# WE'RE A COMPANY THAT DELIVERS

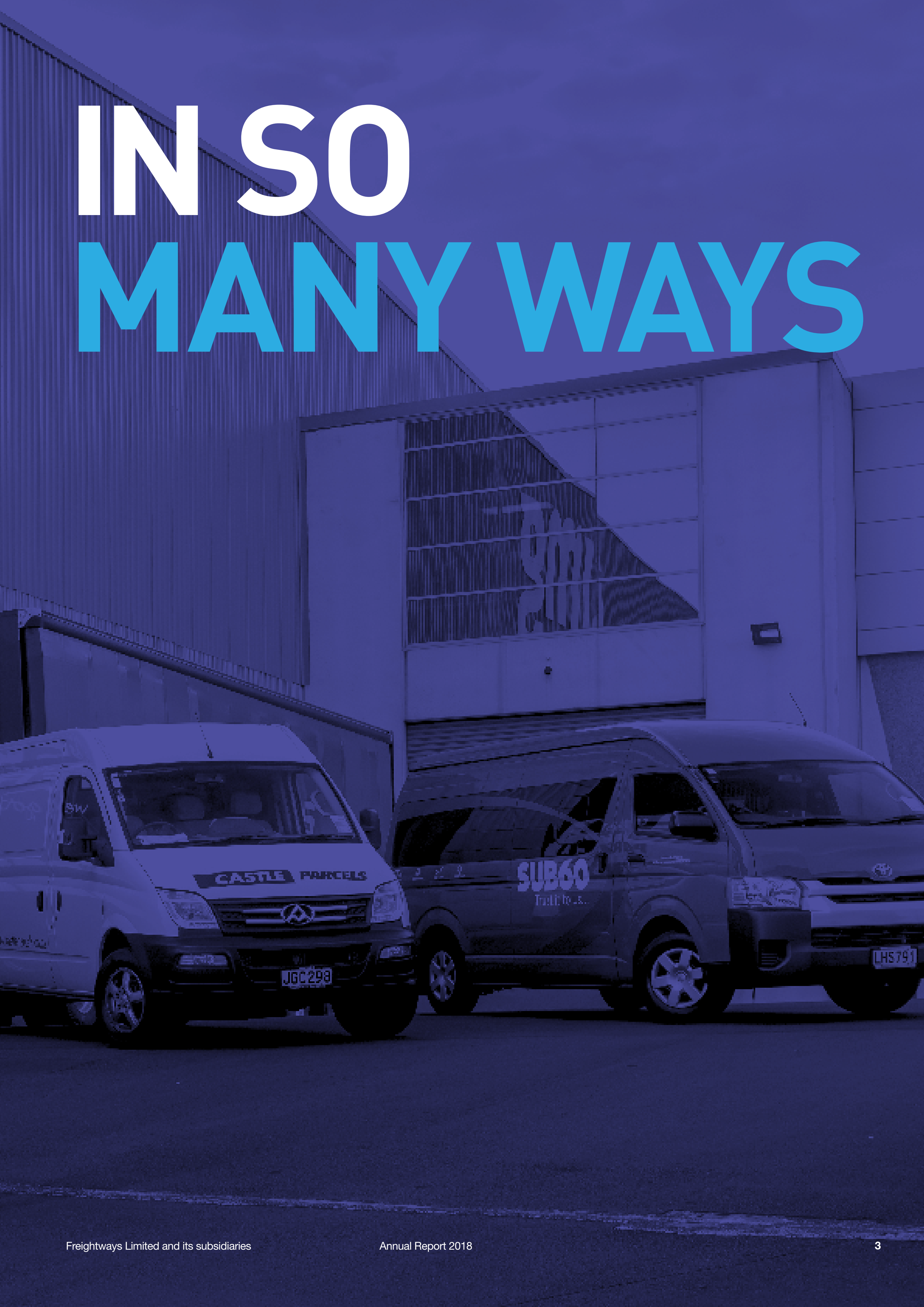
Freightways

Annual Report 2018

## Contents


| | |
|---|---|
| Introduction | 4 |
| Highlights | 6 |
| Chairman and CEO’s report | 10 |
| Materiality | 18 |
| People | 22 |
| Environment | 26 |
| The Freightways family | 28 |
| Community | 32 |
| Our Board | 34 |
| Our leadership team | 35 |
| Directors’ report | 36 |
| Independent auditor’s report | 42 |
| Financial statements | 47 |
| Shareholder information | 90 |
| Corporate governance | 92 |


# IN SO
# MANY WAYS



# FREIGHTWAYS HAS ALWAYS BEEN AN ENTREPRENEURIAL COMPANY. FROM OUR CORE EXPRESS PACKAGE BUSINESS, WE'VE SUCCESSFULLY EXPANDED INTO INFORMATION MANAGEMENT, BUILDING 15 DIGITAL AND PHYSICAL SERVICES IN AUSTRALIA AND NEW ZEALAND THAT ARE STEADILY INCREASING OUR REVENUES AND OUR PRESENCE. MORE RECENTLY WE HAVE DIVERSIFIED OUR SECURE DESTRUCTION BUSINESS TO INCORPORATE A NEW MEDICAL WASTE OPERATION WHICH REPRESENTS AN EXCITING NEW HORIZON OF GROWTH.

Our goal over the medium term is to continue to leverage our expertise and our appetite for innovation in lateral ways: to build new horizons of growth off our expanding base of customers and services in Express Package and Information Management – to compete meaningfully and profitably throughout Australasia.

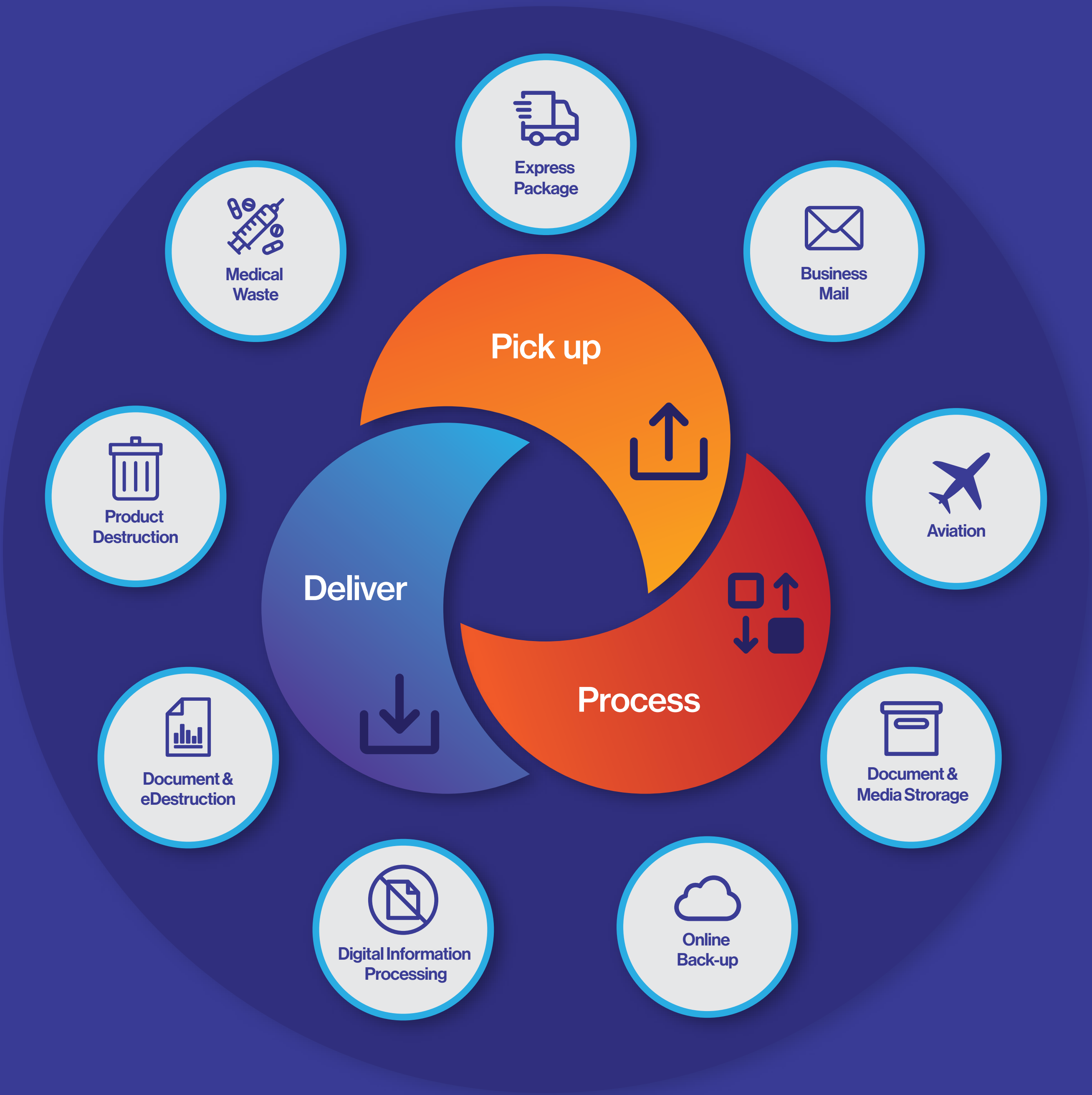
In this report we signal how we intend to use our ability to run strong businesses and apply disciplined application of capital to continue to grow our business.

### Express Package

Freightways operates a multi-brand strategy in the domestic courier market through New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express, Stuck and Pass The Parcel.

Our strategy is to position brands with unique selling propositions to customer niches that require those services. To avoid duplication of costs all of these brands share a common backbone in terms of branch networks, air and road linehaul and IT.

## The Freightways network model




### Aviation

Fieldair provides Freightways with its airfreight capability through a joint venture which operates three 737-400 aircraft, providing the backbone of Freightways overnight Express Package delivery service.

The joint venture manages all aspects of the operation to fly over 32 million kg's of freight per annum for its customers.

### Business Mail

DX Mail and Dataprint provide a range of physical and digital postal services to business customers throughout New Zealand. DX Mail provides time sensitive mail delivery to over 40% of NZ while Dataprint provides both traditional mailhouse-print services as well as several homegrown digital mail presentation platforms.

### Information Management

The Information Management Group (TIMG) provides a range of physical storage and information management services as well as emerging digital information processing services such as; digitisation, business process outsourcing, online back-up and eDiscovery services.

### Secure Destruction and Medical Waste

Shred-X operates a Secure Destruction business providing not only document destruction services, but also eDestruction, product destruction and, following an acquisition in September 2017, Medical Waste services, under the brand of Med-X.

# STRONG EARNINGS IN OUR CORE ACTIVITIES WERE MATCHED BY ENCOURAGING GROWTH IN OUR NEWER MARKETS

## Financial highlights

### Freightways operating revenue FY18 ($m)

Rounded to the nearest $m

$581m


### Freightways net profit after tax ($m)

$62.2m


### Freightways EBITA ($m)

Excluding non-recurring items[1]

$93.7m


### Freightways EBITA ($m)

Including non-recurring items[1]

$96.3m


1. Refer to the Chairman and CEO's report on page 10 for reconciliation between operating profit before interest, tax and amortisation (EBITA) including non-recurring items and EBITA excluding non-recurring items.

## Divisional highlights

### Information Management revenue growth over ten years
Rounded to the nearest $m

**228%**

| | |
|---|---|
| FY08 | $47m |
| FY13 | $100m |
| **FY18** | **$154m** |

### Express Package & Business Mail revenue growth over ten years
Rounded to the nearest $m

**54%**

| | |
|---|---|
| FY08 | $277m |
| FY13 | $306m |
| **FY18** | **$427m** |

## Operational highlights

### NZ Greenhouse Gas (GHG) Emissions

**↓30%**

30% Reduction in gross GHG emissions per revenue over the last 4 years

### Total gross GHG emissions ($tCO_2e$) per million dollar of revenue

| | | Year-on-year reduction |
|---|---|---|
| FY14 | 136.64 | |
| FY15 | 123.02 | 10.0% |
| FY16 | 105.01 | 14.6% |
| FY17 | 102.93 | 2.0% |
| FY18 | **95.52** | **7.2%** |

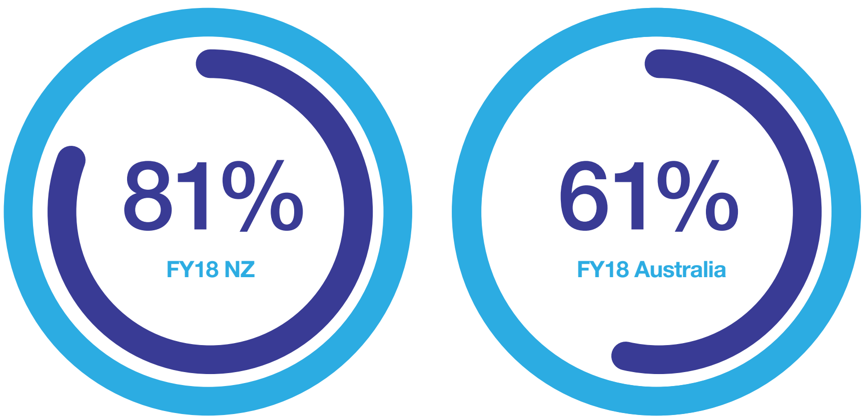
CEMARS® certified

FY18 to be certified in November 2018

### Tonnes of paper collected and recycled in New Zealand and Australia

**47,000**

### Information Management warehouse utilisation




KENDATIRE.COM
PACER


# MESSENGER SERVICES: REINVENTED AND THRIVING

Ten years ago, during the Global Financial Crisis, Messenger Services found itself in a rapidly declining market. Desperate to reduce costs, companies were avoiding expensive point to point couriers – sending items digitally rather than physically or directing them through cheaper and slower hub and spoke networks.

Messenger Services recognised that if it didn't adapt – and quickly – there was a good chance it wouldn't survive. At the time Messenger Services operated a fleet of small cars and motorbikes designed to carry small items, mostly documents. Over the ensuing years the team transitioned the fleet from small cars to vans, provided new services to move larger products, created new brands such as Stuck, established dedicated networks, expanded geographically and entered new markets such as point-to-point trucking and time-sensitive refrigerated transport.

Today Messenger Services operates four distinct brands, represented by over 240 contractors located in all major cities and regions throughout New Zealand. It is now our fastest growing courier business – operating at the premium end of the market and constantly finding new ways to meet unique customer needs while providing new opportunities for its independent contractors to grow their businesses.

Messenger Services' story proves that resilience, determination and innovation are powerful assets in testing times. Its turnaround plan didn't just get Messenger Services out of trouble, it used product and process innovation to establish new ways of thinking and diversified revenue streams that have generated ongoing success and profitability.

# FULL YEAR REVIEW FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Directors are pleased to present the consolidated financial results of Freightways Limited (Freightways) for the year ended 30 June 2018. This report discusses the results, reviews the operations of each division and provides an outlook for the year ahead.

### Highlights of the year include:

Overall year-on-year revenue, earnings and dividend growth.

In the express package & business mail (EP&BM) division:

- Attaining essential network capacity to support future growth objectives, and
- Transitioning to Agile IT deployment, driving progress towards achieving greater speed of execution on our IT business priorities.

In the information management (IM) division:

- A major data collection/transformation contract win, supporting the growth of the division's suite of digital IM services, and
- A successful first year in the Medical Waste industry, supporting the objective to further diversify the Secure Destruction business.

Sustained strong cash generation from both divisions, leading to reduced gearing levels.

### Operating performance

The table below presents the reported 2018 result compared to the prior comparative period (pcp), both before and after the inclusion of non-recurring items that were reported in the pcp.

| | Note | June 2018 $M | June 2017 $M | Increase % |
|---|---|---|---|---|
| Revenue | | 580.9 | 545.3 | 6.5% |
| EBITA, before non-recurring items | i. | 93.7 | 89.3 | 4.9% |
| Non-recurring items | | 2.6 | 3.7 | |
| EBITA | ii. | 96.3 | 93.0 | 3.5% |
| NPAT, before non-recurring items | iii. | 59.6 | 56.6 | 5.3% |
| Non-recurring items after tax | | 2.6 | 4.3 | |
| NPAT | iv | 62.2 | 60.9 | 2.1% |
| Basic EPS (cents), before non-recurring items | | 38.4 | 36.5 | |

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 performance:

- 2018: Non-recurring benefits before tax totalling $2.6 million (no tax applicable) in respect of reversing $1.6 million of a previously accrued final acquisition payable that is no longer expected to be required and a $1.0 million gain upon recording the replacement of earthquake-related damaged racking funded by insurance proceeds. The gain on the racking replacement arises from the insurance proceeds for new racking ($3.0 million) exceeding the $2.0 million written down book value of the structurally-compromised racking written-off.
- 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.

