# Annual Report

Freightways Limited and its subsidiaries
Financial Year ended 30 June 2019

# SO MANY JOURNEYS

Freightways

Contents



**Over 85 million**
ITEMS MOVED EACH YEAR

**Over 11 million**
ITEMS STORED

**45 thousand**
TONNES OF PAPER RECOVERED AND SHREDDED

**10**
LOST TIME INJURY FREQUENCY RATE (LTIFR)

**Over 30 million**
KG AIRFREIGHTED

**3.5 thousand**
TERABYTES BACKED UP ONLINE

# NEAR AND FAR

# IMMEDIATE AND OVER TIME

# TO BUSINESS AND CONSUMERS

# PHYSICAL AND DIGITAL

A journey for us is more than taking something from one place to another. Increasingly, it's about transforming things from one form to another. Our core philosophy of Pick Up, Process and Deliver now forms the basis for an expanding range of businesses focused on adding value to products and services as they pass through our hands.

By applying our entrepreneurial spirit to everything we do, we've successfully expanded and diversified our business operations in New Zealand and Australia from couriers to documents to digitalisation. Today our portfolio of brands offers digital and physical services to businesses and consumers, all with exciting growth potential.

**7%**

GROWTH IN AVERAGE COURIER EARNINGS

# OUR BUSINESS MODEL FOCUSES ON ADDING VALUE TO EVERYTHING WE MOVE.

**Each of our four business activities focuses on achieving high quality and efficiency through the stages of pick-up, process and delivery. They rely on density created in each niche to result in market leading brands.**

## Express Package

Our multi-brand strategy in the New Zealand courier market includes New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express, Stuck and Pass The Parcel. Each brand caters to specific customer needs, but they share branch networks, air and road linehaul and IT. Our joint venture airline, Parcelair, adds airfreight capability for our overnight Express Package delivery service.

## Business Mail

DX Mail and Dataprint offer physical and digital postal services to business customers throughout New Zealand. DX Mail provides time sensitive delivery across New Zealand while Dataprint offers mailhouse-print services and digital mail presentation platforms.

## Information Management

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

## Secure Destruction

Shred-X operates document destruction services, along with eDestruction and product destruction services. The business also provides medical waste services under the Med-X brand.


Express Package
Network Courier
Point to Point
Aviation
Digital Mail
Mailhouse
Document Media & Storage
Digital Information Processing
Online Back-up
Document & eDestruction
Product Destruction
Medical Waste
Deliver
Pick up
Freightways
Process
Secure Destruction
Business Mail
Information Management

# GROWTH WAS ACHIEVED IN ALL FOUR BUSINESS ACTIVITIES DESPITE A SLOWING ECONOMIC BACKDROP

## Financial highlights

**$616M**
**REVENUE**
**6.0%** ↑ INCREASE

**$99M**
**EBITA**
**3.2%** ↑ INCREASE

**$63M**
**NPAT**
**2.3%** ↑ INCREASE

**30.5**
**CENTS PER SHARE**
**TOTAL DIVIDEND PAYOUT FOR 2019**
**2.5%** ↑ INCREASE

# Strong earnings in our core activities were matched by encouraging growth in our newer markets

### Freightways operating revenue FY19 ($m)
Rounded to the nearest $m


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


### Freightways EBITA ($m)
Including non-recurring items[1]


### Freightways EBITA ($m)
Excluding non-recurring items[1]

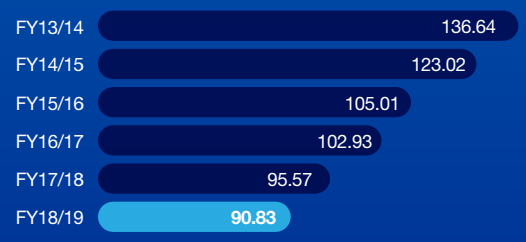

1. Refer to the Chairman and CEO's report on page 10 for reconciliation between operating profit before interest, tax and amortisation (EBITA) including non-recurring items and EBITA excluding non-recurring items.

## Divisional highlights

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


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


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




| Year-on-year reduction |
|---|
| 10.0% |
| 14.6% |
| 2.0% |
| 7.2% |
| **5.0%** |

CEMARS® certified

FY19 to be certified in November 2019


"I WISH TO BE THE BEST LEADER THAT I CAN POSSIBLY BE AND JUMP AT ANY OPPORTUNITIES THAT ARE PRESENTED TO ME."

**Greg Smith**
Southern Regional Manager

SO MANY
JOURNEYS

# MY CAREER

## Greg Smith

**Southern Regional Manager**
**Christchurch**

**Greg's career at Freightways started when he went to a meeting to become a courier. But that's not the job he accepted.**

In 1998, Greg started his Freightways career as the Decon Supervisor at Post Haste (PHG) Christchurch. He had originally planned to be a Courier contractor but there were no courier runs available. Three years later, he became Depot Supervisor at New Zealand Couriers (NZC).

In 2004, Greg moved into sales – something he had always wanted to do – when he became an Account Manager for NZC Christchurch. A year later, he moved back into operations as the Fleet Manager of NZC CHC, and stayed there for five years.

A brief period away from the company was followed by a return to the NZC sales team as a Senior Account Manager in 2011 and then, in 2012, Branch Manager at Post Haste Couriers & Castle Parcels Christchurch, not long after the earthquakes there. He took up his current role in 2015. Right now though he is on secondment in Auckland working with the North Harbour and Whangarei branches.

Greg says he has been surrounded by some great leaders throughout his career in the business who have all shared their leadership skills and offered tremendous support. He looks forward to doing the same in the years ahead to support the next generation of Freightways managers.

**1998**
Decon Supervisor, Post Haste (PHG) Christchurch

**2001**
Depot Supervisor, New Zealand Couriers (NZC)

**2004**
Account Manager, NZC Christchurch

**2005**
Fleet Manager, NZC Christchurch

**2011**
Senior Account Manager, NZC Christchurch

**2012**
Branch Manager, Post Haste Couriers & Castle Parcels Christchurch

**2015**
Southern Regional Manager, Post Haste Couriers & Castle Parcels Christchurch

# THE STRENGTH OF NETWORKS

## The Directors are pleased to present the consolidated financial results of Freightways Limited (Freightways) for the year ended 30 June 2019. This report discusses the results for each division, outlines the key strategies and the 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

- Completing a number of business-critical IT projects to enable our new Pricing For Effort initiative for residential deliveries;
- Improving route density, in residential areas in particular, and using the benefits to reinvest into the contractor fleet, which resulted in an average increase in contractor earnings of 7% above the previous year, and
- Expanding our business mail network to take on new customers and once again demonstrating growth year-on-year.

