significant covenant relating to capital management is a requirement for the Group to ensure Shareholders Funds are maintained above a minimum level. There have been no breaches of banking covenants or events of review during the current or prior year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 28. FINANCIAL INSTRUMENTS BY CATEGORY

(a) Assets, as per balance sheet

	LOANS AND RECEIVABLES		DERIVATIVES USED FOR HEDGING		TOTAL	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Group:						
Trade and other receivables (excluding prepayments)	70,641	62,851	-	-	70,641	62,851
Cash and cash equivalents	8,423	7,065	-	-	8,423	7,065
Total	79,064	69,916	-	-	79,064	69,916

(b) Liabilities, as per balance sheet

	DERIVATIVES USED FOR HEDGING		OTHER FINANCIAL LIABILITIES AT AMORTISED COST		TOTAL	
	2017 $000	2016 $000	2017 $000	2016 $000	2017 $000	2016 $000
Group:						
Borrowings (excluding finance lease liabilities)	-	-	166,241	158,801	166,241	158,801
Finance lease liabilities	-	-	351	111	351	111
Derivative financial instruments	9,043	12,901	-	-	9,043	12,901
Trade and other payables	-	-	49,074	43,893	49,074	43,893
Total	9,043	12,901	215,666	202,805	224,709	215,706

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 29. BUSINESS COMBINATIONS

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

The contribution of LexData to the Group results for the year ended 30 June 2017 was revenue of $4.5 million and operating profit before interest, income tax and amortisation of intangibles of $1.4 million.

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

	$000
Purchase consideration	
Initial acquisition payments	2,933
Less allowance for liabilities assumed	(285)
Cash consideration paid during the year	2,648
Fair value of future earn-out payment	1,598
Total purchase consideration	4,246
Fair value of assets and liabilities arising from the acquisition	
Plant and equipment	144
Customer relationships	554
Goodwill	3,972
Finance lease liabilities	(70)
Provisions	(299)
Deferred tax liability	(76)
Exchange rate movement	21
	4,246

The estimated discounted future earn-out payment of $1.6 million may be payable in August 2019, but is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2017, 2018 and 2019. The potential undiscounted amount of the future earn-out payment that the Group expects could be required to be made in respect of this acquisition is between nil and $3.6 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill of $4 million arising upon this acquisition is attributable to the intellectual property obtained and the strategic benefit of increasing and strengthening TIMG's digital offer and increasing the national scale and coverage of LitSupport. None of the goodwill recognised is expected to be deductible for income tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

NOTE 30. SIGNIFICANT EVENTS AFTER BALANCE DATE

Dividend declared

On 14 August 2017, the Directors declared a fully imputed final dividend of 14.75 cents per share (approximately $22.9 million) in respect of the year ended 30 June 2017. The dividend will be paid on 2 October 2017. The record date for determination of entitlements to the dividend is 15 September 2017.

Renewal of bank facilities

The Group has negotiated a three-year extension to the existing debt facilities of NZ$37 million and A$27.5 million that have a maturity date of 1 September 2018. The extension is effective from 14 July 2017 and is at higher pricing compared to existing facilities. In addition, the New Zealand dollars facility has been reduced by $6.5 million.

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

NOTE 31. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

New standards, amendments and interpretations to existing standards have been published by the International Accounting Standards Board (IASB) and the External Reporting Board (XRB) that are mandatory for future periods and which the Group will adopt when they become mandatory. These new standards, amendments and interpretations include:

- NZ IFRS 9 Financial Instruments (mandatory for annual periods beginning on or after 1 January 2018).
  - NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39.
  - The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on its effective date and is planning to commence assessment of the impact of NZ IFRS 9 during the 2018 financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

- NZ IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018).
  - NZ IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and therefore has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations.
  - The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group intends to adopt NZ IFRS 15 on its effective date and is planning to commence assessment of the impact of NZ IFRS 15 during the 2018 financial year. This standard is not expected to significantly impact the Group.
- NZ IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019).
  - NZ IFRS 16 replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.
  - The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with NZ IFRS 15, 'Revenue from Contracts with Customers'. The Group intends to adopt NZ IFRS 16 on its effective date and is planning to commence assessment of the impact of NZ IFRS 16 during the 2018 financial year.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

SHAREHOLDER INFORMATION

Stock exchange listing

The Company's fully paid ordinary shares are listed on NZSX (the New Zealand Stock Exchange).