## Dividend

The Directors have declared a final dividend of 15.25 cents per share, fully imputed at a tax rate of 28%, being a 3% increase above the pcp final dividend of 14.75 cents per share. This represents a payout of approximately $23.7 million compared with $22.9 million for the pcp. The dividend will be paid on 2 October 2018. The record date for determination of entitlements to the dividend is 14 September 2018.

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

## Review of operations

Divisional results for the year ended 30 June 2018 are provided below for the EP&BM division and the IM division.

## Express Package & Business Mail revenue growth

### 2018 result:

Operating revenue of $428.8 million was 6.5% higher than the pcp. Earnings before interest, taxes and amortisation (EBITA) of $67.9 million was 4% higher than the pcp.

This result is a sound outcome, particularly given increased costs relating to investment in network capacity to accommodate current, and expected future, increases in volumes. This investment has included the use of a chartered Convair aircraft to supplement the jet fleet and moving into larger depots in Christchurch and Auckland's North Harbour. Additionally, the transformation of Freightways' dedicated IT business to agile work practices and the recruitment of a number of new team members has enabled the progression of many key IT projects. Overall labour costs also stepped-up throughout the year, an inevitable outcome of operating in a tight labour market. Volume growth, and consequently revenue and earnings, were slightly stronger in the first half of the year than the second half.

Freightways' smaller postal business, DX Mail, had a challenging second half and returned lower earnings than the prior year. Despite overall growth in mail volumes, higher margin mail declined and was offset by lower margin bulk mail.

The EP&BM division delivered a sound full year result, while increasing important network capacity and strengthening its service capability.

**Key strategies in 2019:**

**Residential network review:** A review of the residential fleets of contractors across all brands commenced in the latter months of the financial year to improve the productivity and earning capacity of these courier runs. The overall mix of business continues to see faster growth in Business to Consumer (B2C) than Business to Business (B2B) volume. This strategy for residential deliveries will see an increased number of items delivered per courier through greater consolidation of volume from all brands channelled into single-area runs, improving the density of deliveries into smaller concentrated geographic areas. It is expected this will have a positive impact on a number of Freightways' environmental, social & governance (ESG) initiatives, including, ongoing strategies to improve courier earnings & service levels, as well as reducing carbon emissions.

**Pricing for Effort:** A strategy to appropriately price B2C services to ensure both the company and its contractors are motivated to facilitate profitable e-commerce revenue growth is being actively pursued. It is expected e-commerce will continue to drive increased volumes to Freightways year on year and the group is committed to ensuring this growth is both profitable and sustainable and that the B2C services provided meet customers' expectations. Similarly, the DX Mail business will raise its prices for the first time in two years to reflect the increasing cost of mail delivery.

**Visibility and data analytics:** New scanning technology for the EP businesses will be implemented over the coming financial year to enable improved visibility for customers and their receivers. This will complement improved reporting capabilities which will allow the EP teams to better analyse every aspect of their operations so as to help deliver improved efficiency, profit margins and service standards.

## Information Management division

**2018 result:**

Operating revenue of $153.8 million was 6.6% higher than the pcp. EBITA of $29.8 million was 7.8% higher than the pcp.

Compared to the pcp, improved financial results were achieved by all businesses within this division. Utilisation of IM facilities across New Zealand and Australia improved as storage volumes increased. Secure Destruction revenues increased across the suite of paper sold as well as revenue for eDestruction and Medical Waste services. In recent years, a range of digital IM services has been developed and introduced to the market. Growth in these digital services, while at an early stage, has been positive and was boosted by the winning of a major data collection and transformation project in New Zealand.

Good progress is being made to replace all racking in TIMG's Porirua document storage facility that was damaged in the North Canterbury earthquake. Freightways carries comprehensive insurance for events such as this.


The $2.0 million write-off of the written down book value of the structurally-compromised racking in the division's result and its progressive replacement with new racking since have been funded by insurance proceeds received during the year, resulting in a non-recurring accounting gain of $1 million in this year's result. Importantly, this project is tracking to timetable and is being managed in a way that ensures no service disruption to customers.

Australian IM earnings were at the same level as the New Zealand's earnings for 2018. Given the larger scale of the Australian market, and the broader range of opportunities, including in the Medical Waste industry, it is expected that Australia will surpass New Zealand's earnings going forward.

**Key strategies in 2019:**

**Facility utilisation:** The footprint for facilities across Australasia will require only incremental additional storage space in the short term. In particular, the current focus is to add profitable new business into existing facilities to take advantage of the investment made in recent years in Australia.

**Digital Services growth:** TIMG is well-positioned with a range of digital services which is proving to be attractive to its customer base. In the coming year, TIMG will invest in additional sales & marketing resource to increase revenue growth in these service lines. TIMG will also continue to assess new digitally-delivered services which are considered complementary to the existing portfolio of services.

**Secure Destruction and Medical Waste:** It is planned to continue the investment and management focus on revenue streams in related markets that complement the physical footprint established by Shred-X in the Secure Destruction market. These markets present an opportunity to apply Shred-X's consistent and high quality national service standards and sales methodologies to grow through a number of niches, including; eDestruction, Medical Waste, Product Destruction and other high value recycling.

**Acquisitions and alliances:** Freightways will continue to explore and investigate acquisition and alliance opportunities for both current and future complementary service offerings.

Freightways is pleased to announce the recent acquisition of a number of small businesses in Australia that operate in the IM and Medical Waste industries. Two businesses were acquired shortly before year-end and two will be effective from early in the new financial year. These businesses were acquired for a total of $9.8 million. EBITDA of $1.7 million per annum is expected to be realised after the businesses have been fully integrated. Related capital expenditure will be approximately $0.6 million. These acquisitions will be immediately EPS positive.

The LexData scanning business acquired in 2016 involves a potential maximum earn-out of $3.6 million, dependent on certain financial performance hurdles being achieved for the three years ended 30 June 2019. Latest forecasts indicated the estimated earn-out payable recorded in the balance sheet was in excess of that likely to be required and has been reduced by $1.5 million, resulting in a non-recurring earnings benefit in Freightways' 2018 consolidated result.

# SHRED-X: TURNING WASTE INTO GOLD

Shred-X is a powerful Freightways success story. The company that started life as a greenfield start-up by Nick Karos on Australia's Gold Coast determined to "paint Australia orange" with just one van, is now the dominant secure destruction brand in Australia, with 10 branches across the country and a comprehensive national network.

Freightways acquired the business in 2008 and supported owners Nick and his brother, Van, with their vision of growing the business through disciplined application of capital, knowledge around completing mergers and acquisitions and experience in establishing start-ups.10 years on, Shred-X has grown into a highly successful secure destruction business with the highest industry certifications and a strong reputation among corporate, government and SME businesses. In September 2017 Shred-X added Medical Waste services to its portfolio through the newly-formed Med-X Healthcare Solutions by acquiring State Waste Services in Sydney and more recently Medico in Victoria. Med-X has also commenced a greenfield service in Queensland and is actively seeking opportunities to grow its national footprint throughout Australia.

Shred-X proves that a powerful entrepreneurial spirit is critical to building successful businesses. Its growth has been fuelled by its willingness and ability to see and seize opportunities, develop a powerful fit within its teams and astutely apply capital to best effect. The decision to identify new business opportunities by successfully extending from the core business of document destruction into identified areas of need, such as Medical Waste, has opened up new markets and established a new horizon of growth for Freightways.

www.shred-x.com.au
1300 747 339
SHRED-X
DOCUMENT DESTRUCTION
"Our Business Is Making Sure No One Knows YOUR Business"

## Corporate

Corporate costs increased by $0.4 million compared to the pcp, primarily due to one-off costs associated with transitioning leadership and appointing a new non-executive Director.

Net debt decreased by approximately $4 million to $154 million during the year, driven by strong cash flows from operations, offsetting investment in operating capacity and a number of small acquisitions. Debt to debt & equity gearing levels have decreased below 40%.

## Outlook

The markets in which Freightways operates in both New Zealand and Australia remain positive, albeit the company is cautious about recent declines in business confidence, which may affect volumes through the network. Organic and acquisition growth opportunities exist in both New Zealand and Australia. Subject to factors beyond its control, Freightways is once again targeting year-on-year earnings growth in the 2019 year.

Within the EP&BM division, current indications are that organic volume growth will be slightly lower in 2019 than it was in 2018. Network capacity costs are not expected to step-up at the same level as in the pcp, with investment in capacity and capability expected to be more incremental. Strategies to better align service with customer expectations will continue to be implemented, particularly in the faster-growing B2C market.

The inflationary cost of operating in a tight labour market, along with a generally higher cost of doing business, is expected to be offset by increased pricing, including pricing related to higher fuel costs. Freightways will continue to monitor employment law reform.

Within the IM division, increased utilisation of existing capacity will be a key focus. Encouraging progress has been made with digital IM services and Freightways will continue to invest in its digital capability. The group's recent entry into the Medical Waste industry has tracked to expectations and Freightways' presence in this market will be extended through a small, recently-acquired Victorian business.

Overall capital expenditure for the 2019 financial year is expected to be in the range of $20-22 million. Operating cash flows are expected to remain strong throughout 2019.

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

## Conclusion

Freightways has continued to invest in the future of its businesses, while returning a sound result for 2018. There are opportunities for all of the group's businesses to continue to grow and evolve their service offerings to meet customers' demands.

Freightways' agility and entrepreneurial outlook should see it continue to adapt to changing markets and conditions and continue to be resilient in the face of external factors. The strength of Freightways' brands allows them to compete strongly in their respective niches and collaborate behind the scenes to share common infrastructure and capability. Freightways is committed to improving the long-term sustainability of its business for the benefit of its teams of people, its customers, its shareholders and the environments in which it operates.

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

Susan Sheldon

**Susan Sheldon**
**Chairman**

**Mark Troughear**
**Chief Executive Officer**


## Leadership changes in 2018

### Managing Director/Chief Executive Officer

In December 2017, Dean Bracewell stepped down after 34 years' service to Freightways, 18 of which were as Managing Director. Dean lead Freightways through its Initial Public Offering (IPO) in 2003 at an initial market capitalisation of $0.2 billion to a market capitalisation of $1.2 billion and a Total Shareholder Return in excess of 600%.

Dean's relentless focus on organic growth along with strategic investment in acquisitions and operating capacity, combined with strong business disciplines, has served the business well over his time at the helm. Dean has made a substantive contribution to Freightways over a long and successful career with the Company.

Mark Troughear was promoted to the role of Chief Executive Officer from January 2018 to replace Dean. Mark joined Freightways in 1996 and has been directly involved in developing the Company's strategic direction and overall performance. He has led Freightways businesses in the EP&BM division and has had over-arching responsibility for the IM division.

### Chairman:

Sue Sheldon, Chairman of the Board of Directors of Freightways, will resign her position effective at the close of the Company's Annual Shareholders' Meeting in October this year. Sue joined Freightways as an independent director in 2003 ahead of its IPO and has been Chairman since October 2010. Sue has supported the Company's relentless focus on organic growth and strategic investment in acquisitions and operating capacity. She has encouraged strong business disciplines and overseen governance practices that have been hallmarks of Freightways' performance.

The Board has unanimously resolved to appoint Mark Verbiest as Chairman to replace Sue upon her retirement. Mark joined Freightways as an independent director in 2010. Mark is an experienced company Chairman, a very accomplished professional director with broad commercial experience and most importantly will ensure the continuity of leadership on the Freightways Board.

### Directors:

Freightways has appointed two new independent directors to the Board to replace Sue and Dean.

Abby Foote joined the Board in June 2018. Abby is a professional director based in Christchurch with over 10 years' governance experience, including various NZX-listed and Crown-owned companies. Abby has a strong analytical and strategic focus, coupled with a critical awareness of corporate governance and risk management issues.

Andrea Staines joined the Board in August 2018. Andrea has 12 years' governance experience on the Boards of a range of Australian entities. Andrea brings to Freightways key strengths in fast moving consumer services and transport sectors, a track record of operational excellence and innovation and a proven strategic focus.

# THE IMPACTS WE HAVE

Freightways is committed to incorporating non-financial criteria into its decision-making and public reporting to meet the growing demand by stakeholders for access to broader information about company activities. This year for the first time we conducted an assessment to determine which issues are most material to our business and to our reporting. Specifically we wanted to compare and contrast the issues that impact the business and those that are of most interest and concern to our stakeholders.

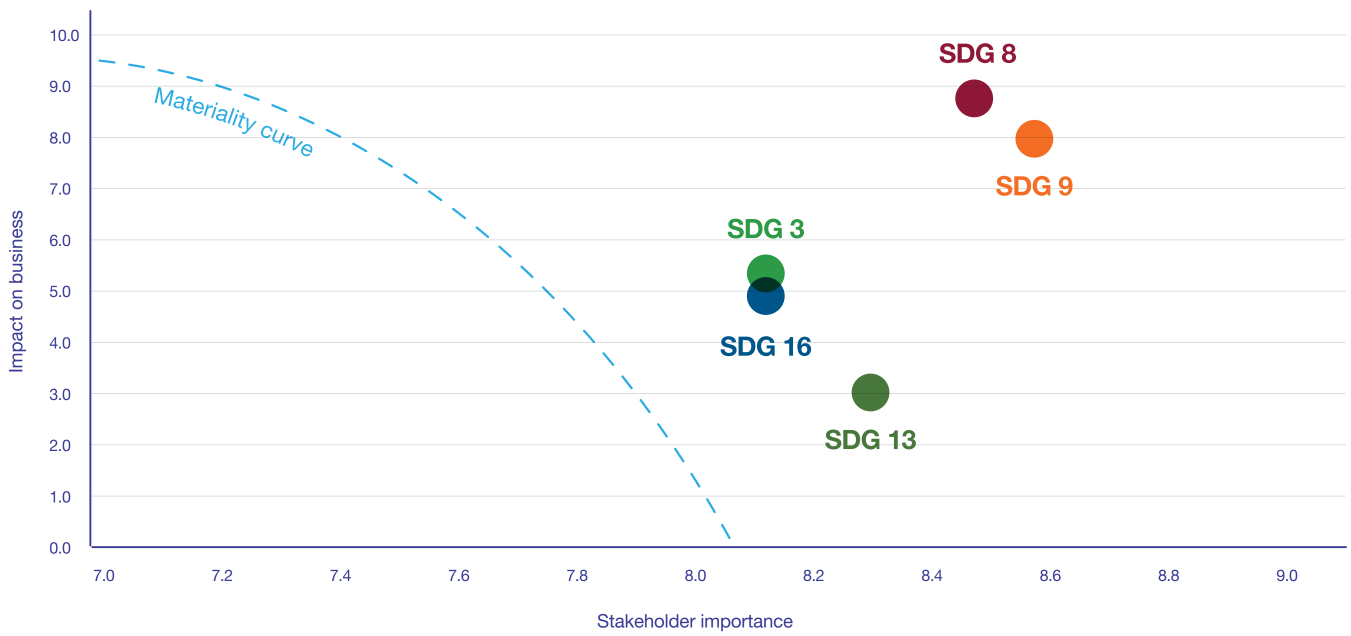
To do this, we used the Sustainable Development Goals (SDGs) developed by the United Nations (UN) because they represent a cohesive framework and a global and consistent set of goals that align with our wish to take whatever actions we can to improve the lives of our people, the communities we are part of, the environment and the interests of investors and other stakeholders.

## Our materiality process

We began by engaging with our own people in order to identify which SDGs they felt were most important to the business. We asked a broad cross section of our staff to identify which of the goals they felt we contributed to already and which ones they thought we should aim to deliver on throughout our business. We then asked a number of working groups in the company to do the same. To help make the SDGs real, we broke them down into tangible aspects, using a combination of the UN definitions and our own interpretation of what they might mean in a Freightways setting. We then asked both groups to score these individual aspects rather than the high-level SDGs, before aggregating the results to identify which SDGs they considered most important.