### In the Information Management (IM) division

- Improving utilisation in our Australian document storage footprint by 10% (from 61% to 67%). While this was short of our goal of 70%, it reflected a strong step forward in generating improved returns in our document storage business;
- The completion of another large data collection/transformation contract win, supporting the growth of the division's suite of digital IM services, and
- Strong growth in our secure destruction business, which is successfully diversifying into complementary waste streams which require efficient logistics and processing.
- Sustained strong cash generation from both divisions, leading to reduced debt gearing levels.

### Operating performance

The below table presents the reported 2019 result compared to the prior comparative period (pcp), both before and after the inclusion of non-recurring items:

| | Note | 2019 $M | 2018 $M | Increase % |
|---|---|---|---|---|
| Revenue | | 615.7 | 580.9 | 6.0 |
| EBITA, before non-recurring items | (i) | 96.7 | 93.7 | 3.2 |
| Non-recurring items | | 2.4 | 2.6 | |
| EBITA | (ii) | 99.1 | 96.3 | 2.9 |
| NPAT, before non-recurring items | (iii) | 61.0 | 59.6 | 2.3 |
| Non-recurring items after tax | | 2.4 | 2.6 | |
| NPAT | (iv) | 63.4 | 62.2 | 1.9 |
| Basic EPS (cents), before non-recurring items | | 39.3 | 38.4 | |

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.


SUB60


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:

- 2019: Non-recurring benefits before tax totalling $2.4 million (no tax applicable) in respect of reversing $0.5 million of previously accrued acquisition payables that are no longer expected to be required and a $1.9 million gain upon recording the replacement of earthquake-related damaged racking funded by insurance proceeds.
- 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.

### Dividend

The Directors have declared a final dividend of 15.5 cents per share, fully imputed at a tax rate of 28%, being a 2% increase above the pcp final dividend of 15.25 cents per share. This represents a payout of approximately $24.1 million compared with $23.7 million for the pcp. The dividend will be paid on 1 October 2019. The record date for determination of entitlements to the dividend is 13 September 2019. The total dividend payout in respect of the year ended 30 June 2019 will be 30.5 cents, being 2.5% above the pcp of 29.75 cents.

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.

### Divisional performance

Divisional results for the year ended 30 June 2019 are provided below for each division.

### Express Package & Business Mail (EP&BM) division

### 2019 Result

Operating revenue of $453 million was 5.6% higher than the pcp. EBITA of $72.2 million was 6.3% higher than the pcp.

2019 was a year of two halves with respect to organic growth levels within the EP&BM division. The first half was characterised by solid organic growth (circa 2.5%), whereas same-customer volume flattened off noticeably in the second half of the year. Some hard calls were also made on low margin business during the year, with pricing reviews for customers where margins were unacceptably low for the value provided through our networks. The results were pleasing for the year when these factors, alongside material contractor earnings and wage increases, were also taken into account.

Freightways has consistently paid above minimum wage in its freight sorting operations and to ensure it continues to do so, wages were lifted at the lower levels by around 6% to maintain that premium. Volume growth, and consequently revenue and earnings, were stronger in the first half of the year than the second half.

Freightways' small postal business, DX Mail, has come under direct attack from NZ Post's new zonal pricing structure for bulk mail, which effectively offers their customers the cheapest rates to those areas that DX Mail delivers into, and more expensive rates to those areas where DX Mail does not deliver. Freightways is assisting the NZ Commerce Commission with its preliminary investigation into NZ Post's pricing tactics. DataPrint, Freightways' mailhouse business, expanded its range of services during the year and is well positioned to help customers transition to digital communications augmented by high quality physical delivery through DX Mail.

The EP&BM division delivered a sound full year result, and has positioned itself well to avoid the pitfalls of many express package operators around the world that appear to have thrown themselves into residential deliveries at what some may view as producing unsustainably low margins. Freightways is confident that its brands will be able to provide higher quality delivery services to residential areas, sustainable courier remuneration and ultimately generate returns from the growing B2C market.

## "FREIGHTWAYS HAS CONTINUED TO INNOVATE AND INVEST IN ITS BUSINESSES TO ACHIEVE MARKET-LEADING SERVICE QUALITY AND RETURN ON INVESTMENT."

### Key Strategies in 2020

**Pricing for Effort:** Differential pricing was introduced from 1 July 2019 for items travelling to residential addresses as the first of a two-step process to generate higher remuneration for couriers performing residential deliveries and to begin to recover the higher costs associated with low density deliveries. This strategy has been enabled by significant investment in geo-mapping and coding of addresses as either business, residential or rural, as well as the introduction of systems to enable billing for residential delivery.

As this strategy unfolds, Freightways expects to achieve a higher quality final mile delivery, with couriers earning superior returns for their efforts and Freightways' brands also generating positive margins. This will motivate the EP&BM division to invest further into service quality initiatives for the growing residential delivery sector.

**Residential Network Review:** In 2019 good progress was made to better collaborate across the courier brands to improve the division's delivery efficiency in residential areas. This strategy has now become business-as-usual, with the use of a number of analytical tools to continually monitor and evolve residential runs so as to drive better productivity and lower direct costs for couriers through the need to travel fewer kilometres each day.

**Customer Visibility and Data Analytics:** New scanning technology was rolled-out during 2019 which positions the business well to provide value-added services to customers and receivers by improving visibility and ultimately the final-mile delivery experience.

### Information Management (IM) division

### 2019 Result

Operating revenue of $164.5 million was 6.9% higher than the pcp. EBITA of $29.3 million was 1.9% lower than the pcp.

While utilisation of facilities improved in Australia and New Zealand, the margins generated from data transformation were slightly lower. In 2019, the Shred-X business invested in growing its fleets through New South Wales, Victoria and Queensland in response to demand from medical waste and product destruction customers. Shred-X also incurred transition costs while merging its Western Australia site with a recently-acquired document destruction business. This business was fully integrated by May 2019.


Australian IM annual earnings marginally exceeded those of New Zealand IM for the first time in 2019. 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 widen its lead on New Zealand's earnings into the future.

### Key Strategies in 2020

**Facility Utilisation:** Despite solid growth in the Australian IM facilities, there were a number of new customers secured that had not transitioned their volume into TIMG (The Information Management Group) by the end of the financial year, meaning the division fell 3% short of its 70% utilisation target. The focus for 2020 is to on-board and maintain double digit revenue growth in this line of business.