Distribution of shareholders and shareholdings as at 31 July 2017

	NUMBER OF HOLDERS	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
Size of shareholding			
1 to 1,999	2,244	2,502,494	1.62
2,000 to 4,999	2,444	7,492,147	4.84
5,000 to 9,999	1,264	8,274,980	5.34
10,000 to 49,999	864	14,323,618	9.24
50,000 to 99,999	37	2,353,036	1.52
100,000 to 499,999	30	5,714,761	3.69
500,000 to 999,999	7	5,227,034	3.37
1,000,000 and over	11	109,050,155	70.38
Total shareholders	6,901	154,938,225	100.00
Geographic distribution			
New Zealand	6,757	153,328,874	98.96
Australia	88	1,376,161	0.89
Other	56	233,190	0.15
	6,901	154,938,225	100.00

Substantial security holders as at 31 July 2017

Based upon notices received, the following persons are deemed to be substantial security holders in accordance with Section 26 of the Securities Markets Act 1988:

	VOTING SECURITIES NUMBER	%
ANZ New Zealand Investments Limited, ANZ Bank New Zealand Limited and OnePath Funds Management Limited	12,028,346	7.76
Fisher Funds Management Limited	10,874,730	7.02

The total number of issued voting securities of the Company as at 31 July 2017 was 154,938,225.

SHAREHOLDER INFORMATION

Top twenty registered shareholders of listed shares as at 31 July 2017

	NUMBER OF SHARES HELD	% OF ISSUED CAPITAL
HSBC Nominees (New Zealand) Limited <HKBN45>*	16,994,175	10.97
TEA Custodians Limited <TEAC40>*	11,365,313	7.34
Citibank Nominees (New Zealand) Limited <CNOM90>*	9,119,528	5.89
HSBC Nominees (New Zealand) Limited <HKBN90>*	8,576,071	5.54
ANZ Custodial Services New Zealand Limited <PBNK90>*	6,722,712	4.34
FNZ Custodians Limited	5,433,199	3.51
Accident Compensation Corporation <ACCI40>*	4,968,711	3.21
JPMorgan Chase Bank <CHAM24>*	4,324,150	2.79
Forsyth Barr Custodians Limited <1-Custody>	4,021,136	2.60
Custodial Services Limited <A/C 3>	3,507,468	2.26
ANZ Wholesale Australasian Share Fund <PNAS90>*	3,414,954	2.20
National Nominees New Zealand Limited <NNLZ90>*	3,349,752	2.16
JBWere (NZ) Nominees Limited <NZ Resident A/C>	3,273,252	2.11
Port Devon Limited	3,153,469	2.04
BNP Paribas Nominees (NZ) Limited*	3,150,704	2.03
Investment Custodial Services Limited <A/C C>	2,678,361	1.73
BNP Paribas Nominees (NZ) Limited <BPSS40>*	2,325,148	1.50
BNP Paribas Nominees (NZ) Limited <COGN40>*	2,068,089	1.33
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited <SUPR40>*	1,769,650	1.14
Custodial Services Limited <A/C 4>	1,570,018	1.01
	101,785,860	65.70

* held through NZ Central Securities Depository Limited

CORPORATE GOVERNANCE STATEMENT

This statement is an overview of the Group's main corporate governance policies, practices and processes adopted or followed by the Board of Directors. The Group's corporate governance processes do not materially differ from the principles set out in the NZX Corporate Governance Best Practice Code.

THE ROLE OF THE BOARD OF DIRECTORS

The Board of Directors of Freightways Limited (the Board) is committed to the highest standards of corporate governance and ethical behaviour, both in form and substance, amongst its Directors and the people of the Company and its subsidiaries (Freightways).

BOARD RESPONSIBILITIES

The Board's corporate governance responsibilities include overseeing the management of Freightways to ensure proper direction and control of Freightways' activities.