From there we engaged with clients and investors, asking them also to rank the list of SDGs. We provided them with the interpretation of the goals in a Freightways setting that we had used for the internal groups and asked them to score which goals were most important for them.

## Materiality Matrix




## The Sustainable Development Goals

The UN SDGs aim to end all forms of poverty, fight inequalities and tackle climate change over the next 15 years. The SDGs are unique because they look to involve everyone in promoting prosperity while protecting the planet. They include SDGs intended to build economic growth and address social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection. There are 17 SDGs in all. Freightways has selected the 5 most relevant SDGs to focus on.

### SDG 3 Good health and well-being

- Health and Safety in Employment – injury reduction
- Non-GHG emissions (e.g. particulate, NOx)
- Road safety
- Employee wellness programme

### SDG 8 Decent work and economic growth

- Profitability
- Organisational culture
- Growing the incomes of our contractors

### SDG 9 Industry, innovation and infrastructure

- Product and process innovation
- Customer experience
- Data security
- New business opportunities (e.g. medical waste management)

### SDG 13 Climate action

- GHG emissions

### SDG 16 Peace, justice and strong institutions

- Ethics, bribery and corruption (Integrity)
- Transparency


# WIDE AWAKE TO THE NEEDS OF OUR DRIVERS

Our people are our biggest responsibility and we take their livelihoods and their safety very seriously. Our internal line-haul business (Parceline) is one of a number of businesses made up of dedicated contractors, many of whom have been with us for over 20 years. These contractors have built their livelihoods and those of the teams they employ by providing outstanding service to the retail brands of New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers and DX Mail.

Together, these contractors cover over 11 million kms every year, usually in the dead of night, in all the weather conditions that New Zealand can throw at them. To make sure that they can do their work as safely as possible, we've introduced and funded Guardian Seeing Machines into the truck cabs of our Parceline fleet, to make sure that our people stay awake and alert throughout their working days on New Zealand's roads.

Guardian Seeing Machines is state-of-the-art fatigue detection technology. The technology literally keeps an eye on our drivers while they work, recording their eye movements and looking for any signs of fatigue or inattention. Should it detect anything unusual, the technology immediately alerts the driver (through real time in-cab vibration) and at the same time contacts the principal contractor and Parceline management. It's another example of how Freightways is committed to injury reduction and road safety while giving our contractors the autonomy they want to grow their incomes as our contractors and arrive at their destinations safely.

SDG 3

# WE ARE A BUSINESS BUILT ON THE POWER OF NETWORKS. CONNECTING WITH OUR PEOPLE IS CENTRAL TO OUR SUCCESS

Our people work for us in a range of locations and commercial arrangements. Many we employ directly. Others work as independent contractors. This year we continued to roll out initiatives to help ensure that everyone enjoys an environment of respect, that career advancement is broadly available, and that our people are safe throughout their working day.

Freightways' commitment to the UN Sustainable Development Goals (SDGs) has brought new emphasis to existing practices and motivated us to adopt new initiatives that enable Freightways to make a difference to the lives of New Zealanders and Australians who need additional support to achieve their particular goals.

## Delivering on decent work and economic growth

Our commitment to SDG 8: Decent Work and Economic Growth is all about promoting inclusive and sustainable economic growth, employment and decent work for all. In April 2018, we partnered with On Demand Logistics (a transport and logistics training facilitator) and the Ministry of Social Development (MSD) to provide a pathway for school leavers and long term unemployed to make their way into the workforce. We chose On Demand Logistics because we share similar values and because they demonstrated a genuine care and concern for people and an ability to contribute positively to family, whanau and communities. This aligned with our People strategies and our aim of giving back to our communities.

The three partners are now working together on three specific programmes:

**1. Gateway school holiday programme (one-week programme)**
Students attend a one week training programme and then experience two days of work in a transport/logistics organisation. They are placed in a Freightways business where they quickly learn what will be expected of them when they enter the workforce. There is a heavy focus on the basic responsibilities of being a good employee - being on time and reliable, understanding and following health and safety practices as well as the specifics of doing the work.

**2. Gateway term programme (seven-week programme)**
Students attend a seven week training programme facilitated by On Demand Logistics. An integral part of the programme is an extended work experience opportunity. Students must attend work experience one day a week over a 4 week period in a designated Freightways business. They then undertake the work experience component having completed qualifications in Workplace Health and Safety, OSH Forklift licence and Manual handling and Hearing conservation.

**3. Ministry of Social Development (MSD) – training, work experience and employment (four week programme)**
We support this MSD initiative by providing a suitable meeting room for a week and the necessary training resources to facilitate warehousing/distribution and Class 2 licence training. It begins with the 10 participants undertaking hands-on training at the Freightways Southern Business Hub in Christchurch. This is followed by an intensive week of 'on the job' experience with one of the brands at the same site.

## Other significant people initiatives this year

**DX Mail has implemented customised advanced rider training for their Posties** to help them safely navigate the specific hazards that can emerge when operating motorbikes around driveways and in suburban areas.

**We made Employee Assistance Programme (EAP) services available to all of our teams** to assist our people to deal with issues that affect their health and wellbeing as part of our commitment to our people in the work place, and beyond. We want to ensure that our teams have access to support options for any issues that may impact them negatively. This commitment aligns with the UN SDG of Good Health and Well-Being. EAP run a confidential self-referral system.

**Freightways Fundamentals is a training programme designed for those new to supervisory and management positions.** The Freightways Fundamentals programme traces its origins back to the late 80's where it focused on the disciplines required to manage a successful express package business. Today, Freightways Fundamentals covers a wide range of topics including leadership, coaching and development and performance management, while still maintaining a healthy focus on financials and the importance of margin to a sustainable business. Over 160 participants attended Fundamentals in 2018.

**In 2017 Post Haste Limited won the NZIHR award for Health, Safety and Wellbeing for their "Movement" programme.** This initiative focused on supporting family, whanau and communities and incorporated elements intended to promote fitness, nutrition, mental wellbeing and healthy living. In 2019 we will look to broaden the scope of the programme across the wider group. We undertook a strategic review at Messenger Services and Post Haste to improve courier remuneration by focusing on higher priced jobs at Messenger Services, proactively managing fleet size to match demand and working one on one with contractors to maximise their earnings potential. Post Haste has introduced a residential payment model. This was trialled earlier this year and will be rolled out to predominantly residential couriers in FY19 to help enable contractors to improve their revenue earning potential.

**We introduced the Freightways LEAD programme to grow emerging management talent within the business.** This custom designed leadership course is conducted over 3 months and structured into 3 modules. It is moderated with a mix of external and internal facilitators to ensure the Freightways "way of doing things" is combined with best external practice. The course also incorporates a strategic initiative that participants design and implement to improve some aspect of their current business' performance. LEAD will take 12 new successful applicants each year. 25% of the participants from the 2017 intake have already been promoted within the group.

### DX: Posting healthy profits in a declining market

DX Mail is one of the few postal operators in the world making money out of mail. By taking a lean and adaptive approach, we've rolled out an alternative national mail network that now covers a large proportion of New Zealand and continues to expand – at a time when global postal markets are in decline. DX Mail uses product and process innovation to provide a range of high quality mail services aimed predominantly at businesses who require time sensitive delivery for important documents. The network is based on a high level of variability allowing it to expand and react to changes in demand as required.

SDG 3

SDG 8


Lovey Woodhouse, Courier Contractor,
New Zealand Couriers North Harbour branch.

# LOVING THE WAY OF LIFE

Freightways is built on the power of networks. Connecting with our people is central to our success – and this means supporting them to achieve the career they want. Lovey has been a New Zealand Couriers Contractor, on and off, for 17 years. She says the support she's received from Freightways has been crucial to her success.

"I was first introduced to the world of courier contracting back in 2000 when I used to help my brother-in-law with his runs. What immediately appealed was the freedom and social interaction the job offered. As a sportsperson, the physicality was also attractive – being outside and active, not being confined to one space. So I decided to give it a go! And I haven't looked back.

What I find most rewarding is the autonomy the job offers. I'm my own boss, I get to dictate my own terms and be in control. When you run your own business, you certainly don't go into it with a '9-5' attitude – you've got to be prepared to work hard, be proactive and ambitious.

SDG 8

The great thing about being part of the Freightways Group is that you're never left to do it alone. From day 1 there's a fantastic crew of people supporting you, and I continue to rely on them today to help grow my business. Our relationship is based on mutual respect and teamwork, so although managing my own business was a big step-up for me, I knew Freightways always had my back.

But, ultimately, it's the relationships we have with our customers that lie at the heart of our business. Seeing them a few times a day, we really get to know them and they can trust us to go the extra mile. It's this relationship, beyond the obvious things like great service, quick turnaround and a premium brand, that sees them stay with us. A quick chat and a friendly smile can speak volumes!

As much as I love my job, I believe being a courier has a shelf life because of its physical nature. The natural progression for me is to move into an operations or fleet manager role within Freightways, where I might add value from a contractor's perspective. And, when the time comes to make that move, I know Freightways will support me 100%."


# REDUCING OUR IMPACTS

## Network intensification

Freightways' highly productive Express Package business model drives efficiency and a constant reduction in emissions per item as volumes grow.

Freightways concentrates its runs for contractors to achieve the right level of volume within defined areas. As incremental volume is added through the national network, contractors can pick up and deliver a greater number of items with no need to travel any greater distance. This intensification, combined with maintaining modern vehicle types, results in reducing emissions per item as volumes grow.

## Fleet flexibility

Our linehaul fleet is held to high standards of Euro 5 and above through refreshing units on a regular basis.

In the future it will be critical to maintain flexibility to transition to new technology – as it emerges and the supporting infrastructure is built – capable of carrying heavy loads over 12 hour timeframes and the terrain we operate within.

Freightways is also investing in modernising its owned Information Management fleets in NZ and Australia which will result in better fuel economy and reduced carbon emissions over the coming years.

# FIELDAIR: WORKING TOGETHER TO EVERYONE'S BENEFIT

Faced with needing to refresh a 60 year old aircraft fleet, we established a joint venture with Airwork to operate three 737-400s to meet the national demand for overnight parcel delivery. The new arrangement not only increased overall speed and capacity by enabling more efficient use of aircraft and ground services, it also enabled Freightways to significantly reduce its aviation fuel emissions.

**Volume density**

+

**Network intensification**

+

**Fleet modernisation**

=

**Lower emissions per item**

### Innovative climate actions this year

In addition to the benefits from intensification and flexible fleets we will trial a number of new technologies this year.

- Introduction of electric bicycles at Messenger Services.
- Trial of electric motorbikes at DX Mail.

Shred-X in Australia and TIMG in NZ have collected and processed over 40,000 tonnes of paper which is delivered to paper mills for recycling. This recycled paper reduces the demand for virgin wood pulp and contributes to reducing deforestation. Shred-X and TIMG have also partnered with e-Stewards to deal with e-destruction and e-waste.

**SDG 13**

# OUR STRATEGY IS TO DEVELOP AND SUPPORT POWERFUL BRANDS THAT CUSTOMERS KNOW AND TRUST

If our customers are to truly trust us to deliver products and services that are vital to their interests, they want to be able to deal with brands that they recognise as providing superior and focussed service levels.

## Delivering on innovation and infrastructure

Our commitment to SDG 9: Innovation and Infrastructure has seen us change not just how products and services are delivered, it's also motivated us to continue to make changes large and small to the services we offer.

Some of those innovations are literally challenging established networks. DX Mail for example has pioneered an alternate postal delivery network that provides a distinct alternative to a larger incumbent and it continues to expand despite an overall market which is declining.

In our Express Package business we have invested in state of the art automated freight sorting technology at our new Christchurch Southern Business Hub. This system allows our hub and spoke brands to scan, weigh and cube every item that travels over the conveyor system to provide valuable consignment data as well as speeding up the processing of freight to meet our strict deadlines.

This year Shred-X has begun using on-board vehicle scales to provide improved environmental reporting. That reporting complements the business's decision to engage independent carbon advisor Pangolin to review and measure the company's greenhouse emissions and to help the brand report on these findings.

These measures and many others are part of our drive at Freightways to look for improvements and opportunities across all aspects of our business. But just as important as the contributions to the business and the environment are the endorsements that these improvements to innovation and infrastructure make to our brands.

With each innovation, we reinforce the hard-earned reputations of our brands and position our businesses as change-makers in sectors where too often competitors have been happy to leave things as they were. At Freightways, our view is that dynamism and responsiveness are key proof-points for customers. They confirm that as a group, and within each of our brands, there is a deep commitment to pushing boundaries in a bid to find competitive edge, operational improvements and environmental efficiencies.

SDG 9

### Innovations this year

**Messenger Services has continued to innovate its portfolio of time sensitive services by introducing an express refrigerated delivery service this year.** It provides high quality business-to-business and business-to-consumer delivery of perishables and complements the national delivery of perishable foods and vaccines undertaken by Freightways' hub and spoke brands.

**InMotion: in response to customer demand for an application that could help them better manage and organise outgoing communications, Dataprint developed InMotion** – a platform which enables businesses to send either electronic or physical mass communication from their desktop. Amongst a host of features, the platform applies business rules, document tracking and scheduled job release to take the hassle out of sending mass communications.


**TIMG has developed a workflow management tool to assist businesses manage previously cumbersome paper communications.** Paperlite detects either pure digital, or scanned physical, inputs and applies business rules to the critical data that is collected. By automating both the decision making that applies to the data and the transfer of work to appropriate departments, Paperlite is forging a niche as a tool to aid business efficiency.

**Freightways' in-house IT division (FIS) has adopted Agile as a way of working to implement a range of digital enabled solutions for the Express Package division.** With all of the markets we operate in experiencing significant rates of change and an unquenchable demand for visibility and data, it's essential that new initiatives are scoped and developed quickly. FIS has developed teams which work in an integrated way with the business to deliver 2 weekly sprints of progress on the many projects we have underway at any given time.

**Shred-X has launched its first mobile data destruction truck in Sydney in response to demand from customers for on-site secure destruction of their electronic media.** With increasingly large penalties now in place in Australia for data breach, it is critical that any device that holds data is safely and securely destroyed at the end of its life. Shred-X has long provided offsite destruction services and now can meet the needs of customers who want data destroyed right outside their doors.

# TIMG: INTRODUCING NEW TECHNOLOGY TO THE BUSINESS OF GOVERNMENT

TIMG is the information management specialist. Our team take the pain out of managing physical and digital information for our customers. Over 15 years, TIMG has grown from a small records storage business in Auckland to an extensive operation spanning 19 facilities in 15 cities, expanding as we did so from a single line of business to 15 information management services. As a result, TIMG is now well positioned to continue building physical and digital information management business in Australasia.

This year TIMG New Zealand was entrusted with transforming data capture and processing for several large government agencies in New Zealand. As information management specialists, with particular skills in critical areas like data security, we have introduced technology to help these agencies update inefficient paper-based processes.

SDG 9

One agency asked us to help solve the problem of increased demand for paper-based application forms and to improve their outdated and inefficient manual processes. We scoped, implemented and managed an outsourced digital solution that removed data entry, improved accuracy, reduced risk and significantly improved processing time.

Another agency needed our expertise to deliver a large-scale scanning and data extraction solution. To achieve this, we established a facility in a secure location, configured specialised software to read handwriting and brought in a team of around 150 people to receive, image, repair and transmit the data.

TIMG has delivered to New Zealand Government agencies solutions that work, further enhancing their reputation as a company to be trusted with matters of national importance when accuracy, speed and reliability are critical to success.

# A YEAR OF EXTENDING OUR SENSE OF COMMUNITY

Every day, the Freightways Group engages with hundreds of thousands of New Zealanders and Australians in communities big and small. Sponsorship is one way that we look to add our support to what those communities value. Acting in a sustainable way is part of being a good corporate citizen and inspiring others to be responsible. Via our network of motivated and passionate individuals we work with a variety of environmental, educational and charitable groups. Of the many organisations we engage with as a Group, two are signature sponsorship partners.