**Digital Services Growth:** In Australia, TIMG will focus on its capability with respect to large digitalisation jobs. In 2019, it completed a significant job which required data extraction, electronic discovery and delivery of data within tight timeframes (mirroring the capability used for the NZ Census by the NZ TIMG business in 2018). There are scale opportunities in the Australian market for quality providers of digitalisation and e-discovery services.

**Secure Destruction and Medical Waste:** Additional investment was made in teams, fleets and facilities in 2019 to support the growth of Shred-X's document destruction, medical waste and product processing capabilities. 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 related 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 continues to actively explore and investigate acquisition and alliance opportunities for synergistic and complementary service offerings. Freightways completed three small acquisitions early in the 2019 financial year and these have been successfully integrated into the Australian IM division. The businesses acquired included a records storage business, a secure destruction business and a majority stake in the software company that provides the online back-up service for TIMG's customers.

### Corporate

Corporate costs increased by $0.7 million compared to the pcp, primarily due to the reclassification of certain managers from the divisions into newly-created corporate roles, but also as a result of an uplift in consulting costs relating to internal audit, external reporting and ESG initiatives.

Net debt decreased by approximately $3 million to $152 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 further below 40%.

## Outlook

Freightways has observed a slowdown in New Zealand in terms of same-customer trade over the second half of 2019 in its express package businesses. Despite this headwind, management remains optimistic that pricing and efficiency initiatives in express package and Freightways' diversification strategy in information management will provide growth opportunities in 2020. Freightways is once again targeting year-on-year earnings growth in 2020.

Within the EP&BM division, indications are that organic volume growth will be lower in 2020 than it was in 2019. There will be a strong focus on maintaining and improving margins, along with improving visibility to customers and receivers for express package deliveries. Focus on continuing to build courier remuneration through intensification of their runs and improved residential delivery pricing will also be a priority.

Within the IM division, there will be a continued drive on expanding storage and handling margins through improved facility utilisation. Leveraging digital capability to attract new customers will also be a key platform for growth in 2020. Within the secure destruction business, the division will look to leverage the networks it has invested in to provide medical waste and product destruction services to both new and existing customers.

Overall capital expenditure for the 2020 financial year is expected to be between $22-24 million. Operating cash flows are expected to remain strong throughout 2020.

Strategic growth opportunities, including acquisitions and alliances that are synergistic or complementary to our existing capabilities, will be executed where they make commercial sense.

## Conclusion

Freightways has continued to innovate and invest in its businesses to achieve market-leading service quality and return on investment. The results for 2019 were impacted in the latter half of the year by modest to flat organic growth as the New Zealand economy slowed. Despite these headwinds, Freightways expects to continue to demonstrate its long-held disciplines in terms of managing margins, investing appropriately for growth and exploring new service opportunities. There are opportunities for all of the group's business activities 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. 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.

**Mark Verbiest**
**Chairman**

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

26 August 2019

SO MANY
JOURNEYS

# MY PROGRESS

## Sadhna Ram

**Branch Manager**
**Messenger Services Ltd**
**Auckland**

**After initially training as a teacher, Sadhna found her way to Messenger Services. Today she manages our Auckland branch.**

Sadhna says she has always been inspired to look for new opportunities. That drive stems from working with great managers, who role-modelled the intensity, relentlessness and exceptional standards required to succeed.

She has been in a wide variety of roles and says she has taken learnings from every one. "I've also come to realise that I don't have to know all the answers, I just need to know someone who does. Never shy from asking for help."

The decision to shift from the Countdown Fleet Management team was an example of taking an opportunity when it presents itself. "The role (of Auckland Branch Manager) was definitely in my sights," she says, "however I had only started in my new role in January. It was a position I was very much enjoying so I was unsure whether to apply for the role or wait a few more years. A brief chat with a senior leader in the Freightways business, who I consider my mentor, convinced me to step up and apply."

Sadhna says her 'on the job' learnings have been supported by completing the Freightways Fundamentals modules, participating in the Management Concepts Course and graduating from the Freightways LEAD Development programme in 2018.

**2010**
Call Centre Representative, Messenger Services

**2011**
Call Centre Supervisor, Messenger Services

**2017**
Auckland Operations Manager, Messenger Services

**2019**
Joins Countdown Fleet Management team, Messenger Services

**2019**
Appointed Auckland Branch Manager, Messenger Services

"IN THE NEXT 5 YEARS, I WOULD LIKE TO WORK IN A FEW OTHER BRANDS WITHIN FREIGHTWAYS TO GAIN NEW LEARNINGS."

**Sadhna Ram**
Branch Manager

# OUR JOURNEYS THIS YEAR

## The different parts of our business compete in markets with different growth dynamics. In each case, our best opportunities to add value lie in consistently applying our Pick Up, Process, Deliver model to ensure customers receive better services and experiences.

### Express Package

E-commerce is a significant opportunity for us. By recognising the importance of the receiver experience, as well as sender expectations, we aim to continue to lead the market.

New technologies have changed the way courier services work – with increased package visibility and the ability to re-route items already in transit. There is now greater movement transparency and advanced methodologies for parcel tracking. Items are tracked online from the moment of order, until they are collected and delivered to the final receiver.

Higher residential delivery volumes also bring higher costs because of the lower delivery densities (versus business to business delivery), increased travel time and greater infrastructure requirements. Over the last year Freightways has put in place a number of plans to start addressing the operational requirements for increasing volumes of residential receivers and the higher costs associated with such deliveries. For example, we've gained efficiencies through increased collaboration between the courier brands for the 'last mile delivery' – effectively increasing delivery density in residential areas.

We are also looking to increase courier remuneration in the residential space – fair contractor pay for delivery effort has always been key to a successful, sustainable business model.

Over the last 6 months we have been communicating to our customers and staff the need to price our services in line with the effort and resource required (Pricing for Effort). The very real extra costs associated with business-to-consumer deliveries need to be recouped. We started implementing these changes from the beginning of July 2019.

At the same time, we will introduce added value services thanks to technology improvements to ensure our overall services meet our customer and receiver expectations. Continued improvement in the overall customer experience will allow our courier businesses to charge appropriately for a superior service offering.

### Business mail

DX Mail is the nationwide alternative mail provider, delivering 50 million mail items per annum. In the last five years we have increased our postie fleet by 50% to 220 posties, maintained next day local service, and expanded the number of towns and cities we service through our network. Our business strategy is focused on meeting the needs of our customers with consistently high service standards.

Alongside this successful physical mail strategy, we have been developing smart technology solutions to support customers as they transition to digital mail alternatives.

DX Mail through its mailhouse, Dataprint, are collaborating to provide customers a fully integrated communications channel across physical mail, email, SMS as well as remote print and lodgment services.