In particular, the Board will establish corporate objectives and monitor management's implementation of strategies to achieve those objectives. It will approve budgets and monitor performance against budget. The Board will ensure adequate risk management strategies are in place and monitor the integrity of management information and the timeliness of reporting to shareholders and other stakeholder groups.

The Board will follow the corporate governance rules established by the New Zealand Stock Exchange and Directors will act in accordance with their fiduciary duties in the best interests of the Company.

A formal charter has been adopted by the Board that elaborates on Directors' responsibilities. The Board will internally evaluate its performance annually. Any recommendations flowing from this review will be implemented promptly. The Board will review its Corporate Governance practice against current best practice and continue to develop company policies and procedures, as deemed necessary.

BOARD COMPOSITION

In accordance with the Company's constitution the Board will comprise not less than three directors. The Board will be comprised of a mix of persons with complementary skills appropriate to the Company's objectives and strategies. The Board must include not less than two persons (or if there are eight or more directors, three persons or one third rounded down to the nearest whole number of directors) who are deemed to be independent.

Freightways' Board currently comprises six Directors: the non-executive Chairman, the Managing Director and four non-executive Directors. Freightways' Board includes five independent Directors. Key executives attend board meetings by invitation.

DIVERSITY

The Company does not have a formal diversity policy. The Company is, however, committed to encouraging diversity throughout all levels of its operations and by ensuring all employees have an equal opportunity to realise their career ambitions within Freightways. As required to be reported by the NZX Listing Rules, the Company advises that from a gender diversity perspective, as at 30 June 2017, the Board was comprised of 5 male Directors and 1 female non-executive Chairman (2016: 5 male Directors and 1 female non-executive Chairman), and all 5 officers of the Company, who are not Directors, were male (2016: all 5 officers of the Company, who are not Directors, were male).

CORPORATE GOVERNANCE STATEMENT

BOARD MEETINGS

The following table outlines the number of board meetings attended by Directors during the course of the 2017 financial year:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sue Sheldon	10	10
Dean Bracewell	10	10
Roger Corcoran (resigned 27 October 2016)	3	2
Kim Ellis	10	10
Peter Kean (appointed 1 July 2016)	10	9
Mark Rushworth	10	10
Mark Verbiest	10	10

BOARD COMMITTEES

Standing committees have been established to assist in the execution of the Board's responsibilities. These committees utilise their access to management and external advisors at a suitably detailed level, as deemed necessary and report back to the full Board. Each of these committees has a charter outlining its composition, responsibilities and objectives. The committees are as follows:

Audit & Risk Committee: The Audit & Risk Committee is responsible for overseeing risk management, accounting and audit activities, and reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of external auditors, reviewing the Annual and Half Year Reports and making recommendations on financial and accounting policies.

The members are Mark Verbiest (Chairman), Mark Rushworth and Sue Sheldon. All members are independent non-executive Directors. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Mark Verbiest	4	4
Kim Ellis (resigned 26 January 2017)	2	2
Mark Rushworth (appointed 26 January 2017)	2	2
Sue Sheldon	4	4

Remuneration Committee: The Remuneration Committee is responsible for overseeing the Freightways human resource practices, reviewing the remuneration and benefits of the Managing Director and senior management, reviewing and recommending the remuneration of Board members, and making recommendations to the Board in respect of succession planning.

The members of the Remuneration Committee are Kim Ellis (Chairman), Peter Kean and Sue Sheldon. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Kim Ellis	3	3
Roger Corcoran (resigned 27 October 2016)	1	1
Peter Kean (appointed 26 January 2017)	1	1
Sue Sheldon	3	3

CORPORATE GOVERNANCE STATEMENT

Nominations Committee: The Nominations Committee is responsible for ensuring the Board is composed of Directors who contribute to the successful management of the Company, ensuring formal review of the performance of the Board, individual Directors and the Board's committees, ensuring effective induction programmes are in place for the Directors and confirming the status of Directors' independence for external reporting purposes.