### Child Cancer Foundation

NZ Couriers is proud to have a long-standing relationship with Child Cancer Foundation. Each year NZ Couriers provides a free mail collection service, reduced and free courier rates throughout the year and regular donations to the Stars of Courage programme – where each child diagnosed with cancer is gifted a dedicated star. The money we raise helps fund the $3 million required annually for child and family support services in New Zealand. To learn more about the Child Cancer Foundation please visit: www.childcancer.org.nz

### Keep New Zealand Beautiful

Freightways is hugely grateful for what this charity does for our country. Since 2001, along with monetary donations, our people have rolled up their sleeves in the annual Clean Up Week. We have also provided valuable savings with reduced courier rates. NZ Couriers sponsorship of the “Volunteer of the Month”, and the annual Beautiful Awards in categories such as “Best Towns and Cities, “Best Community / Environmentally Minded Initiative” and “Sustainable Schools” also helps to support those who generously give their time and in doing so, encourages others to join the cause. To find out more about how to keep New Zealand beautiful please visit: www.knzb.org.nz

01

### Key community initiatives

- Child Cancer Foundation (03)
- Kidsline (part of Lifeline)
- Keep New Zealand Beautiful (01)
- The Hearing House
- Beanies for Babies
- Duffy Books
- Auckland Rescue Helicopter Trust (02)
- Cancer Society
- Auckland Kidney Society
- McGrath Foundation


01


02
HLN


03

# OUR BOARD

**Susan Sheldon CNZM**
**Chairman**
B.Com, FCA, CF Inst D

**Mark Rushworth**
BE (Hons), MEM

**Kim Ellis**
B.CA, B.ENG

**Peter Kean**

**Mark Verbiest**
LLB, CF INST D

**Abby Foote**
LLB (Hons), BCA, CMInstD, INFINZ (Cert)

**Andrea Staines joined the Board as a non-executive director in August 2018.**

# OUR LEADERSHIP TEAM

**Mark Troughear**
**Chief Executive Officer**
BMS, Waikato University

**Mark Royle**
**Chief Financial Officer and Company Secretary**
B.BUS (Acc), CA

**Matthew Cocker**
**Chief Information Officer**
PhD, Georgetown University

**Neil Wilson**
**General Manager, Freightways**

**Steve Wells**
**General Manager, Express Package Division**

# Directors' report

## 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 2018 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, CF Inst D.**

Sue was appointed a Director 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.

**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 Limited 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. Kim is currently a director and the Chairman of NZ Social Infrastructure Fund Limited, Metlifecare Limited and Sleepyhead Group Limited. He is also a director of Port of Tauranga Limited, FSF Management Company Limited and Ballance Agri-Nutrients Limited and an advisor to Envirowaste Services Limited.

**Abby Foote LLB (Hons), BCA, CMInstD, INFINZ (cert)**

Abby was appointed a Director in June 2018. She is a professional director with over 10 years' governance experience, with qualifications in both law and accounting. Abby has experience in a range of senior management, finance and legal roles, with a focus on corporate finance and commercial transactions. Abby is currently a director of Z Energy Limited, where she chairs the Health, Safety, Security & Environment Committee; a director and chair of the audit & risk committees of The Museum of New Zealand Te Papa Tongarewa, TVNZ and Livestock Improvement Corporation Limited; and a director of Sanford 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. Peter 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 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 4 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. Mark is Chairman of Genoapay Limited and a director of GeoOP Limited, Enable Networks Limited and Kin2kin Limited.

**Mark Verbiest LLB, CF Inst D.**

Mark was appointed a Director in February 2010. He is a professional director with 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 over 7 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 recently retired from his role as Chairman of Spark New Zealand Limited. Mark is currently Chairman of Willis Bond Capital Partners Limited and MyCare Limited, an early-staged digital company. Mark is also a director of ANZ Bank New Zealand Limited and Meridian Energy Limited 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 NZX Listing Rules that, as at 30 June 2018, Sue Sheldon, Kim Ellis, Abby Foote, Peter Kean, Mark Rushworth and Mark Verbiest are independent Directors.

## Principal activities

The principal activities of the Group during the year ended 30 June 2018 were the operation of express package & business mail services and information management services.

# Directors' report

## Consolidated result for the year

| | 2018 $000 | 2017 $000 |
|---|---|---|
| **Operating revenue** | **580,886** | **545,262** |
| Operating profit before interest, income tax and amortisation of intangibles | 96,286 | 93,031 |
| Amortisation of intangibles | (1,954) | (1,679) |
| **Profit before interest and income tax** | 94,332 | 91,352 |
| Net interest and finance costs | (9,666) | (9,570) |
| **Profit before income tax** | 84,666 | 81,782 |
| Income tax | (22,505) | (20,926) |
| **Profit for the year attributable to the shareholders** | **62,161** | **60,856** |

## Directors holding office during the year were:

### Parent:

Sue Sheldon (Chairman)

Dean Bracewell (resigned 31 December 2017)

Kim Ellis

Abby Foote (appointed 1 June 2018)

Peter Kean

Mark Rushworth

Mark Verbiest

### Subsidiaries:

Dean Bracewell (resigned 31 December 2017)

Mark Troughear (appointed 1 January 2018)

Mark Royle

## Approved remuneration of directors (effective 1 November)

| | Position | Note | Group Fees (per annum) 2018 $ | 2017 $ |
|---|---|---|---|---|
| Board of Directors | Chairman | (1) | 160,000 | 152,000 |
| | Member | | 85,000 | 80,000 |
| Audit & Risk Committee | Chairman | (2) | 15,000 | 10,500 |
| People & Remuneration Committee | Chairman | (2) | 7,500 | 5,000 |
| Committee work pool (if required) | | | 48,000 | 45,500 |
| Total annual fee pool limit | | (3) | 570,500 | 533,000 |

Notes:
(1) Inclusive of all fees
(2) Exclusive of Board member fee
(3) Approved by shareholders at Annual Shareholders Meeting in October

# Directors' report

## Remuneration received by directors

| | 2018 $ | 2017 $ |
|---|---|---|
| **Directors of Freightways (Parent company)** | | |
| Sue Sheldon (Chairman) | 157,333 | 150,767 |
| Roger Corcoran (resigned 27 October 2016) | - | 25,676 |
| Kim Ellis | 90,000 | 81,417 |
| Abby Foote (appointed 1 June 2018) | 6,944 | - |
| Peter Kean | 83,333 | 79,333 |
| Mark Rushworth | 83,333 | 79,333 |
| Mark Verbiest | 96,833 | 89,767 |
| Total non-executive Directors | 517,776 | 506,293 |
| Dean Bracewell (Managing Director; resigned 31 December 2017) | 850,399 | 1,370,140 |
| Total Parent | 1,368,175 | 1,876,433 |
| **Directors of Group subsidiaries only** | | |
| Mark Troughear (CEO; appointed 1 January 2018) | 341,564 | - |
| Mark Royle (CFO) | 636,771 | 679,007 |
| | 978,335 | 679,007 |
| Total Group | 2,346,510 | 2,555,440 |

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2018 in respect of the two previous six-month performance periods (1 January to 30 June 2017 and 1 July to 31 December 2017). No amount is included above in respect of incentive payments for the period 1 January to 30 June 2018, as these were paid in August 2018. Remuneration of the past Managing Director comprised 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 participated 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. Remuneration of the Chief Executive Officer and Chief Financial Officer (being the only Directors of all of Freightways Limited's subsidiaries) comprises a fixed remuneration package representing 70% and 78% of their total remuneration, respectively, and an 'at risk' portion representing 30% and 22%, respectively. The performance hurdles for the Chief Executive Officer's at risk portion, which are set by the Board at the start of each financial year, are Group financial performance (weighted at 90%) and individual non-financial performance target (weighted at 10%). In the 2018 financial year, non-financial objectives for both the past Managing Director and the Chief Executive Officer relate to health & safety. The Chief Executive Officer and Chief Financial Officer also participate 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 25% of their respective 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. The Company's Remuneration Policy can be found at www.freightways.co.nz/about/corporate-governance

## Remuneration of other officers

Fixed remuneration of other officers, not being directors, representing a range from 76% to 84% of their total remuneration, is benchmarked to market and consists of base salary and matched Kiwisaver contributions up to a maximum of 3%. The officers participate in an at-risk short-term incentive (STI) scheme, representing a range from 16% to 24% of their total remuneration, that reflects the achievement of predetermined company profit levels and individual performance objectives aligned to business strategy and goals. The officers also participate in the Freightways Senior Executive Performance Share Plan (the 'Plan') described in Note 21 of the Financial Statements by way of an annual allocation of partly-paid shares. The partly-paid shares have a 3-year vesting period and are subject to the achievement of financial hurdles, as described in Note 21. Both the STI scheme and Senior Executive Performance Share Plan are variable, performance-based incentives and are only awarded if specific financial and non-financial performance hurdles are met, and at the discretion of the Board. The Company's Remuneration Policy can be found at www.freightways.co.nz/about/corporate-governance

# 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 | |
|---|---|---|
| | **2018** | 2017 |
| $100,000 – $109,999 | 50 | 49 |
| $110,000 – $119,999 | 34 | 31 |
| $120,000 – $129,999 | 30 | 21 |
| $130,000 – $139,999 | 10 | 24 |
| $140,000 – $149,999 | 18 | 19 |
| $150,000 – $159,999 | 18 | 6 |
| $160,000 – $169,999 | 12 | 16 |
| $170,000 – $179,999 | 9 | 10 |
| $180,000 – $189,999 | 10 | 7 |
| $190,000 – $199,999 | 3 | 10 |
| $200,000 – $209,999 | 7 | 6 |
| $210,000 – $219,999 | 7 | 5 |
| $220,000 – $229,999 | 5 | 4 |
| $230,000 – $239,999 | 2 | - |
| $240,000 – $249,999 | 2 | 2 |
| $250,000 – $259,999 | 1 | 1 |
| $260,000 – $269,999 | 2 | - |
| $270,000 – $279,999 | 2 | - |
| $280,000 – $289,999 | - | 2 |
| $290,000 – $299,999 | 2 | 2 |
| $300,000 – $309,999 | 1 | 2 |
| $310,000 – $319,999 | 2 | - |
| $320,000 – $329,999 | 1 | 1 |
| $350,000 – $359,999 | 1 | - |
| $360,000 – $369,999 | 1 | - |
| $370,000 – $379,999 | 1 | 1 |
| $380,000 – $389,999 | 2 | 1 |
| $390,000 – $399,999 | - | 1 |
| $400,000 – $409,999 | 2 | - |
| $410,000 – $419,999 | 1 | 1 |
| $450,000 – $459,999 | - | 1 |
| $510,000 – $519,999 | - | 1 |
| $550,000 – $559,999 | 1 | - |
| $680,000 – $689,999 | 1 | - |

# Directors' report

## 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:

## Freightways Limited shares

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

| | Fully-paid ordinary shares | | Partly-paid ordinary shares |
|---|---|---|---|
| | Beneficially | Non-beneficially | Beneficially |
| **Director** | | | |
| Sue Sheldon | - | 121,262 | - |
| Kim Ellis | - | 50,000 | - |
| Abby Foote | - | - | - |
| Peter Kean | 10,500 | - | - |
| Mark Rushworth | - | 8,000 | - |
| Mark Verbiest | - | 10,000 | - |
| Mark Troughear | - | 399,167 | 14,558 |
| Mark Royle | - | 173,617 | 25,791 |

# Directors' report

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 2018:

| | Note | Number<br>Acquired (Disposed) | $<br>Cost (Sale) |
|---|---|---|---|
| **Dean Bracewell (resigned 31 December 2017)** | | | |
| Non-beneficial ownership in shares acquired 13 September 2017 | (i) | 42,194 | 211,843 |
| Beneficial ownership in partly-paid shares acquired 13 September 2017 | (ii) | 33,932 | 339 |
| Beneficial ownership in partly-paid shares disposed of 13 September 2017 | (iii) | (41) | - |
| Non-beneficial ownership in shares disposed of 30 October 2017 | | (300,000) | (2,264,894) |
| **Mark Troughear (appointed 1 January 2018)** | | | |
| Beneficial ownership in shares acquired 13 September 2017 | (i) | 5,186 | 26,016 |
| Beneficial ownership in partly-paid shares acquired 13 September 2017 | (ii) | 4,060 | 41 |
| Beneficial ownership in partly-paid shares disposed of 13 September 2017 | (iii) | (6) | - |
| Non-beneficial ownership in shares acquired 13 September 2017 | (iv) | 331 | 2,334 |
| **Mark Royle** | | | |
| Non-beneficial ownership in shares acquired 13 September 2017 | (i) | 9,525 | 47,761 |
| Beneficial ownership in partly-paid shares acquired 13 September 2017 | (ii) | 7,328 | 73 |
| Beneficial ownership in partly-paid shares disposed of 13 September 2017 | (iii) | (11) | - |

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.
(iv) Allocation of fully paid shares under the Freightways Employee 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 13th day of August 2018.

Susan Sheldon

**Susan Sheldon**
Chairman

**Mark Verbiest**
Director

# Independent auditor's report
To the shareholders of Freightways Limited

## *Independent auditor's report*
To the shareholders of Freightways Limited

The financial statements comprise:

- the balance sheet as at 30 June 2018;
- 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 2018, 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 Data Integrity audit, specified procedures over the poll for the shareholder resolutions at the Annual General Meeting, Executive Remuneration Benchmarking and other related assurance services. The provision of these other services has not impaired our independence as auditor of the Group.

*PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand*
*T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz*

# Independent auditor's report
## To the shareholders of Freightways Limited

### *Our audit approach*

Overview


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

Overall Group materiality: $4.15 million, which represents approximately 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 determined that there are two key audit matters:

- Impairment assessment of goodwill and brands
- Prepaid Ticket Liability ("PTL")

#### 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.

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 72% of external revenue and 76% 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 judgment, 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.

PwC

# Independent auditor's report

## To the shareholders of Freightways Limited

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of goodwill and brands*<br><br>As disclosed in note 13 of the financial statements, the Group has goodwill at 30 June 2018 of $208.2 million and brands valued at $114.8 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.<br><br>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.<br><br>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 and brands balance on a value-in-use basis.<br><br>The key assumptions used by Management in creating their cash flow model are included in note 13 of the financial statements and include:<br><br>• Growth rates;<br>• Terminal growth rates; and<br>• Discount rates.<br><br>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 aspects of the following depending on the level of sensitivity of each CGU:<br>• We have considered the appropriate composition of each CGU.<br>• We tested the calculation of the impairment model including the inputs and mathematical accuracy of the model and comparison to the net assets value.<br>• We assessed whether forecast earnings and growth rates were supportable by performing the following:<br>– assessing the reliability of management's historical budgets and forecasts by reference to actual performance;<br>– assessing whether the growth rates used over the 5 year forecast period were supported by historic growth;<br>– where appropriate, we understood the key changes between the performance for the year to 30 June 2018 and the 2019 budget, in particular, key movements in revenue and expenditure. We considered these with reference to past performance and changes that have been made within the business.<br>• We assessed whether terminal growth rates were supportable by comparing them against New Zealand and Australian long-term inflation rates.<br>• 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 expert's market and valuation knowledge.<br>• We performed sensitivity analysis over management's key assumptions.<br><br>We have no matters to report from the procedures we have undertaken. |

PwC

# Independent auditor's report

## To the shareholders of Freightways Limited

pwc

| 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 the sale of prepaid tickets for courier services in advance of the service being provided. The PTL at 30 June 2018 was $15.9 million.<br><br>The PTL is an area of focus due to the extent of audit effort that is required to test the liability.<br><br>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 prepaid tickets not expected to be used are released from the PTL to the income statement as revenue. | Our audit procedures included the following:<br>• We confirmed that the methodology applied for the year ended 30 June 2018 was consistent with previous periods.<br>• 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.<br>• We tested the system reports from which the data used in the PTL calculation and revenue is recorded as follows:<br>– the sales of prepaid tickets during the year, which increases the liability, was sample tested to invoices issued and cash received.<br>– for completeness of sales of prepaid tickets we have agreed a sample of cash receipts from bank statements to check whether the sale of prepaid tickets was recorded as an increase in the liability.<br>– 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.<br>• 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.<br>• We re-performed the calculation of the PTL to test the mathematical accuracy of the model.<br><br>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, and will 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.