DX Mail is now a key component of New Zealand's infrastructure providing essential time sensitive delivery services to DHBs, government and business alike that no other mail provider can supply as effectively.

Along the way, our State-owned competitor has recently announced zonal pricing that appears to provide the lowest pricing in areas with DX Mail services, while areas that DX Mail does not service are priced higher. The Commerce Commission are currently undertaking a preliminary investigation into this issue.

Regardless of the outcome of this investigation DX Mail will progressively expand services, offer quicker delivery options to customers and provide smart digital solutions ensuring that we continue to meet our customers' needs.


### Information Management

TIMG has been expanding ever since it began life in 2000. After opening in Sydney TIMG established facilities in Melbourne, Brisbane, Adelaide, Perth and Canberra. Hobart and Darwin followed. Setting up this network required considerable investment, but now that the national footprint is in place TIMG is well placed to capitalise financially by filling warehouse capacity across Australia. Over the last year TIMG has improved utilisation by 10% to 67% providing an improved financial performance along the way.

In New Zealand TIMG is the country's largest document storage business with high utilisation levels of 82%.

With this winning formula producing sustained growth, TIMG has invested in further development of its portfolio model to respond to the ever-increasing pace of change and disruption in the information management market. This investment has led to the creation of the TIMG Horizon 3 team, to ensure that whilst the business continues to execute growth across its core and complementary services, it also accelerates the search for the next wave of new businesses.

Adopting a variety of tools and frameworks, the team has developed a repeatable process, unique to TIMG, to take ideas from concept through to scalable business opportunities. This repeatable process for innovation will help the business enhance what has already proven a successful winning formula.

### Secure Destruction

Since 2001 Shred-X has focused its recycling and secure information destruction services on customer service, building a national logistics network, sustainable processing centres, and attaining the highest industry certifications in safety, information security, quality and environmental sustainability.

In 2017, Shred-X entered the medical waste business with the acquisition of State Waste Services (SWS Healthcare Solutions and SWS Healthcare Logistics) in New South Wales. SWS in turn became the cornerstone for Med-X Healthcare Solutions, officially launched as Med-X in early 2018.

Med-X services expanded into Victoria in 2018 with the acquisition of Medico Hygiene Services and Medico Waste Disposal, collectively Medico, and has seen significant revenue growth since the acquisition.

By combining the different businesses' resources and service offerings, Shred-X and Med-X collectively provide a secure, safe and compliant service across business sectors, and specifically medical waste services to the fast-growing health & medical industry. In mid-2018 Med-X Queensland began as a greenfield operation.

The company is currently adding extensive Customer Relationship Management (CRM) and automated routing technologies to align all its products and services for the safe and secure handling, treatment and disposal of clinical waste and related services including sharps, hygiene and washrooms products and services.

Shred-X and Med-X leadership foresee continuing opportunities for rapid growth through strong sales and marketing, leveraging new partnerships with general waste and cleaning companies as well as strategic acquisitions.

# HELPING OUR PEOPLE TO CONTINUE TO MOVE FORWARD

**We pride ourselves on being fair. Making sure our people feel included and engaged has been a real focus this year, along with introducing a new pricing initiative that enables our couriers to reap the rewards of working with us.**

**Our first ever Diversity and Inclusion survey**

The variety of people who work for us – with their many different skills, beliefs, diverse backgrounds and ways of thinking – has been key to our businesses' past success and offer huge potential for the future. We recognise that encouraging a diverse team and inclusive workplace has very real benefits for our people, our customers and our business.

Diversity for us is about ensuring that everyone feels valued and included regardless of gender, ethnicity, sexuality, (dis)ability, religion or any other difference. A workplace that welcomes, acknowledges and values diversity in its people benefits because valued teams build productivity, diverse workplaces better reflect today's society, diversity of thought is valuable and because the people who work in such workplaces are more likely to be caring and loyal.

2700+ of our people chose to take part across Australia and New Zealand, more than 20% of them contractors. Two highlights to emerge from this survey is that we are age-diverse (43% being millennials or generation z) and multi-cultural (11.3% of our team speak other languages).

**The results also highlighted we have some work to do. So over the next year, we will focus on:**

**1.** Working to have transparent career and business pathways – so everyone who wants to develop either their career or their business (contractors) knows how to go about it (SDG 8 – decent work and economic growth); and

**2.** Building awareness and tools around positive wellbeing and mental health - our people are our strength, and their physical and mental health is vital. (SDG 3 – good health and well-being).

Among the findings:

**60%**
**HAVE BEEN WITH US LESS THAN 5 YEARS**

**71%**
**OF EMPLOYEES BELIEVE AGE IS NO BARRIER TO OPPORTUNITY**

**48%**
**ARE OF NON-EUROPEAN ETHNICITY**

**43%**
**HAVE A TERTIARY OR TECHNICAL QUALIFICATION**

In terms of our gender balance:


### Pricing for effort

The continued growth of Business to Consumer (B2C) deliveries has been a key growth factor to the courier industry, with higher overall volumes, as e-commerce continues to develop worldwide, and growth levels more than double the standard Business to Business (B2B) volume growth.

However, with that growth has come unintended consequences. Standard B2B rating models and courier payment levels were not in line with the changing market. The high productivity model associated with very dense pickup and delivery areas when delivering business to business does not apply for deliveries to consumers.

This meant contractors delivering into residential areas saw dramatically lower productivity in terms of the number of deliveries they could complete to one drop point, coupled with a reduction in the number of deliveries that could be completed per hour.

This led to a cap on courier incomes which did not meet the business aspirations of the independent contractors.

In July 2019 Freightways introduced our Pricing for effort (PFE) initiative which enables us to charge customers and pay the contractors appropriately for the time and effort required to complete B2C deliveries. Our overarching objective is to ensure contractor incomes flourish and that being a courier continues to be a viable path for the small business owners who are our independent contractors.

With this change Freightways are leading the market in ensuring the viability of the independent contractor model. This model has been successfully in place for over 50 years in the New Zealand marketplace. We want it to continue to succeed for many more years to come.