The members of the Nominations Committee are Sue Sheldon (Chairman), Kim Ellis, Peter Kean, Mark Rushworth, Mark Verbiest and Dean Bracewell. Meetings were held and attended, as follows:

DIRECTOR	MEETINGS HELD	MEETINGS ATTENDED
Sue Sheldon	2	2
Dean Bracewell	2	2
Roger Corcoran (resigned 27 October 2016)	1	1
Kim Ellis	2	2
Peter Kean (appointed 1 July 2016)	2	2
Mark Rushworth	2	2
Mark Verbiest	2	2

CODE OF ETHICS

Freightways expects its Directors and employees to maintain high ethical standards that are consistent with Freightways' core values, business objectives and legal and policy obligations. A formal Code of Ethics has been adopted by the Board. Freightways' people are expected to continue to lead according to this Code. The Code deals specifically with conflicts of interest, proper use of information, proper use of assets and property, conduct and compliance with applicable laws, regulations, rules and policies.

DELEGATION OF AUTHORITY

The Board delegates its authority where appropriate to the Managing Director for the day-to-day affairs of Freightways. Formal policies and procedures exist that detail the parameters that the Managing Director and, in turn, his direct reports are able to operate within.

SHARE TRADING BY DIRECTORS AND MANAGEMENT

The Board has adopted a policy that ensures compliance with New Zealand's insider trading laws. This policy requires prior consent by the Chief Financial Officer in relation to any trading by executive management, and in the case of Directors of the Company and its subsidiaries, prior consent by the Chairman of the Board.

TREASURY POLICY

Exposure to foreign exchange and interest rate risks is managed in accordance with the Group's Treasury Policy that sets limits of management authority. Derivative financial instruments are used by the Group to manage its business risks; they are not used for speculative purposes.

DIRECTORY

For inquiries in relation to Freightways' services and products contact the offices listed below or refer to Freightways' website at www.freightways.co.nz.

Messenger Services Limited
32 Botha Road
Penrose
DX EX10911
AUCKLAND
Telephone: 09 526 3680
www.sub60.co.nz
www.kiwiexpress.co.nz
www.stuck.co.nz
www.securityexpress.co.nz

New Zealand Document Exchange Limited
20 Fairfax Avenue
Penrose
DX CR59901
AUCKLAND
Telephone: 09 526 3150
www.dxmail.co.nz
www.dataprint.co.nz

New Zealand Couriers Limited
32 Botha Road
Penrose
DX CX10119
AUCKLAND
Telephone: 09 571 9600
www.nzcouriers.co.nz

The Information Management Group (NZ) Limited
33 Botha Road
Penrose
DX EX10975
AUCKLAND
Telephone: 09 580 4360
www.timg.co.nz

Post Haste Limited
32 Botha Road
Penrose
DX EX10978
AUCKLAND
Telephone: 09 579 5650
www.posthaste.co.nz
www.passtheparcel.co.nz

Fieldair Holdings Limited
Palmerston North International Airport
Palmerston North
DX PX10029
PALMERSTON NORTH
Telephone: 06 357 1149
www.fieldair.co.nz

Castle Parcels Limited
163 Station Road
Penrose
DX CX10245
AUCKLAND
Telephone: 09 525 5999
www.castleparcels.co.nz

NOW Couriers Limited
161 Station Road
Penrose
AUCKLAND
Telephone: 09 526 9170
www.nowcouriers.co.nz

Shred-X Pty Limited
PO Box 1184
Oxenford
Queensland 4210
AUSTRALIA
Telephone: +61 1 300 747 339
www.shred-x.com.au

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PO Box 21
Enfield
New South Wales 2136
AUSTRALIA
Telephone: +61 2 9882 0600
www.timg.com
www.filesaver.com.au
www.litsupport.com.au


NEW ZEALAND COURIERS
POST HASTE
HIACE
WWW.POSTHASTE.CO.NZ
CASTLE
PARCELS
www.shred-x.com.au
SHRED-X
DOCUMENT DESTRUCTION
1300 747 339
POST HASTE
NOW COURIERS
Pick up, deliver. Consider it done.
SUB60
stuck
KIWI EXPRESS
COURIERS
CASTLE