PwC

# Independent auditor's report
## To the shareholders of Freightways Limited

pwc

We have nothing to report in this regard, except that not all other information was available to us at the date of our signing. Prior to the date of this report we had received and read Company Particulars, Group Profile, Financial Summary, Report from the Chairman and Chief Executive Officer, Directors' Report, Shareholder Information, Corporate Governance Statement and Directory. The remaining other information is expected to be made available to us after the date of our report.

### *Responsibilities of the Directors for the 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-responsibilities/audit-report-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:

Chartered Accountants
13 August 2018

Auckland

PwC

# Income Statement
## For the year ended 30 June 2018

| | Note | Group 2018 $000 | Group 2017 $000 |
|---|---|---|---|
| **Operating revenue** | 2 | **580,886** | **545,262** |
| Other income | 5 | 2,572 | 2,119 |
| Transport and logistics expenses | | (229,812) | (215,883) |
| Employee benefits expenses | | (159,161) | (149,896) |
| Occupancy expenses | | (26,385) | (24,768) |
| General and administration expenses | | (57,798) | (53,718) |
| Other expenses | 5 | (2,572) | (2,119) |
| Non-recurring items | 3,5 | 2,556 | 3,686 |
| **Operating profit before interest, income tax, depreciation and software amortisation, and amortisation of intangibles** | | **110,286** | **104,683** |
| Depreciation and software amortisation | 3 | (14,000) | (11,652) |
| **Operating profit before interest, income tax and amortisation of intangibles** | | **96,286** | **93,031** |
| Amortisation of intangibles | 3 | (1,954) | (1,679) |
| **Profit before interest and income tax** | | **94,332** | **91,352** |
| Net interest and finance costs | 3 | (9,666) | (9,570) |
| **Profit before income tax** | | **84,666** | **81,782** |
| Income tax | 4 | (22,505) | (20,926) |
| **Profit for the year attributable to the shareholders** | | **62,161** | **60,856** |
| **Earnings per share** | **24** | | |
| Basic earnings per share (cents) | | 40.1 | 39.3 |
| Diluted earnings per share (cents) | | 40.0 | 39.2 |

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 2018

| | Note | Group 2018 $000 | Group 2017 $000 |
|---|---|---|---|
| **Profit for the year (NPAT)** | | **62,161** | **60,856** |
| **Other comprehensive income**<br>Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | 20 | 1,775 | (41) |
| Cash flow hedges taken directly to equity, net of tax | 20 | 2,261 | 2,927 |
| **Total other comprehensive income after income tax** | | **4,036** | **2,886** |
| **Total comprehensive income for the year attributable to the shareholders** | | **66,197** | **63,742** |

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 2018

| Group | Contributed equity $000 | Retained earnings $000 | Cash flow hedge reserve $000 | Foreign currency translation reserve $000 | Total equity $000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2017** | **124,430** | **124,072** | **(6,490)** | **(5,444)** | **236,568** |
| Profit for the year | - | 62,161 | - | - | 62,161 |
| Exchange differences on translation of foreign operations | - | - | - | 1,775 | 1,775 |
| Cash flow hedges taken directly to equity, net of tax | - | - | 2,261 | - | 2,261 |
| **Total Comprehensive Income** | **-** | **62,161** | **2,261** | **1,775** | **66,197** |
| Dividend payments | - | (45,372) | - | - | (45,372) |
| Shares issued | 830 | - | - | - | 830 |
| **Balance at 30 June 2018** | **125,260** | **140,861** | **(4,229)** | **(3,669)** | **258,223** |

| Group | Contributed equity $000 | Retained earnings $000 | Cash flow hedge reserve $000 | Foreign currency translation reserve $000 | Total equity $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** |

The above Statement 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 13th day of August 2018.

**Susan Sheldon**
Chairman

**Mark Verbiest**
Director

# Balance Sheet
## For the year ended 30 June 2018

| | | Group | |
|---|---|---|---|
| | Note | **2018 $000** | 2017 $000 |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 7,410 | 8,423 |
| Trade and other receivables | 8 | 82,150 | 77,253 |
| Inventories | 9 | 4,804 | 5,190 |
| Income tax receivable | | - | 705 |
| **Total current assets** | | **94,364** | **91,571** |
| **Non-current assets** | | | |
| Trade receivables and other non-current assets | 8 | 4,803 | 3,787 |
| Property, plant and equipment | 12 | 103,102 | 100,992 |
| Intangible assets | 13 | 358,419 | 343,543 |
| **Total non-current assets** | | **466,324** | **448,322** |
| **Total assets** | | **560,688** | **539,893** |
| **Current liabilities** | | | |
| Trade and other payables | 15 | 66,887 | 65,722 |
| Finance lease liabilities | | 126 | 147 |
| Income tax payable | | 5,525 | 3,350 |
| Provisions | 17 | 710 | 1,008 |
| Derivative financial instruments | 10 | 451 | 2,054 |
| Unearned income | 18 | 15,864 | 15,446 |
| **Total current liabilities** | | **89,563** | **87,727** |
| **Non-current liabilities** | | | |
| Trade and other payables | 15 | 3,446 | 2,867 |
| Borrowings (secured) | 19 | 161,800 | 166,241 |
| Deferred tax liability | 14 | 37,506 | 35,606 |
| Provisions | 17 | 4,465 | 3,691 |
| Finance lease liabilities | | 286 | 204 |
| Derivative financial instruments | 10 | 5,399 | 6,989 |
| **Total non-current liabilities** | | **212,902** | **215,598** |
| **Total liabilities** | | **302,465** | **303,325** |
| **Net assets** | | **258,223** | **236,568** |
| **Equity** | | | |
| Contributed equity | | 125,260 | 124,430 |
| Retained earnings | | 140,861 | 124,072 |
| Cash flow hedge reserve | | (4,229) | (6,490) |
| Foreign currency translation reserve | | (3,669) | (5,444) |
| **Total equity** | 20 | **258,223** | **236,568** |

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

# Statement of Cash Flows
## For the year ended 30 June 2018

| | Note | Group 2018 $000 Inflows (Outflows) | Group 2017 $000 Inflows (Outflows) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 575,864 | 535,943 |
| Payments to suppliers and employees | | (471,175) | (436,385) |
| **Cash generated from operations** | | **104,689** | **99,558** |
| Interest received | | 182 | 78 |
| Interest and other costs of finance paid | | (9,710) | (9,820) |
| Income taxes paid | | (19,451) | (24,559) |
| **Net cash inflows from operating activities** | 22 | **75,710** | **65,257** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (14,062) | (21,507) |
| Payments for software | | (4,343) | (3,689) |
| Proceeds from disposal of property, plant and equipment | | 1,160 | 1,064 |
| Payments for businesses acquired (net of cash acquired) | 29 | (7,865) | (2,648) |
| Receipts (payments) from (to) associate | | 464 | (1,671) |
| Cash flows from other investing activities | | (218) | (517) |
| **Net cash outflows from investing activities** | | **(24,864)** | **(28,968)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (45,372) | (42,608) |
| Increase (decrease) in bank borrowings | | (7,521) | 7,174 |
| Proceeds from issue of ordinary shares | | 704 | 716 |
| Finance lease liabilities repaid | | (114) | (174) |
| **Net cash outflows from financing activities** | | **(52,303)** | **(34,892)** |
| **Net increase (decrease) in cash and cash equivalents** | | (1,457) | 1,397 |
| Cash and cash equivalents at beginning of year | | 8,423 | 7,065 |
| Exchange rate adjustments | | 444 | (39) |
| **Cash and cash equivalents at end of year** | 7 | **7,410** | **8,423** |

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 2018

## 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.

**(v) Acquisition earn-out amounts payable**

The valuation 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 judgment 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.

### (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.

# Notes to the financial statements
## For the year ended 30 June 2018

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 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.

# Notes to the financial statements
For the year ended 30 June 2018

**(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.

## (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.

**(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.

# Notes to the financial statements
## For the year ended 30 June 2018

**(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 approximatetheir 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.

### (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.

# Notes to the financial statements
For the year ended 30 June 2018

## 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 Chief Executive Officer, as the chief operating decision maker, and the Board for allocating resources, assessing performance and strategic decision making.

The Group is organised into the following reportable operating segments:

**Express package & business mail:** Comprises network 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 3% of external sales revenue.

As at and for the year ended 30 June 2018:

| | Express Package & Business Mail $000 | Information Management $000 | Corporate $000 | Inter-segment Elimination $000 | Consolidated Operations $000 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Sales to external customers | 427,096 | 153,789 | 1 | - | 580,886 |
| Inter-segment sales | 1,664 | 38 | 4,535 | (6,237) | - |
| **Total revenue** | 428,760 | 153,827 | 4,536 | (6,237) | 580,886 |
| Operating profit before non-recurring items, interest, income tax, depreciationand software amortisation, and amortisation of intangibles | 74,840 | 35,378 | (2,488) | - | 107,730 |
| Non-recurring items | - | 2,556 | - | - | 2,556 |
| Operating profit before interest, income tax, depreciation and software amortisation, and amortisation of intangibles | 74,840 | 37,934 | (2,488) | - | 110,286 |
| Depreciation and software amortisation | (6,931) | (5,550) | (1,519) | - | (14,000) |
| Operating profit before interest, income tax and amortisation of intangibles | 67,909 | 32,384 | (4,007) | - | 96,286 |
| Amortisation of intangibles | (50) | (1,904) | - | - | (1,954) |
| Profit before interest and income tax | 67,859 | 30,480 | (4,007) | - | 94,332 |
| Net interest and finance costs | (20) | (251) | (9,395) | - | (9,666) |
| Profit before income tax | 67,839 | 30,229 | (13,402) | - | 84,666 |
| Income tax | (18,729) | (8,105) | 4,329 | - | (22,505) |
| Profit for the year attributable to the shareholders | 49,110 | 22,124 | (9,073) | - | 62,161 |
| **Balance sheet** | | | | | |
| Segment assets | 300,254 | 220,930 | 39,504 | - | 560,688 |
| Segment liabilities | 60,080 | 29,623 | 212,762 | - | 302,465 |
| Additions to non-current assets, excluding deferred tax asset | 10,204 | 19,939 | 48 | - | 30,191 |

# Notes to the financial statements
## For the year ended 30 June 2018

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 |

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

For the year ended 30 June 2018, external revenue from customers in the Group's New Zealand and Australian operations was $472.6 million and $108.3 million, respectively (2017: $444.1 million and $101.2 million, respectively). As at 30 June 2018, non-current assets in respect of the New Zealand and Australian operations (excluding deferred tax assets) were $310.9 million and $155.4 million, respectively (2017: $308.2 million and $140.2 million, respectively).

# Notes to the financial statements
For the year ended 30 June 2018

## Note 3. Income and expenses

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

| | Note | Group 2018 $000 | 2017 $000 |
|---|---|---|---|
| **Income** | | | |
| Interest income | | 180 | 443 |
| **Operating expenses** | | | |
| Net loss (gain) on disposal of property, plant and equipment | | (994) | 229 |
| Depreciation | 12 | 11,778 | 9,838 |
| Amortisation of intangible assets | 13 | 1,954 | 1,679 |
| Amortisation of software | 13 | 2,222 | 1,814 |
| Operating lease expenses | | 24,281 | 23,062 |
| **Auditors' fees** | | | |
| Audit of annual financial statements and review of interim financial statements | | 402 | 369 |
| Annual Shareholders Meeting specified procedures | | 8 | 7 |
| Directors benchmarking fees | | 22 | 10 |
| Data integrity audit | | 54 | - |
| **Costs of offering credit** | | | |
| Impairment loss (gain) on trade receivables | | (13) | 23 |
| **Interest and finance costs** | | | |
| Interest on bank borrowings | | 9,708 | 9,606 |
| Interest on finance leases | | 24 | 30 |
| Derivative fair value movement | | (52) | 208 |
| Unwinding of discount on acquisition earn-out liability | | 166 | 169 |
| **Other** | | | |
| Net foreign exchange loss (gain) | | 3 | 18 |
| Directors' fees | | 518 | 506 |
| Donations | | 347 | 300 |
| **Non-recurring (gain) loss*** | | | |
| Insurance proceeds for replacement racking | | (2,994) | - |
| Impairment loss on damaged racking | | 1,978 | - |
| Reversal of earn-out payables | | (1,540) | (5,630) |
| Premises relocation cost | | - | 1,944 |

* Non-recurring items for the years ended 30 June 2018 and 30 June 2017, as applicable, relate to:
- insurance proceeds received from the Group's insurers to reinstate racking in Wellington damaged by the North Canterbury earthquake;
- impairment loss related to the write-off of the earthquake-damaged racking in Wellington;
- reversal of previously-accrued earn-out payables that are no longer expected to be paid; and
- relocation costs of the TIMG business in Sydney.

# Notes to the financial statements
For the year ended 30 June 2018

## 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 | |
|---|---|---|
| | **2018<br>$000** | 2017<br>$000 |
| **Current tax** | | |
| Current tax on profit for the year | 22,325 | 21,037 |
| **Deferred tax (Note 14)** | | |
| Reversal of temporary differences | 180 | (111) |
| Total deferred tax | 180 | (111) |
| **Income tax expense** | **22,505** | **20,926** |

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:

| | | |
|---|---|---|
| Profit before income tax | 84,666 | 81,782 |
| Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries | 23,934 | 23,151 |
| Tax-effect of amounts which are treated differently when calculating taxable income: | | |
| · Additional amounts deductible | (1,426) | (2,578) |
| · Other | (3) | 353 |
| **Income tax expense** | **22,505** | **20,926** |

The Group has no tax losses (2017: Nil) and no unrecognised temporary differences (2017: Nil).

# Notes to the financial statements
## For the year ended 30 June 2018

| | Group | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| **Imputation credits account** | | |
| **Imputation credits available for use in subsequent reporting periods** | **31,287** | **30,284** |

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 2018 which was declared subsequent to 30 June 2018 will reduce the above-stated available balance of imputation credits by approximately $9.2 million.

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

| **2018 ($000)** | **Before tax** | **Tax (charge) /credit** | **After tax** |
|---|---|---|---|
| Exchange difference on translation of foreign operations | 1,775 | - | 1,775 |
| Cash flow hedges taken directly to equity | 3,140 | (879) | 2,261 |
| **Other comprehensive income** | **4,915** | **(879)** | **4,036** |
| Current tax | | - | |
| Deferred tax | | (879) | |
| | | (879) | |

| **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) | |

### Note 5. Impairment loss and compensation

Included in non-recurring items is an impairment loss of $2 million related to the information management division's racking at its Porirua site in Wellington that was damaged by the North Canterbury earthquake. It has been determined that all of this racking will be replaced under insurance. Accordingly, also included in non-recurring items is $3 million of insurance proceeds received from the Group's insurers to reinstate this damaged racking.

Included in other expenses is an amount of $2.6 million in additional costs of operations resulting from the above-mentioned earthquake, which are also recoverable from insurance, and compensation of $2.6 million received from the Group's insurers for these additional costs of operations has been included in other income.

# Notes to the financial statements
## For the year ended 30 June 2018

### Note 6. Dividends

| | Group | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| **Recognised amounts** | | |
| **Fully imputed dividends declared and paid during the year:** | | |
| Final dividend for 2017 at 14.75 cents per share (2016: 14.5 cents) | 22,880 | 22,466 |
| Interim dividend for 2018 at 14.5 cents per share (2017: 13.0 cents) | 22,492 | 20,142 |
| | **45,372** | **42,608** |
| **Unrecognised amounts** | | |
| **Final dividend for 2018 at 15.25 cents per share (2017: 14.75 cents)** | **23,712** | **22,884** |

Subsequent to balance date the above unrecognised dividend was approved by a directors' resolution dated 13 August 2018. This amount has not been recognised as a liability at the reporting date, but will be brought to account when paid.