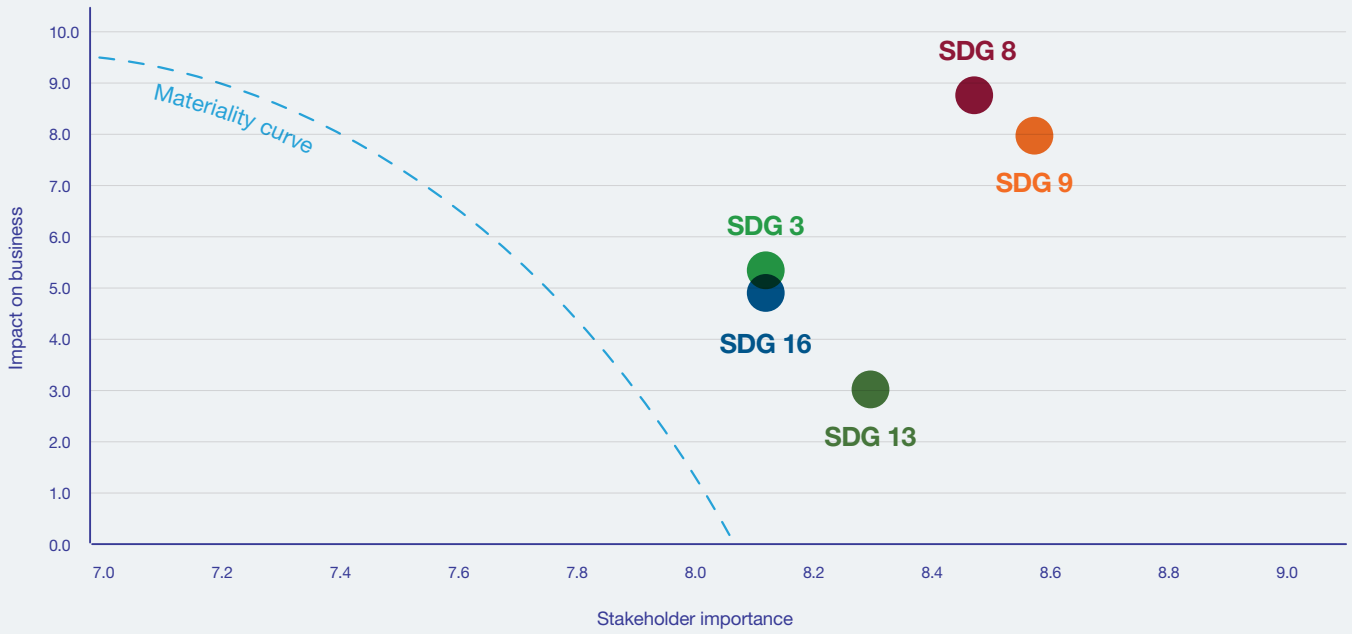
There's more on this in the Materiality section of this report.

# SEEKING OUT WHAT'S IMPORTANT

We continue to incorporate non-financial criteria into our decision-making and public reporting to meet growing demand by stakeholders for broader information about our activities. Last year we conducted an assessment to determine the issues most material to our business and reporting.

The UN Sustainable Development Goals (SDGs) aim to end all forms of poverty, fight inequalities and tackle climate change through to 2030. Freightways' businesses focus on five of the 17 SDGs and actively look for ways to incorporate these.

**Materiality Matrix**



## Good health and well-being

### Moving together

In July 2016 Post Haste, Castle Parcels and NOW Couriers introduced a website-based wellness program that gave team members the ability to share their success stories, and view information on being healthy and getting active as well as information and help when times are tough.

The Movement was born.

MSL joined in January 2019 and TIMG, DX Mail and FIS in March and April. More of our brands will come on board over the next 12 months. All staff and contractors are welcome to join.

The Movement platform enables us to run nationwide or brand campaigns; from a pedometer challenge to activate teams, to a nutrition challenge to get our teams thinking about how they fuel their bodies. From participating in Mental Health awareness week to working to raise money and awareness for Breast Cancer. The site offers everything from Mental Health advice lines to discounts on eye examinations.


What began as a website is now an environment to help keep our people healthier – socially, physically, mentally and spiritually.

### Keep on trucking – safely

Parceline have been trialling a truck simulator to enhance the safety of our contractors and other road users. We've been introducing the simulator to our contractors so they and their drivers can use it for driver training purposes. We sourced the machine through Autosense, who provided Parceline with the Guardian Seeing Machines – the state-of-the art fatigue detection technology that literally keeps an eye on the drivers whilst they work, recording their eye movement and looking for signs of fatigue. Both the simulator and eye detection technology have been welcomed by our contractors.

### 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

# Our Sustainable Development Goals


## Decent work and economic growth

### Opening a career gateway for young people

This year we partnered with On Demand Training, who specialise in transport and logistics training, to be part of their Transport and Logistics Gateway Programme. The programme provides senior secondary school students with industry learning and experience so that they gain a sense of the career possibilities open to them.

The students are 17 and 18 years old and come into our business having recently completed qualifications in Workplace Health and Safety and Manual Handling and Hearing Conservation, and gained their OSH Forklift Licence. They are buddied up within the different businesses and rotate through a variety of tasks, from building freight containers, mail franking or working in the freight office to call centre, dispatching or riding along with a courier.

Feedback from the students has been positive, with all saying they are grateful for the experience and several students from the first programme gaining temporary employment with us over the busy 2018 Christmas period.

The Transport and Logistics Gateway Programme is a wonderful way to help foster a decent work environment. Not only does this programme allow the students to experience how our business works and the variety of roles and pathways available in the transport and logistic industry, it also gives them an insight into life after school.


### Growing the income of our contractors

A key focus for our courier businesses this year has been 'Pricing for Effort', with a specific emphasis on ensuring our business and our contractor's businesses are appropriately remunerated for residential delivery work. The key attributes of this project are;

- Building run density and efficiency – which we are managing in collaboration with our sister brands and the use of new technologies (operational and customer/receiver facing).
- Appropriate charging mechanisms – recognising the effort required (by the business and the contractor) to effect significantly higher percentages of first-time delivery to residential zones.

With the increasing impact of e-commerce and the associated volumes of residential deliveries, productivity improvements will result in more deliveries per hour in residential zones. Pairing increased productivity with higher contractor payments will significantly grow our contractors' incomes. This initiative will specifically impact lower earning courier runs.

The goal is for denser and more profitable runs for our contractors and better service to our residential receivers. We are aiming to also increase transparency of career pathways – allowing staff to migrate into contractor roles and contractors to be more aware of employee role opportunities. There is now better visibility of opportunities nationwide – a key area identified through this year's Diversity & Inclusion Survey.

In the mid-term, addressing remuneration levels and working hours should directly contribute to an increased desirability of contracting for Freightways' courier brands. It should also increase contractor retention – maintaining institutional knowledge and increasing customer satisfaction levels. Focus on these areas will directly feed into higher NPS scores (higher customer and receiver satisfaction).

### Our first ever Diversity and Inclusion survey

In late 2018 we embarked on our first anonymous Diversity and Inclusion Survey to further understand our 4000+ staff and contractors spread throughout New Zealand and Australia. Knowing more about our team helps us to make better decisions for the future and improve the business we work in. See the People section in this report for more details on what we discovered.

## Climate action

### Implementing EVs into the Countdown delivery fleet

Freightways' subsidary (Messenger Services) and one of their existing customers (Woolworths New Zealand) are jointly investigating opportunities to implement electric vehicles into the Countdown delivery fleet.

The government operate a subsidised programme to offset the upfront costs of contracting an electric vehicle. Woolworths have completed this, resulting in a 50% subsidy.

Two Auckland store locations, Glenfield and Ponsonby, have been identified as suitable for the initial electric vehicles because the delivery areas there are flat and there are suitable docking set ups for battery charging.

The immediate benefits of choosing electric vehicles include a reduction in air pollution and greenhouse gas emissions. The cost to refuel an electric vehicle is also a fraction of the cost of petrol meaning that electric vehicles realise a lower total cost of ownership to the contractor over the lifetime of the vehicle.

### Reducing GHG emissions at Post Haste Group

Post Haste Group is proactively reviewing how it can reduce GHG emissions by introducing efficiencies in its delivery operation. A key strategy to achieve this is refocusing our run structures within the company but across the wider Freightways Group.

Such an approach will help us reduce the number of vehicles on the road while maintaining the operational performance our customers expect. (See the Smart Logistics story to the right for more details on how we plan to do this).

35 vehicles have been eliminated from the fleet so far (down from 355 in April 2018 to 325) following reviews in Auckland, Wellington and Christchurch. Plans are already underway to look at reducing GHG emissions in Hamilton East, Blenheim, Central Otago and Timaru.

Collaboration of run areas is now likely to take priority over the next 12 months, which should mean:

- New Zealand Couriers are likely to reduce a few runs;
- Contractors will have smaller, more condensed areas to cover;
- Post Haste contractors will start delivering for all the Freightways brands in selected areas;
- Vehicle age limits will be upgraded to require newer, more fuel-efficient vehicles on the road; and
- We will start operating parts of the fleet at less congested times of the day in order to achieve a higher success rate of residential delivery e.g. 6pm – 8.30pm.

### Smart Logistics

The courier industry continues to evolve, with significant growth in home deliveries coupled with greater awareness of the environmental impacts of transport. To help address both these issues, Freightways are embarking on several initiatives around route optimisation.

Our goal is to do more work with fewer resources, improved service performance and in fewer kilometres. This has become a priority as the continued growth of Business to Consumer deliveries (B2C) has impacted our business through lower delivery run densities, greater driving distances and the need to meet ever changing service expectations of both our customer and their customers.

We have now started using Artificial Intelligence (AI) to review our overall service performance across these issues. Strategic route planning requires continuous optimisation for maximum results and using AI to best effect will drive this opportunity. We envisage that as we work through this project we will meet all our objectives while continuing to develop a range of delivery initiatives to our customers.


## Industry, innovation and infrastructure

### Exploring new horizons

Over the past 30 years, TIMG has built a successful portfolio through the steady introduction of complementary new services. Starting as a secure records storage business, the addition of data tape storage, document destruction, e-waste services, and more recently a variety of digital services, has seen TIMG consistently build upon its core, folding in new horizons of growth.

With this winning formula producing sustained growth, TIMG has invested in further development of its portfolio model, in response to customer demand in the information management market. This investment has led to the creation of the TIMG Horizon 3 Team. Their role is to ensure that whilst the business continues to execute growth across its core services, a dedicated function is positioned to accelerate the search for the next wave of new services.

Adopting a variety of tools and frameworks often used in entrepreneurial and start-up environments, the team has developed a repeatable process unique to TIMG to take ideas from concept through to scalable business opportunity. Examples include Jobs to be Done, lean start-up, design thinking, and the business model canvas. Like any good agile-minded team, the tools and skills used are in continuous review, and through structured experimentation, the team navigates uncertainty through rapid testing and learning. It is an exciting time for this Freightways business - TIMG's repeatable process for innovation is working to enhance a successful winning formula.


### Shred-X secures its future

With its national logistics network and ability to securely collect, track and process sensitive, harmful and recyclable waste, Shred-X is a unique service provider, with no single direct competitor offering the same range and scale of services. Over the past 5 years, Shred-X has been working with existing customers and new prospects who require secure collection, destruction and disposal of an array of products. These include textiles, uniforms, high-end garments and accessories, seized goods, tobacco and associated products, recalled items and liquids.

Positively contributing to a cleaner and more sustainable world lies at the heart of Shred-X. The business continues to seek innovative solutions for processing a broad range of products and textiles and for ensuring their sustainable disposal. As an industry leader recovering recyclable paper, diverting almost 40,000 tonnes of paper to recycling per annum, Shred-X has pursued disposal and recycling options for products and textiles that will increase landfill diversion. This has resulted in Shred-X exploring partnership opportunities with textile and fibre recycling and repurposing, plastic product developers and waste to energy processors. Additionally, Shred-X is providing collaborative solutions for the Quick Service Restaurant (QSR) industry, working towards Australia's commitment to eliminate food packaging going to landfill by 2025.

Shred-X has applied these same foundational goals of sustainability and innovation to the medical waste industry through its Med-X Healthcare Solutions brand, partnering with major waste companies and offering new innovative solutions to replace single use containers and further reduce landfill.

## Peace, justice and strong institutions

### Robust governance

Freightways is committed to the highest standard of corporate governance and ethical behaviour, both in form and substance, amongst its Directors and the people of the Company and its subsidiaries. The Board considers that the Group has followed all the recommendations outlined in the NZX Corporate Governance Code. You will find an overview of the Group's main corporate governance policies, practices and processes adopted or followed by the Board Of Directors on pages 95 to 97.

# MY LEARNINGS

## Matt Randrup

**National Business Development Manager**
**DX Mail, Auckland**

**Matt started with us through our cadet programme. Now he's one of our new generation of business development managers.**

In his first year in sales, Matt finished the year at 173.9% of his budget, becoming the top performing new business rep in the Post Haste Group. He took up his current role in July 2018.

Matt says the cadetship programme gave him a strong overview of customer services, operations and sales. As a result, he has a very clear understanding of what he's good at and what he is still learning. Customers appreciate that transparency, he says.

"I really enjoy creating positive relationships and partnerships with our customers. Every day is different just because of the sheer variety of industries that we partner with and work alongside."

Support from mentors and managers across the business has played a crucial role in helping him be a true consultant to the people he works with.