### Note 7. 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 | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| Comprises | | |
| • Cash at bank | 7,301 | 8,318 |
| • Overnight deposits | 109 | 105 |
| **Cash and cash equivalents in statement of cash flows** | **7,410** | **8,423** |

### Note 8. 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.

# Notes to the financial statements
## For the year ended 30 June 2018

| | Group | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| **Current** | | |
| Trade receivables | 70,994 | 67,249 |
| Provision for doubtful receivables | (1,629) | (1,655) |
| | 69,365 | 65,594 |
| Other debtors and prepayments | 12,449 | 11,390 |
| Share plan loans receivable from employee | 336 | 269 |
| | **82,150** | **77,253** |
| **Non-current** | | |
| Share plan loans receivable from employees | 198 | 140 |
| Other non-current assets | 4,605 | 3,647 |
| | **4,803** | **3,787** |

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 | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| Opening balance | 1,655 | 1,649 |
| Provision for doubtful receivables | 74 | 192 |
| Receivables written off during the year as uncollectible | (117) | (188) |
| Exchange rate movement | 17 | 2 |
| **Closing balance (Note 27.1(b))** | **1,629** | **1,655** |

### Note 9. 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 $11.7 million (2017: $12.3 million).

| | Group | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| Finished goods | 1,923 | 1,682 |
| Ticket stocks, uniforms and consumables | 2,881 | 3,508 |
| | **4,804** | **5,190** |

# Notes to the financial statements
For the year ended 30 June 2018

## Note 10. Derivative financial instruments

| | Group | |
|---|---|---|
| | **2018 $000 Asset (Liability)** | 2017 $000 Asset (Liability) |
| **Current** | | |
| Interest rate swaps – cash flow hedge | (264) | (1,470) |
| Forward foreign exchange contracts – cash flow hedge | (187) | (584) |
| | **(451)** | **(2,054)** |
| **Non-current** | | |
| Interest rate swaps – cash flow hedge | (5,119) | (5,584) |
| Forward foreign exchange contracts – cash flow hedge | (280) | (1,405) |
| | **(5,399)** | **(6,989)** |

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

| | NZD | | AUD | |
|---|---|---|---|---|
| | **2018 $000** | 2017 $000 | **2018 $000** | 2017 $000 |
| Interest rate swaps | 59,000 | 79,000 | 58,000 | 68,000 |
| Forward foreign exchange contracts | 29,551 | 25,021 | - | - |

An income of $0.1 million, representing predominantly the hedge instrument expiring, was recognised in the income statement during the year (2017: $0.2 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 2018 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 (2017: 100%).

Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 30 June 2018 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 2018

## 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 | Aviation-related services | 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 |
| LitSupport Pty Limited | Information management | Australia |
| Med-X 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 |

Other than the formation of a new subsidiary, Med-X Pty Limited, to facilitate the acquisition of medical waste businesses in Australia, there has been no change in investments in subsidiaries during the year.

# Notes to the financial statements
For the year ended 30 June 2018

## Note 12. Property, plant and 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 |
|---|---|---|---|---|---|---|
| **2018 ($000)** | | | | | | |
| **Opening net book value** | 13,748 | 23,452 | 3,618 | 5,739 | 54,435 | 100,992 |
| Additions | - | 11 | 753 | 2,347 | 10,880 | 13,991 |
| Acquisitions through business combinations (Note 29) | - | - | - | 737 | 348 | 1,085 |
| Depreciation expense | - | (1,607) | (665) | (1,435) | (8,071) | (11,778) |
| Disposals | - | - | (3) | (114) | (2,029) | (2,146) |
| Exchange rate movement | 52 | 51 | 59 | 157 | 639 | 958 |
| **Closing net book value** | **13,800** | **21,907** | **3,762** | **7,431** | **56,202** | **103,102** |
| **As at end of year** | | | | | | |
| Cost | 13,800 | 39,509 | 9,587 | 17,280 | 115,662 | 195,838 |
| Accumulated depreciation | - | (17,602) | (5,825) | (9,849) | (59,460) | (92,736) |
| **Net book value** | **13,800** | **21,907** | **3,762** | **7,431** | **56,202** | **103,102** |

# Notes to the financial statements
## For the year ended 30 June 2018

| | Land | Buildings | Leasehold alterations | Motor vehicles | Equipment | Total |
|---|---|---|---|---|---|---|
| **2017 ($000)** | | | | | | |
| **Opening net book value** | 13,744 | 25,061 | 3,259 | 4,851 | 40,764 | 87,679 |
| Additions | - | - | 1,110 | 2,156 | 19,968 | 23,234 |
| Acquisitions through business combinations | - | - | - | - | 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** | **3,618** | **5,739** | **54,435** | **100,992** |
| **As at end of year** | | | | | | |
| Cost | 13,748 | 39,434 | 9,001 | 13,750 | 112,311 | 188,244 |
| Accumulated depreciation | - | (15,982) | (5,383) | (8,011) | (57,876) | (87,252) |
| **Net book value** | **13,748** | **23,452** | **3,618** | **5,739** | **54,435** | **100,992** |

The cost of equipment in respect of assets under construction for which depreciation has not commenced as at 30 June 2018 is $3 million (2017: Nil).

The latest independent valuations of land and buildings (performed in June 2018) assess these assets to have a total fair value of $71.3 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).

## 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 July 2018. This independent report assessed the fair market value of the brand names as at 30 June 2018 to be between $349 million and $385 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 (2017: $2.9 million) for which amortisation has not commenced.

# Notes to the financial statements
## For the year ended 30 June 2018

**(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.

| | Goodwill | Brand names | Software | Customer relationships | Other | Total |
|---|---|---|---|---|---|---|
| **2018 ($000)** | | | | | | |
| **Opening net book value** | 197,287 | 114,045 | 12,179 | 17,044 | 2,988 | 343,543 |
| Additions | - | - | 4,343 | - | 218 | 4,561 |
| Acquisition through business combinations (Note 29) | 8,145 | - | - | 2,419 | - | 10,564 |
| Amortisation expense | - | - | (2,222) | (1,686) | (268) | (4,176) |
| Exchange rate movement | 2,747 | 730 | 59 | 309 | 82 | 3,927 |
| **Closing net book value** | **208,179** | **114,775** | **14,359** | **18,086** | **3,020** | **358,419** |
| **As at end of year** | | | | | | |
| Cost | 226,841 | 114,775 | 27,540 | 24,979 | 4,526 | 398,661 |
| Accumulated amortisation | (18,662) | - | (13,181) | (6,893) | (1,506) | (40,242) |
| **Net book value** | **208,179** | **114,775** | **14,359** | **18,086** | **3,020** | **358,419** |

| | 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 | 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** |

# Notes to the financial statements
## For the year ended 30 June 2018

### 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 | |
|---|---|---|---|---|
| | **2018 $000** | 2017 $000 | **2018 $000** | 2017 $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) | 55,361 | 53,489 | 17,805 | 17,191 |
| Shred-X | 36,472 | 27,453 | 3,365 | 3,249 |
| **Total Information Management** | **109,410** | **98,519** | **25,570** | **24,840** |
| **Total** | **208,179** | **197,288** | **114,775** | **114,045** |

**(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 2019. Cash flows beyond June 2019 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% (2017: 3%). A 1% (2017: 1%) growth rate and 1% (2017: 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 9% (2017: 10%) is considered indicative of the growth in this segment since the Company's expansion into Australia and a 3% (2017: 3%) growth rate and 2.5% (2017: 2.5%) terminal growth rate have been applied to the value-in-use calculation.

In particular, for The Information Management Group (Australia) CGU, within the Information Management segment, the average annual compound growth rate in the value-in-use calculation is 8% for the first 5 years from 2018. This growth rate would have to reduce to 1.5% to result in there being no excess over the carrying value of this CGU. This is considered an unlikely eventuality.

A pre-tax discount rate of 11% (2017: 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.

**(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.

# Notes to the financial statements
For the year ended 30 June 2018

## Note 14. Deferred liability

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 |
|---|---|---|---|---|---|---|
| **2018 ($000)** | | | | | | |
| Balance at beginning of year | (7,941) | 3,786 | 2,876 | 2,531 | (36,858) | (35,606) |
| Prior period adjustment | (1,010) | (6) | (4) | - | (14) | (1,034) |
| Transfer to income statement | 36 | 269 | 56 | (14) | 507 | 854 |
| Amounts relating to business combinations (Note 29) | - | 54 | - | - | (693) | (639) |
| Adjustment for cash flow hedge reserve | - | - | - | (879) | - | (879) |
| Exchange rate movement | 3 | 70 | 89 | - | (364) | (202) |
| **Balance at end of year** | **(8,912)** | **4,173** | **3,017** | **1,638** | **(37,422)** | **(37,506)** |

| | Property, plant and equipment | Employee entitlements | Accruals and provisions | Derivative financial instruments | Intangible assets | Total |
|---|---|---|---|---|---|---|
| **2017 ($000)** | | | | | | |
| Balance at beginning of year | (7,999) | 3,494 | 3,535 | 3,611 | (37,132) | (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 | - | 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** | **(7,941)** | **3,786** | **2,876** | **2,531** | **(36,858)** | **(35,606)** |

# Notes to the financial statements
## For the year ended 30 June 2018

### 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 | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| **Current** | | |
| Trade creditors | 37,074 | 37,050 |
| Employee entitlements | 15,995 | 16,210 |
| Other creditors and accruals | 12,729 | 12,462 |
| Acquisition earn-out payables | 1,089 | - |
| | **66,887** | **65,722** |
| **Non-current** | | |
| Acquisition earn-out payables | 2,024 | 1,786 |
| Other non-current payables | 1,422 | 1,081 |
| | **3,446** | **2,867** |

### Note 16. Leases

#### Operating lease commitments (non-cancellable)

Leases in which a significant portion of the risks and rewards of ownership are 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:

| | **2018 $000** | 2017 $000 |
|---|---|---|
| Within one year | 27,163 | 24,935 |
| After one year but not more than five years | 71,425 | 63,520 |
| After five years | 37,710 | 28,667 |
| | **136,298** | **117,122** |

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

### 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.

# Notes to the financial statements
## For the year ended 30 June 2018

### 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 |
|---|---|---|---|---|
| **2018** | | | | |
| Balance at beginning of year | 505 | 2,455 | 1,739 | 4,699 |
| Current year provision | 47 | 472 | 127 | 646 |
| Amounts relating to business combinations | - | 78 | 109 | 187 |
| Expenses incurred | - | (377) | - | (377) |
| Movement in exchange rate | - | 88 | (68) | 20 |
| **Balance at end of year** | **552** | **2,716** | **1,907** | **5,175** |

| | 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** |

| | **2018 $000** | 2017 $000 |
|---|---|---|
| **Analysis of total provisions** | | |
| Current | 710 | 1,008 |
| Non-current | 4,465 | 3,691 |
| **Total** | **5,175** | **4,699** |

# Notes to the financial statements
For the year ended 30 June 2018

## 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 | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| **Non-current** | | |
| **Bank borrowings** | **161,800** | **166,241** |

**(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 2018, the carrying amount of the assets pledged as security is $207 million (2017: $198 million).

**(b) Finance facilities**

The following finance facilities existed at the reporting date:

| | Facilities denominated in New Zealand Dollars | | Facilities denominated in Australian Dollars | |
|---|---|---|---|---|
| | **2018 $000** | 2017 $000 | **2018 $000** | 2017 $000 |
| **Bank overdraft** | | | | |
| Total bank overdraft facility available | 8,000 | 8,000 | - | - |
| Amount of overdraft facility unused | 8,000 | 8,000 | - | - |
| **Loan facilities** | | | | |
| Total loan facilities available | 103,500 | 110,000 | 97,000 | 97,000 |
| Maturing 1 September 2018 | - | 37,000 | - | 27,500 |
| Maturing 1 September 2019 | 37,000 | 37,000 | 35,000 | 35,000 |
| Maturing 1 September 2020 | 26,000 | 26,000 | 24,500 | 24,500 |
| Maturing 1 September 2021 | 30,500 | - | 27,500 | - |
| Maturing 15 December 2026 | 10,000 | 10,000 | 10,000 | 10,000 |
| Amount of loan facilities used | 74,000 | 78,000 | 80,600 | 83,900 |
| Amount of loan facilities unused | 29,500 | 32,000 | 16,400 | 13,100 |
| Effective interest rate at 30 June as amended for interest rate hedges | 6.31% | 6.15% | 5.02% | 5.12% |

# Notes to the financial statements
## For the year ended 30 June 2018

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.

During July 2017, the Group negotiated a three-year extension of its syndicated bank facilities that were maturing on 1 September 2018 and reduced the New Zealand dollars facility by $6.5 million. The extended facilities became effective from 14 July 2017.

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 2018.

The Group was in compliance with all of its banking covenants throughout the year ended 30 June 2018.

### Net debt reconciliation

An analysis of net debt and the movements in net debt is:

| | | Liabilities from financing activities | | | | |
|---|---|---|---|---|---|---|
| | Cash $000 | Other borrowings due within 1 year $000 | Other borrowing due after 1 year $000 | Bank borrowings due with 1 year $000 | Bank borrowing due after 1 year $000 | Total $000 |
| Balance at 1 July 2016 | 7,065 | (79) | (32) | - | (158,801) | (151,847) |
| Cashflow | 1,397 | 174 | - | - | (7,174) | (5,603) |
| Acquisitions – finance leases | - | (242) | (172) | - | - | (414) |
| Exchange rate movement | (39) | - | - | - | (266) | (305) |
| **Balance at 30 June 2017** | **8,423** | **(147)** | **(204)** | **-** | **(166,241)** | **(158,169)** |
| Cashflow | (1,456) | 114 | - | - | 7,522 | 6,180 |
| Acquisitions – finance leases | - | (93) | (82) | - | - | (175) |
| Exchange rate movement | 443 | - | - | - | 3,081 | 3,524 |
| **Balance at 30 June 2018** | **7,410** | **(126)** | **(286)** | **-** | **(155,638)** | **(148,640)** |

## 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 | | | |
|---|---|---|---|---|
| | **2018 Ordinary shares** | 2017 Ordinary shares | **2018 $000** | 2017 $000 |
| Balance at beginning of year | 154,933,678 | 154,757,589 | 124,430 | 123,852 |
| Partly-paid ordinary shares issued | - | - | 1 | 1 |
| Partly-paid shares, fully paid up to ordinary shares | 102,721 | 127,534 | 521 | 532 |
| Employee share-based payment | - | - | (218) | (271) |
| Shares issued for employee share plan | 75,000 | 50,000 | 529 | 307 |
| (Increase) decrease in employee share plan unallocated shares | 489 | (1,445) | (3) | 9 |
| Balance at end of year | **155,111,888** | **154,933,678** | **125,260** | **124,430** |

# Notes to the financial statements
For the year ended 30 June 2018

### Contributed Equity

**(i) Fully paid ordinary shares**

As at 30 June 2018 there were 155,115,946 shares issued and fully paid (2017: 154,938,225). 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 13 September 2017, 96,018 partly-paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (2017: 103,682). The issue price per share was $7.83 (2017: $6.82) and the shares have been paid up by the relevant participants to one cent per share. The balance of the issue price per share may only be paid up upon the participants meeting agreed performance hurdles and upon the expiry of the applicable three-year escrow period in accordance with the Plan rules (refer Note 21). During the year, 15,790 partly-paid shares were redeemed and cancelled (2017: 17,863). As at 30 June 2018 there were 319,513 partly-paid shares on issue, paid up to one cent per share (2017: 342,006). 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 13 September 2017, 102,721 (2017: 127,534) 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 $5.07 (2017: $4.17).

**(iv) Employee Share Plan**

On 13 September 2017, the Company issued 75,000 fully paid ordinary shares at $7.05 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (September 2016: 50,000 fully paid ordinary shares at $6.13 each). In total, participating employees were provided with interest-free loans of $0.5 million to fund their purchase of the shares in the Share Plan (September 2016: $0.3 million). The loans are repayable over three years and repayment commenced in October 2017.

As at 30 June 2018 the Trustee held 486,672 (2017: 496,143) fully paid ordinary shares (representing 0.3% (2017: 0.3%) of all issued ordinary shares) of which 4,058 (2017: 4,547) 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.

### 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.

# Notes to the financial statements
## For the year ended 30 June 2018

Details of outstanding allocations are as follows:

| **Share allocation date:** | 10 Sep 2012 | 11 Sep 2013 | 10 Sep 2014 | 14 Sep 2015 | 12 Sep 2016 | 12 Sep 2017 |
|---|---|---|---|---|---|---|
| Number of partly-paid shares allocated | 155,832 | 148,386 | 124,221 | 121,691 | 103,682 | 96,018 |
| Market price per share at date of allocation | $3.97 | $4.12 | $5.11 | $5.39 | $6.82 | $7.83 |
| 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 | $1,558 | $1,484 | $1,242 | $1,217 | $1,037 | $960 |
| Total amount paid-up upon vesting: | | | | | | |
| • Year ended 30 June 2016 | $547,973 | - | - | - | - | - |
| • Year ended 30 June 2017 | $8,914 | $483,225 | $38,005 | - | - | - |
| • Year ended 30 June 2018 | $1,192 | $30,213 | $475,193 | - | $12,898 | - |
| Escrow periods ended 30 June: | 2015 (100%) | 2016 (100%) | 2017 (100%) | 2018 (100%) | 2019 (100%) | 2020 (100%) |

| **Total number of partly-paid shares on issue:** | **2018** | 2017 |
|---|---|---|
| Balance at beginning of the year | 342,006 | 383,721 |
| Issued during the year | 96,018 | 103,682 |
| Cancelled during the year | (15,790) | (17,863) |
| Fully paid-up during the year | (102,721) | (127,534) |
| Balance at end of the year | 319,513 | 342,006 |
| Partly-paid shares eligible to be paid up at end of year | 107,491 | Nil |

| | **2018 $000** | 2017 $000 |
|---|---|---|
| Total amount expensed during the year for the senior executive performance share plan | 814 | 750 |
| Liability recognised at year end for estimated income tax applicable to bonuses payable to facilitate the paying-up of vested partly-paid shares | 739 | 521 |

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.

# Notes to the financial statements
For the year ended 30 June 2018

## Note 22. Reconciliation of profit for the year with cash flows from operating activities

| | Note | Group 2018 $000 | Group 2017 $000 |
|---|---|---|---|
| Profit for the year | | 62,161 | 60,856 |
| **Add non-cash items** | | | |
| Depreciation and amortisation | 3 | 15,954 | 13,331 |
| Movement in provision for doubtful debts | | (26) | 23 |
| Movement in deferred income tax | | 1,059 | 1,027 |
| Net (gain) loss on disposal of property, plant and equipment | | (994) | 229 |
| Net foreign exchange loss | | 3 | 18 |
| Movement in derivative fair value | | (52) | 208 |
| Impairment of property, plant and equipment | | 1,978 | - |
| Non-recurring items | | (1,540) | (5,630) |
| **Movement in working capital, net of effects of acquisitions of businesses** | | | |
| Increase in trade and other receivables | | (7,150) | (10,479) |
| Decrease in inventories | | 598 | 61 |
| Increase in trade and other payables | | 849 | 9,130 |
| Increase (decrease) in income taxes payable | | 2,870 | (3,517) |
| **Net cash inflows from operating activities** | | **75,710** | **65,257** |

## Note 23. Capital commitments and contingent liabilities

The Group had made capital commitments to purchase or construct buildings and equipment for $3.8 million at 30 June 2018 (2017: $2.7 million), principally relating to the completion of operating facilities throughout the Group.

As at 30 June 2018, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $6.1 million (2017: $5.9 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 2018 | Group 2017 |
|---|---|---|
| Profit for the year attributable to shareholders ($000) | 62,161 | 60,856 |
| Weighted average number of ordinary shares ('000) | 155,080 | 154,903 |
| **Basic earnings per share (cents)** | **40.1** | **39.3** |

# Notes to the financial statements
## For the year ended 30 June 2018

### 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 | |
|---|---|---|
| | **2018** | 2017 |
| Profit for the year attributable to shareholders ($000) | 62,161 | 60,856 |
| Weighted average number of ordinary shares ('000) | 155,080 | 154,903 |
| Effect of dilution | 319 | 342 |
| Diluted weighted average number of ordinary shares ('000) | 155,399 | 155,245 |
| **Diluted earnings per share (cents)** | **40.0** | **39.2** |

* 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 38.4 cents (2017: both 36.5 cents).

## Note 25. Net tangible assets per security

Net tangible assets (liabilities) per security at 30 June 2018 was ($0.55) (2017: ($0.61)).

## 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 $10.5 million for the provision of airfreight linehaul services on normal commercial terms. Parcelair Limited is incorporated in New Zealand and is half-owned by the Group.

### Key management compensation

Compensation paid during the 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 | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| Short term employee benefits | 8,173 | 6,846 |
| Long term employee benefits | - | - |
| Post-employment benefits | - | - |
| Termination benefits | - | - |
| Share-based payments (Note 21) | 814 | 521 |

# Notes to the financial statements
For the year ended 30 June 2018

## 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 months 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.

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

| Group ($000) | Less than 6 months | 6-12 months | 1-2 years | 2-5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Bank borrowings | 3,278 | 3,338 | 60,389 | 107,513 | 24,731 | 199,249 |
| Trade and other payables | 55,918 | 13,603 | 178 | 2,396 | 577 | 72,672 |
| Finance lease liabilities | 68 | 68 | 253 | 23 | - | 412 |
| Derivative financial instruments – interest rate swaps* | 1,284 | 1,223 | 1,840 | 1,515 | 38 | 5,900 |
| **2017** | | | | | | |
| 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 |

* 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.

# Notes to the financial statements
For the year ended 30 June 2018

### (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.

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

| | Group | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| Cash and cash equivalents | 7,410 | 8,423 |
| Trade and other receivables | 74,048 | 70,483 |
| | 81,458 | 78,906 |

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 | |
|---|---|---|
| | **2018 $000** | 2017 $000 |
| Current | 59,049 | 56,169 |
| 31-60 days over standard terms | 8,424 | 7,327 |
| 60-90 days over standard terms | 1,533 | 1,137 |
| 91+ days over standard terms | 1,988 | 2,616 |
| | 70,994 | 67,249 |

The Group has $10.3 million (2017: $9.4 million) of financial assets that are overdue and not impaired.

# Notes to the financial statements
For the year ended 30 June 2018

### (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 2018 the Group had Australian dollar denominated bank borrowings of AUD80,600,000 (2017: AUD83,900,000). Of these borrowings, AUD14,200,000 (2017: 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.

**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 year's 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.

# Notes to the financial statements
## For the year ended 30 June 2018

Sensitivity analysis:

| | | Interest rate movement | | | | NZD/AUD movement |
|---|---|---|---|---|---|---|
| | | Impact on profit | | Impact on equity | | Impact on liabilities & equity |
| | Carrying amount | +100 basis points | -100 basis points | +100 basis points | -100 basis points | + or – 10% in value of NZD |
| **2018 ($000)** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 7,410 | 53 | (53) | 53 | (53) | - |
| Trade and other receivables | 76,835 | - | - | - | - | - |
| **Financial liabilities** | | | | | | |
| Borrowings | 161,800 | (1,165) | 1,165 | (1,165) | 1,165 | 1,406/(1,719) |
| Derivative financial instruments | 5,850 | 705 | (705) | 2,746 | (2,819) | - |
| **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) | - |

### (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.

# Notes to the financial statements
## For the year ended 30 June 2018

**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.

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 |
|---|---|---|---|---|
| **2018** | | | | |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 5,850 | - | 5,850 |
| Contingent consideration in a business combination | - | - | 3,113 | 3,113 |
| **Total liabilities** | **-** | **5,850** | **3,113** | **8,963** |
| **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** |

# Notes to the financial statements
## For the year ended 30 June 2018

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 | |
|---|---|---|
| | **2018** **$000** | 2017 $000 |
| Opening balance | 1,786 | 5,620 |
| Acquisition of businesses | 2,855 | 1,598 |
| Losses recognised in the income statement | 166 | 169 |
| Settlement | - | - |
| Purchase price adjustment | (1,540) | (5,630) |
| Exchange rate adjustments | (154) | 29 |
| **Closing balance** | **3,113** | **1,786** |
| Total losses for the year included in the income statement for liabilities held at the end of the reporting period, under: | | |
| • Non-recurring items | (1,540) | (5,630) |
| • Net interest and finance costs | 166 | 169 |
| | **(1,374)** | **(5,461)** |

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

### 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-months 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 2018

## Note 28. Financial instruments by category

### (a) Assets, as per balance sheet

| | Loans and receivables | | Derivatives used for hedging | | Total | |
|---|---|---|---|---|---|---|
| | **2018 $000** | 2017 $000 | **2018 $000** | 2017 $000 | **2018 $000** | 2017 $000 |
| **Group** | | | | | | |
| Trade and other receivables (excluding prepayments) | 76,835 | 70,641 | - | - | 76,835 | 70,641 |
| Cash and cash equivalents | 7,410 | 8,423 | - | - | 7,410 | 8,423 |
| **Total** | **84,245** | **79,064** | **-** | **-** | **84,245** | **79,064** |

### (b) Liabilities, as per balance sheet

| | Derivatives used for hedging | | Other financial liabilities at amortised cost | | Total | |
|---|---|---|---|---|---|---|
| | **2018 $000** | 2017 $000 | **2018 $000** | 2017 $000 | **2018 $000** | 2017 $000 |
| **Group** | | | | | | |
| Borrowings (excluding finance lease liabilities) | - | - | 161,800 | 166,241 | 161,800 | 166,241 |
| Finance lease liabilities | - | - | 411 | 351 | 411 | 351 |
| Derivative financial instruments | 5,850 | 9,043 | - | - | 5,850 | 9,043 |
| Trade and other payables | - | - | 50,990 | 49,074 | 50,990 | 49,074 |
| **Total** | **5,850** | **9,043** | **213,201** | **215,666** | **219,051** | **224,709** |

## Note 29. Business combinations

### State Waste Services (SWS)

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

The contribution of Med-X to the Group results for the year ended 30 June 2018 was revenue of $2.8 million and operating profit before interest, income tax and amortisation of intangibles of $0.7 million.

If this acquisition had occurred at the beginning of the year, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the period is estimated at $3.4 million and $0.8 million, respectively.

# Notes to the financial statements
## For the year ended 30 June 2018

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

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

The cash consideration payable at the end of the period of up to a maximum amount of $1.1 million is payable in September 2018.

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

The goodwill of $6.3 million arising upon this acquisition is attributable to the intellectual property obtained and the premium paid for strategic reasons, including acquiring an entry point into the medical waste industry. Successful integration of the acquired business into its CGU is a key assumption in annual impairment assessment. None of the goodwill recognised is expected to be deductible for income tax purposes.

The acquisition accounting for this acquisition has been determined on a provisional basis. The fair value of assets and liabilities acquired, including identified intangible assets, will be finalised within 12 months from the acquisition date and upon confirmation of certain determinants.

### Other current period acquisitions

During the year ended 30 June 2018, the Group acquired the business and assets of two small information management businesses in Australia for an aggregate purchase consideration totalling approximately $2.5 million. These businesses have been integrated into the Group's Shred-X business within the information management division. The businesses acquired were:

- Medico Hygiene Service and Medico Waste Disposal (collectively Medico) on 1 June 2018
- Shredway on 1 June 2018

# Notes to the financial statements
## For the year ended 30 June 2018

The contribution of these businesses to the Group results for the year ended 30 June 2018 was revenue of $0.2 million and operating profit before interest, income tax and amortisation of intangibles of $0.03 million.

If these acquisitions had all occurred at the beginning of the year, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the year is estimated at $2.6 million and $0.4 million, respectively.

Details of net assets acquired and goodwill for these acquisitions are as follows:

| | $000 |
|---|---|
| **Purchase consideration:** | |
| Initial acquisition payments | 2,509 |
| Less Cash consideration payable as at the end of the period | (18) |
| Cash consideration paid during the period | 2,491 |
| Cash consideration payable as at the end of the period | 18 |
| Total purchase consideration | 2,509 |
| | |
| **Fair value of assets and liabilities arising from the acquisition:** | |
| Inventory | 170 |
| Property, plant and equipment | 426 |
| Customer relationships | 626 |
| Goodwill | 1,872 |
| Trade and other payables | (443) |
| Deferred tax liability | (142) |
| | 2,509 |

The goodwill of $1.9 million arising upon these acquisitions is attributable to the intellectual property obtained and economies of scale expected to be enhanced by integrating these businesses into the operations of the Group. Successful integration of the acquired businesses into their CGU is a key assumption in annual impairment assessment. None of the goodwill recognised is expected to be deductible for income tax purposes.

The acquisition accounting for these acquisitions have been determined on a provisional basis. The fair value of assets and liabilities acquired, including identified intangible assets, will be finalised within 12 months from the acquisition date and upon confirmation of certain determinants.

### Prior period acquisition – LexData

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

An estimated discounted future earn-out payment of $0.3 million may be payable in September 2019, but is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2017, 2018 and 2019. The potential undiscounted amount of the future earn-out payment that the Group expects could be required to be made in respect of this acquisition is between nil and $3.6 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

# Notes to the financial statements
For the year ended 30 June 2018

## Note 30. Significant events after balance date

### Dividend declared

On 13 August 2018, the Directors declared a fully imputed final dividend of 15.25 cents per share (approximately $23.7 million) in respect of the year ended 30 June 2018. The dividend will be paid on 2 October 2018. The record date for determination of entitlements to the dividend is 14 September 2018.

### Debt facilities

The Group has negotiated a two-year extension to approximately half the existing syndicated bank facilities and decreased the Australian dollars facilities by A$16.6 million. The extension is effective from 27 July 2018 and is at higher pricing compared to existing facilities.

On 11 July 2018, the Group drew an additional A$20 million for 7-years from the US$125 million uncommitted finance facility that was established with a US-based lender in December 2016. This A$20 million was partially used to repay the A$16.6 million syndicated bank facilities above.

### Acquisitions

On 5 July 2018 and 1 August 2018, Freightways acquired the business and assets of Formfile Records Management Group Pty Limited (Formfile) and Specialised Security Shredding (SSS), respectively, both small information management businesses based in Australia, for aggregate purchase consideration totalling approximately $7 million. Incremental annual EBITDA of $1.2 million is expected to be generated after the businesses have been fully integrated into Freightways. The initial accounting for these business combinations is incomplete at the time these financial statements are authorised for issue, given the short period of ownership. The fair value of assets and liabilities acquired, including identifiable intangible assets, will be disclosed in the financial statements for the half year ended 31 December 2018 on a provisional basis and finalised by 30 June 2019.

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

No new standards or amendments to standards were applied for the year ended 30 June 2018.

Certain new standards, amendments and interpretations of 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. The applicable new standards, amendments and interpretations include:

- **NZ IFRS 9: Financial Instruments (mandatory from 1 July 2018)**

  This standard addresses the classification, measurement and recognition of financial assets and liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

  The Group has reviewed its current accounting for financial assets and liabilities and expects there to be no potential material impact to the classification and measurement of the Group's financial instruments from adopting this standard. From 1 July 2018, the Group will classify its financial assets and liabilities in the following measurement categories:

  - those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
  - those to be measured at amortised cost.

  The classification of financial instruments is not expected to result in any reclassifications between measurement categories for the Group's financial assets and liabilities. The derivative financial instruments are expected to remain measured at fair value through other comprehensive income, and other financial instruments (including cash and cash equivalents, trade and other receivables, trade and other payables and bank borrowings) are expected to remain measured at amortised cost.

  Only the following matters will be relevant for the Group when adopting this new standard:

  **Hedge Accounting:** Although the new hedge accounting rules will not impact the Group's existing hedge relationships for interest rate swaps and forward foreign exchange contracts as at 30 June 2018, the new standard effectively relaxes the hedge effectiveness requirements, making it easier for instruments to qualify as a hedge. The only change required for the Group from 1 July 2018 was to update the existing hedging relationship documentation to align with NZ IFRS 9.

# Notes to the financial statements
For the year ended 30 June 2018

**Impairment Model:** The new impairment model for financial assets, otherwise known as the 'expected credit losses' model, will need to be applied to the Group's provisioning for doubtful debts. Based on management's review of historical bad debt write-offs and doubtful debts provision levels, as well as taking a view of current conditions, there is expected to be no material financial impact on either the doubtful debts provision level or earnings from adopting the new standard. If any material financial impact arises at a future reporting date, it will be disclosed at that time.

**Disclosures:** The new standard introduces expanded disclosure requirements and changes in presentation. Complying with the new standard will involve expanding the Group's disclosures about its financial instruments, particularly in relation to hedge accounting and credit risk.

- **NZ IFRS 15: Revenue from contracts with customers (mandatory from 1 July 2018)**

This standard 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. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and related interpretations. The new standard is based on the principle that 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.