Matt's long-term goal is to be a Manager in the business and as part of that he has enrolled in the Freightways LEAD programme. "The programme focuses on developing and expanding leadership skill-sets and encouraging innovative thinking. I feel very lucky to be part of this course. I think it will help me develop the skills I need to be a future thinker in this business."

**2014**
Joined Freightways as a cadet

**2016**
Achieved 174% of budget in his first year

**2018**
Took up current role with DX Mail

**2019**
Qualified for the Freightways LEAD programme

"THERE'S PLENTY OF POTENTIAL FOR US TO INNOVATE IN A CHANGING POSTAL MARKET."

Matt Randrup

"AS PHYSICAL STORAGE AND SERVICES CHANGE, DIGITAL SERVICES ARE BECOMING A FASTER GROWING PART OF OUR BUSINESS."

**Tineke Mann**

# MY DAY

## Tineke Mann

**eBusiness Manager**
**TIMG, Sydney**

**2003**
Joins TIMG as Sales Consultant, Victoria

**2006**
Becomes TIMG, State Sales Manager, Queensland

**2009**
Appointed TIMG Assistant State Manager, Victoria

**2019**
Becomes TIMG eBusiness Manager, Sydney

**Tineke joined us as a junior sales person. She is now managing our eBusiness and is a valued member of the executive team.**

"Every day is a new challenge," says Tineke. "My time is spent leading my team so that we are able to strategically plan how we roll out new solutions for our clients whilst ensuring we stay at the forefront of the digital offerings."

The eBusiness portfolio itself is diverse and Tineke says she sees her role as assisting clients in adapting and using technology to transform their business, now and for the future.

Since joining TIMG in 2003, Tineke says she has never encountered a problem that can't be solved. Her job is to ensure that each project receives the right team, right energy and the right technology to deliver what's needed. When you get that right, she says, clients receive sound advice coupled with cost-effective, value-driven, customised strategies to progress their business.

The companies that TIMG work with are constantly changing their data management requirements. "My ultimate reward is leading my team and seeing my clients embrace modern technology and ingenious solutions. With our help, many have achieved immense productivity, growth and financial rewards."

As for the future, Tineke believes "eBusiness will change dramatically over the next few years…I look forward to the chapters that lie ahead."

# BRINGING SUPPORT TO COMMUNITIES

**Every day we're out in communities big and small in New Zealand and Australia. Sponsorship, involvement and volunteering is part of showing those communities that we value them. We work with a variety of groups, supporting them in the great work they do.**

### Child Cancer Foundation support

New Zealand Couriers is proud of its long-standing relationship with Child Cancer Foundation. In addition to being a Support Partner, and providing a variety of free courier services to support events such as street appeals and Appeal Month in March, our staff, contractors and customers are very active in supporting Wig Wednesday (including New Zealand Couriers' General Manager Devon Buckingham, who is a Business Ambassador for the event), and the business is a Platinum Sponsor for the Champions Luncheon fundraising. At a branch level our teams take a very active part in fundraising during the March Appeal.

To learn more about the Child Cancer Foundation please visit: www.childcancer.org.nz

### Partnering with the Clontarf Foundation

TIMG Australia recognises the outstanding work that the Clontarf Foundation does. The Foundation helps improve the education, discipline, self-esteem, life skills and employment prospects of young Aboriginal and Torres Strait Islander men.

Our decision to partner with Clontarf Foundation in July 2019 stems from our belief in the the importance of diversity and inclusion and the success diversity brings to our workforce. Along with seeking guidance and consultation with indigenous recruitment agencies like AES (Aboriginal Employment Strategy Ltd.), we will work with Clontarf Foundation to develop a robust indigenous participation plan to be implemented throughout TIMG Australia's organisation.

TIMG will actively seek out potential candidates for the mentorship programme with a view to encourage people of Aboriginal and Torres Strait Islander descent to apply for positions through our placement programme.

To learn more about Contarf Foundation please visit: www.clontarf.org.au

### KidsCan Shoes for Kids

In association with Rotary of St Johns, we sponsored an annual Charity Golf Day to help raise funds for charity. St Johns approached us about KidsCan receiving the funds raised in 2019. These initial discussions in turn led to us connecting with KidsCan to investigate further partnership possibilities beyond the one off golf day.

We quickly discovered we shared similar philosophies around caring for and supporting whānau in our communities that may need help. 290,000 Kiwi kids live in hardship through no fault of their own. KidsCan helps Kiwi kids become more engaged in their education so they can have a better chance of reaching their full potential by providing food at school, raincoats, shoes and socks, and basic health items.

As the lead partner for the KidsCan Shoes for Kids programme, we're proud to partner with KidsCan to directly fund a specific programme. Our partnership not only allows for our team members to participate in handing out the shoes to the kids at school but also a range of volunteering opportunities including skill sharing, breakfast clubs, warehouse packing and school working bees.

To learn more about KidsCan please visit: www.kidscan.co.nz

## Key community initiatives

Kidsline (part of Lifeline)
Keep New Zealand Beautiful
The Hearing House
Beanies for Babies
Auckland Rescue Helicopter Trust
Cancer Society
Auckland Kidney Society
McGrath Foundation
Clontarf Foundation
Child Cancer Foundation
KidsCan Shoes for Kids
Duffy Books in Schools
New Zealand Breast Cancer Foundation
Rotary of St Johns

# OUR BOARD

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

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

**Kim Ellis**
BE (Hons), BCA (Hons)

**Peter Kean**
PMD Harvard

**Andrea Staines** OAM
BEcon, MBA (Michigan), AICD Fellow

**Abby Foote**
LLB (Hons), BCA, CF Inst D, INFINZ (Cert)

# 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

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 2019 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:

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

Mark was appointed a Director in February 2010 and Chairman in October 2018. 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 is currently a director of ANZ Bank New Zealand Limited, Meridian Energy Limited and Chairman of PE Fund Willis Bond Capital Partners Limited and Mycare Limited, a privately held early stage digital company. Mark is also currently Chairman of ANZ subsidiary, UDC Finance Limited, but is due to retire from this position on 30 September 2019. Mark is also a member of the Advisory Board of The Treasury.

**Kim Ellis BE (Hons), BCA (Hons)**

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, CF Inst D, 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 the Chair of Z Energy Limited and a director of TVNZ and Sanford Limited.

**Peter Kean PMD Harvard**

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, where among other things he had executive accountability for the fixed line business and as Director of Marketing. Mark previously served as chief executive of Pacific Fibre, ihug and financial services company, Paymark Limited. Mark is currently Chief Executive Officer of private equity owned UP Education and a director of a number of private companies.