During the current financial year, the Group assessed the potential impact on each division's major revenue streams of adopting NZ IFRS 15. The assessment to date has considered over 85% of the Group's total revenue. The accounting policies and practices currently used for revenue recognition in respect of these major revenue streams were reviewed to identify any potential changes to accounting for revenue that may arise upon adoption of this new standard.

Approximately 70% of the Group's revenue is derived from the express package & business mail division, which involves services generally provided within 24 hours and in some cases up to 72 hours. There is expected to be no changes to the revenue recognition accounting in respect of this division and therefore, at this stage, no potential material financial impact is anticipated from adopting this new standard.

Approximately 30% of the Group's revenue is derived from the information management division. The variety of goods and services provided by this division are individually priced and revenue is recognised at a point in time and over time, respectively. This approach is expected to be largely unaffected by the adoption of this new standard and therefore, at this stage, no potential material financial impact is anticipated.

Although the final impact assessment of the remaining revenue streams is yet to be completed across the respective divisions, management does not expect there to be a material change to the Group's revenue recognition policies and procedures and therefore no potential material financial impact is anticipated from the adoption of the new standard.

- **NZ IFRS 16: Leases (mandatory from 1 July 2019)**

This standard 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' (ROU) asset for virtually all lease contracts. Included is an optional exemption for lessees in respect of certain short-term leases and leases of low value assets.

From the effective date of adoption, the income statement will also be impacted by the removal of operating lease expenses, the recognition of an interest expense applicable to the future lease payment obligations and the recognition of a depreciation expense in respect of the ROU asset.

This standard will change the accounting for the Group's operating leases. As at the reporting date, the Group had non-cancellable operating lease commitments of $136 million (refer Note 16). Upon adoption, NZ IFRS 16 will have a material impact on a number of elements of the Group's balance sheet and income statement, but no impact on the Group's statement of cash flows.

The Group engaged one of the large accounting firms to model the estimated financial impact of adopting the new standard using the Group's operating lease portfolio and contractual lease data as at 31 March 2018, as if the new standard was to be adopted on 1 July 2018. The modelling calculated the estimated adjustments that would potentially need to be made to the balance sheet upon adoption of the new standard, as well as the financial impact on the income statement for the year of initial adoption. The model required management to make various key judgements, including:

- incremental borrowing rate (IBR) used to discount the ROU assets and the future lease payment obligations;
- lease terms, including any rights of renewal expected to be exercised;
- foreign exchange conversion rate; and
- application of practical expedients and recognition exemptions allowed by the new standard, including in respect low value assets and short-term leases exemptions, of which none were applied for the purposes of the initial assessment.

# Notes to the financial statements
## For the year ended 30 June 2018

For the purposes of the model, a blanket IBR was utilised for the two major lease categories, property and non-property assets, and any prepaid or accrued lease payments carried on the balance sheet were ignored based on the amounts involved being immaterial.

The new standard allows a choice of transition methods. Management has determined that the most appropriate approach for the Group at this point in time, will be to use the simplified modified retrospective transition method. For the purposes of this disclosure only, the Group has calculated the initial ROU asset as the equal amount of the initial lease liability recognised (which is calculated as the present value of the remaining lease payments from the date of adoption). Using this transition method will mean a neutral net asset outcome upon adoption of the new standard. The estimated potential impact on the balance sheet is estimated to be an approximate $248 million increase in both assets and liabilities equally, following the recognition of the ROU asset and the discounted future lease obligations, respectively.

The financial impact on the income statement for the year of adoption is estimated to be an approximate reduction in net profit before tax of $9 million. The following approximate changes to the current treatment of operating leases in the financial statements have been estimated for the year the new standard is adopted:

- a $27 million decrease in operating lease rental expenses (removed);
- a $22 million increase in depreciation (relating to ROU assets); and
- a $14 million increase in interest expense (relating to lease liability finance costs).

There will be no changes applicable to the Group's statement of cash flows as a result of adopting the new standard, as operating lease payments will continue to be paid as usual. The adjustments above are only for financial reporting purposes.

The estimated potential financial adjustments above are expected to change at the time of adopting the new standard on 1 July 2019 for the following reasons:

- some lease contracts will terminate prior to the adoption date;
- new lease contracts will be entered into by the Group prior to the adoption date;
- there may be changes to the terms & conditions of some existing lease contracts; and
- finalisation of various management's judgements regarding:
  - the measurement method to be applied in calculating the ROU asset;
  - the application of the various practical expedients available upon adoption;
  - the application of low value assets and short-term leases exemptions;
  - the expectation of exercising rights of lease renewals; and
  - the IBR to be used for discounting future lease payments.

The Group, at this stage, does not intend to restate comparative amounts for the financial year prior to the first year of adoption.

There are no other new standards, amendments or 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 2018

| | Number of holders | Number of shares held | % of issued capital |
|---|---|---|---|
| **Size of shareholding** | | | |
| 1 to 1,999 | 2,417 | 2,619,779 | 1.69 |
| 2,000 to 4,999 | 2,374 | 7,238,483 | 4.67 |
| 5,000 to 9,999 | 1,197 | 7,800,912 | 5.03 |
| 10,000 to 49,999 | 814 | 13,578,276 | 8.75 |
| 50,000 to 99,999 | 43 | 2,686,644 | 1.73 |
| 100,000 to 499,999 | 28 | 5,496,738 | 3.54 |
| 500,000 to 999,999 | 6 | 4,605,772 | 2.97 |
| 1,000,000 and over | 12 | 111,089,342 | 71.62 |
| Total shareholders | 6,891 | 155,115,946 | 100.00 |

| | Number of holders | Number of shares held | % of issued capital |
|---|---|---|---|
| **Geographic distribution** | | | |
| New Zealand | 6,744 | 153,410,573 | 98.90 |
| Australia | 90 | 1,496,307 | 0.97 |
| Other | 57 | 209,066 | 0.13 |
| | 6,891 | 155,115,946 | 100.00 |

### **Substantial product holders** as at 31 July 2018

Based upon notices received, the following persons are substantial product holders in accordance with Section 293 of the Financial Markets Conduct Act 2013:

| | Voting securities | |
|---|---|---|
| | **Number** | **%** |
| Fisher Funds Management Limited | 12,501,836 | 8.06 |
| ANZ New Zealand Investments Limited, ANZ Bank New Zealand Limited, ANZ Custodial Services New Zealand Limited, ANZ New Zealand Investments Nominees Limited and OnePath Funds Management Limited (Australia) | 10,055,867 | 6.48 |

The total number of issued voting securities of the Company as at 31 July 2018 was 155,115,946.

# Shareholder information

**Top twenty registered shareholders of listed shares** as at 31 July 2018

| | Number of Shares held | % of issued capital |
|---|---|---|
| HSBC Nominees (New Zealand) Limited <HKBN45> * | 19,849,534 | 12.80 |
| TEA Custodians Limited <TEAC40> * | 13,762,048 | 8.87 |
| Citibank Nominees (New Zealand) Limited <CNOM90> * | 10,355,452 | 6.68 |
| HSBC Nominees (New Zealand) Limited <HKBN90> * | 8,084,011 | 5.21 |
| ANZ Custodial Services New Zealand Limited <PBNK90>* | 6,347,206 | 4.09 |
| FNZ Custodians Limited | 6,294,592 | 4.06 |
| JPMorgan Chase Bank <CHAM24> * | 5,546,581 | 3.58 |
| Forsyth Barr Custodians Limited <1-Custody> | 3,551,803 | 2.29 |
| Accident Compensation Corporation <ACCI40> * | 3,503,004 | 2.26 |
| Custodial Services Limited <A/C 3> | 3,502,248 | 2.26 |
| National Nominees New Zealand Limited <NNLZ90> * | 3,342,503 | 2.15 |
| Port Devon Limited | 3,153,469 | 2.03 |
| JBWere (NZ) Nominees Limited <NZ Resident A/C> | 2,848,193 | 1.84 |
| ANZ Wholesale Australasian Share Fund <PNAS90>* | 2,491,684 | 1.61 |
| BNP Paribas Nominees (NZ) Limited <COGN40>* | 2,489,134 | 1.60 |
| Custodial Services Limited <A/C 4> | 2,159,911 | 1.39 |
| Investment Custodial Services Limited <A/C C> | 2,061,059 | 1.33 |
| Custodial Services Limited <A/C 2> | 1,708,590 | 1.10 |
| BNP Paribas Nominees (NZ) Limited* | 1,626,743 | 1.05 |
| BNP Paribas Nominees (NZ) Limited <BPSS40>* | 1,433,309 | 0.92 |
| | 104,111,074 | 67.12 |

*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 Board considers that the Group has followed all of the recommendations outlined in the NZX Corporate Governance Code for the financial year ended 30 June 2018.

### 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 Board Charter, which can be found at www.freightways.co.nz/about/corporate-governance, 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 and five non-executive directors. All Freightways' Directors are independent. Key executives attend board meetings by invitation.

### Diversity and inclusion

The Company has a formal diversity & inclusion policy which can be found at www.freightways.co.nz/about/corporate-governance. The Company is 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 2018, the Board was comprised of 4 male directors, 1 female director and 1 female non-executive Chairman (2017: 5 male directors and 1 female non-executive Chairman), and all 5 officers of the Company, who are not directors, were male (2017: all 5 officers of the Company, who were not directors, were male).

The Company has a key objective to conduct a Group wide climate survey on culture and diversity of our employees and contractors in 2019. The results of this survey will form a baseline from which the Company will develop measurable objectives in relation to diversity and inclusion. In 2018 Freightways' senior management team participated in unconscious bias training conducted by Diversity Works. The objectives of the training were to raise awareness of the impact of unconscious bias and how to recognise when and where it may occur.

The Board has targeted representation of greater than 30% for female directors and achieved this in June 2018.

# Corporate governance statement

## Board meetings

The following table outlines the number of board meetings attended by Directors during the course of the 2018 financial year:

| Director | Meetings Held | Meetings Attended |
|---|---|---|
| Sue Sheldon CNZM | 10 | 10 |
| Dean Bracewell (resigned 31 December 2017) | 5 | 5 |
| Kim Ellis | 10 | 10 |
| Abby Foote (appointed 1 June 2018) | 1 | 1 |
| Peter Kean | 10 | 10 |
| 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 Company's Audit & Risk Committee Charter can be found at www.freightways.co.nz/about/corporate-governance

The Group has established an internal audit function and has engaged Ernst & Young to perform this function. Ernst & Young will utilise the expertise of their relevant Subject Matter Professionals to execute an internal audit programme that will effectively cover a broad spectrum of risks. Ernst & Young will regularly report on their activities to the Audit & Risk Committee.

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

| Director | Meetings Held | Meetings Attended |
|---|---|---|
| Mark Verbiest | 6 | 6 |
| Mark Rushworth | 6 | 6 |
| Abby Foote (appointed to Committee on 6 August 2018) | - | - |
| Sue Sheldon CNZM (resigned from Committee on 6 August 2018) | 6 | 6 |

# Corporate governance statement

**People & Remuneration Committee:** The People & Remuneration Committee is responsible for overseeing the Freightways human resource practices, reviewing the remuneration and benefits of the senior management, reviewing and recommending the remuneration of Board members, and making recommendations to the Board in respect of succession planning. The Company's People & Remuneration Committee Charter can be found at www.freightways.co.nz/about/corporate-governance

The members of the People & 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 | 5 | 5 |
| Peter Kean | 5 | 5 |
| Sue Sheldon CNZM | 5 | 5 |

**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 Company's Nominations Committee Charter can be found at www.freightways.co.nz/about/corporate-governance.

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

| Director | Meetings Held | Meetings Attended |
|---|---|---|
| Sue Sheldon CNZM | 2 | 2 |
| Dean Bracewell (resigned 31 December 2017) | 1 | 1 |
| Kim Ellis | 2 | 2 |
| Abby Foote (appointed 1 June 2018) | 1 | 1 |
| Peter Kean | 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 and can be found at www.freightways.co.nz/about/corporate-governance. 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.

## Protected Disclosures (Whistleblower)

The Company is committed to encouraging, supporting and respecting open and honest accountable work practices. The Company believes all employees have a responsibility to eliminate serious wrongdoing in the workplace. The Company's Protected Disclosure (Whistleblower) Policy can be found at www.freightways.co.nz/about/corporate-governance

## Delegation of authority

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

# Corporate governance statement

### 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. The Company's Insider Trading Policy can be found at www.freightways.co.nz/about/corporate-governance

### 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.

### Reporting and disclosure

The Company is committed to promoting investor confidence by providing timely, accurate and full disclosure of information in accordance with the NZX Listing Rules. The Company has appointed its Chief Financial Officer as its Disclosure Officer. The Disclosure Officer is responsible for monitoring Freightways' business to ensure it complies with its disclosure obligations. The Disclosure Officer has access to all necessary information provided by the direct reports of Freightways' Chief Executive Officer in respect of their areas of responsibility. The Disclosure Officer will regularly request certification from the Chief Executive Officer's direct reports that all reasonable enquiries have been made to ensure all relevant material information has been disclosed to the Disclosure Officer. The Company's Disclosure & Communications Policy can be found at www.freightways.co.nz/about/corporate-governance

### Risk management

The Company operates in an environment that contains a number of operational and strategic risks. It actively manages risk to ensure it operates a safe workplace and is able to sustain the achievement of its business objectives. Risk management techniques and capability assist managers to focus on uncertainties and vulnerabilities associated with the future, thereby improving the likelihood of meeting business objectives.

The management of risk is a core management responsibility. All management and employees are accountable to employ risk management processes within their area of control to aid in the achievement of business objectives. A process to ensure risk has been adequately identified, considered and can be managed, is evident in all key decision-making processes. The Chief Executive Officer, Chief Financial Officer and subsidiary management ensure that risks to the business are identified and evaluated, that effective responses and control activities are developed and that appropriate monitoring and timely re-evaluation is conducted.

The Board and its Audit & Risk Committee are responsible for setting policy, assessing and monitoring strategic risks and ensuring management maintains an effective risk management framework.

In 2019, Ernst & Young will perform internal audit on areas assessed to be highest risk for the business, including:

1. Cyber security;
2. IT project management;
3. Data privacy;
4. Payroll processing; and
5. Managing business continuity.

The Company's Risk Management Policy can be found at www.freightways.co.nz/about/corporate-governance

### Health and safety risks

The Company's management team and Health & Safety Committee are responsible for oversight of the Company's health and safety risks. The prevention of accidents and injuries is of vital importance and no task is regarded to be so important that it may be done in an unsafe manner. The Company has developed and maintains a Health & Safety Manual that details the procedures required of all managers, employees and contractors to maintain a healthy and safe working environment.

The Company is subject to internal and external audit and review, including external audit as part of the Accident Compensation Corporation's Accredited Employers Programme and also New Zealand's Civil Aviation Authority audit of the Group's Fieldair operations.

The Board monitors, supports and completes its own due diligence on the health and safety practices of the Company. Health and safety is a standing Board agenda item that is discussed at all scheduled Board meetings.

# 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 Couriers Limited

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

### Post Haste Limited

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

### Castle Parcels Limited

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

### Shred-X Pty Limited

PO Box 1184
Oxenford
Queensland 4210
AUSTRALIA
Telephone: +61 1 300 747 339
www.shred-x.com.au
www.med-xsolutions.com.au

### New Zealand Document Exchange Limited

20 Fairfax Avenue
Penrose
DX CR59901
AUCKLAND
Telephone: 09 526 3150
www.dxmail.co.nz
www.dataprint.co.nz

### The Information Management Group (NZ) Limited

33 Botha Road
Penrose
DX EX10975
AUCKLAND
Telephone: 09 580 4360
www.timg.co.nz

### Fieldair Holdings Limited

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

### NOW Couriers Limited

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

### The Information Management Group Pty Limited

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

# Company particulars

### Board of Directors

Sue Sheldon (Chairman)

Kim Ellis

Abby Foote

Peter Kean

Mark Rushworth

Mark Verbiest

### Registered office

32 Botha Road
Penrose
DX CX10120
AUCKLAND
Telephone: 09 571 9670
Facismile: 09 571 9671
www.freightways.co.nz

### Auditors

PricewaterhouseCoopers
188 Quay Street
Auckland

### Share registrar

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna
North Shore City 0622
DX CX10247

### Stock exchange

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

Freightways