**Andrea Staines OAM, BEcon, MBA (Michigan), AICD Fellow**

Andrea was appointed a Director in August 2018. Based in Australia, she has 12 years' governance experience with an undergraduate degree in Economics, and a MBA focused on financial analysis and strategy. Andrea's executive experience was mostly in airlines, including American Airlines in Dallas, and Qantas Group in Sydney. During her last five years at Qantas, she co-launched international subsidiary, Australian Airlines (mark II), as Chief Commercial Officer, becoming CEO soon after launch. Earlier roles at Qantas included running Global Revenue Management. Andrea has chaired multiple Board Committees, including Audit & Risk, Remuneration & Nomination, and temporary Committees with a business unit or project focus. Andrea is currently a director of SeaLink Travel (Australia), UnitingCare Qld and NDIA (the Australian National Disability Insurance Scheme Agency).

The Board has determined for the purposes of the NZX Listing Rules that, as at 30 June 2019, Mark Verbiest, Kim Ellis, Abby Foote, Peter Kean, Mark Rushworth and Andrea Staines are independent Directors.

## Board Skill Matrix

Our Board focuses on governance, strategy and the oversight of the performance of the different Freightways businesses and brands. Our six Directors bring both proven experience in governance and a strong background in business to their decision making. Together, they provide the wide-ranging skills needed to ensure the Board has the expertise to set and approve strategic direction, make senior management appointments, monitor performance, manage risk and oversee our many stakeholder relationships. Our Board Skill Matrix sets out the skills of each director against the range of expertise Freightways requires to succeed.

| Deep Expertise (NED) | Mark Verbiest | Kim Ellis | Abby Foote | Mark Rushworth | Andrea Staines | Peter Kean |
|---|---|---|---|---|---|---|
| Governance | ● | ● | ● | | | |
| NZ Listed Market | ● | ● | ● | | | |
| Audit and Risk | ● | | ● | ● | ● | |
| Business Operations at Scale | ● | ● | | ● | ● | ● |
| International transport, logistics, sector aligned expertise | | ● | | | ● | ● |
| Marketing/Brand/Sales | | | | ● | ● | ● |
| IT Platforms and Digital Innovation | ● | | | ● | | |
| Australian Market | | ● | | | ● | ● |
| Health & Safety | | ● | ● | | | ● |
| Entrepreneurial | ● | | | ● | | |

## Consolidated result for the year

| | **2019 $000** | 2018 $000 |
|---|---|---|
| **Operating revenue** | **615,692** | **580,886** |
| **Operating profit before interest, income tax and amortisation of intangibles** | 99,133 | 96,286 |
| Amortisation of intangibles | (2,071) | (1,954) |
| **Profit before interest and income tax** | 97,062 | 94,332 |
| Net interest and finance costs | (9,566) | (9,666) |
| **Profit before income tax** | 87,496 | 84,666 |
| Income tax | (24,119) | (22,505) |
| **Profit for the year attributable to the shareholders** | **63,377** | **62,161** |

## Directors holding office during the year were:

**Parent:**

Mark Verbiest (Chairman)
Kim Ellis
Abby Foote
Peter Kean
Mark Rushworth
Sue Sheldon (resigned 25 October 2018)
Andrea Staines (appointed 20 August 2018)

**Subsidiaries:**

Mark Troughear
Mark Royle

# Directors' report

## Approved remuneration of directors (effective 1 November)

| | | | Group Fees (per annum) | |
|---|---|---|---|---|
| | **Position** | Note | **2019 $** | 2018 $ |
| Board of Directors | Chairman | (1) | 160,000 | 160,000 |
| | Member | | 85,000 | 85,000 |
| Audit & Risk Committee | Chairman | (2) | 15,000 | 15,000 |
| People & Remuneration Committee | Chairman | (2) | 7,500 | 7,500 |
| Committee work pool (if required) | | | 55,400 | 48,000 |
| Total annual fee pool limit | | (3) | 662,900 | 570,500 |

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

## Remuneration received by directors

| | **2019 $** | 2018 $ |
|---|---|---|
| **Directors of Freightways (Parent company)** | | |
| Mark Verbiest (appointed Chairman 25 October 2018) | 140,000 | 96,833 |
| Kim Ellis | 92,500 | 90,000 |
| Abby Foote (appointed 1 June 2018) | 95,139 | 6,944 |
| Peter Kean | 85,000 | 83,333 |
| Mark Rushworth | 85,000 | 83,333 |
| Sue Sheldon (resigned 25 October 2018) | 50,753 | 157,333 |
| Andrea Staines (appointed 20 August 2018) | 77,735 | - |
| Total non-executive Directors | 626,127 | 517,776 |
| Dean Bracewell (Managing Director; resigned 31 December 2017) | - | 850,399 |
| Total Parent | 626,127 | 1,368,175 |
| **Directors of Group subsidiaries only** | | |
| Mark Troughear (CEO; appointed 1 January 2018) | 872,912 | 341,564 |
| Mark Royle (CFO) | 582,585 | 636,771 |
| | 1,455,497 | 978,335 |
| Total Group | 2,081,624 | 2,346,510 |

# Directors' report

Remuneration of executive Directors includes the incentive payments made during the year ended 30 June 2019 in respect of the two previous six-month performance periods (1 January to 30 June 2018 and 1 July to 31 December 2018). No amount is included above in respect of incentive payments for the period 1 January to 30 June 2019, as these were paid in August 2019. 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 22 of the Financial Statements on page 79 of this report 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 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, payable on achievement of short-term financial objectives. They also participate in the Freightways Senior Executive Performance Share Plan described in Note 22 of the Financial Statements by way of an annual allocation of partly-paid shares equivalent to 32% and 25%, respectively of their 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 22. The Company's Remuneration Policy can be found at https://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 78% 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 22% 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 22. 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 https://www.freightways.co.nz/about/corporate-governance/.

# Directors' report

## Remuneration of employees

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

| | Group | |
|---|---|---|
| | **2019** | 2018 |
| $100,000 – $109,999 | 45 | 50 |
| $110,000 – $119,999 | 46 | 34 |
| $120,000 – $129,999 | 29 | 30 |
| $130,000 – $139,999 | 29 | 10 |
| $140,000 – $149,999 | 10 | 18 |
| $150,000 – $159,999 | 18 | 18 |
| $160,000 – $169,999 | 13 | 12 |
| $170,000 – $179,999 | 10 | 9 |
| $180,000 – $189,999 | 12 | 10 |
| $190,000 – $199,999 | 7 | 3 |
| $200,000 – $209,999 | 6 | 7 |
| $210,000 – $219,999 | 4 | 7 |
| $220,000 – $229,999 | 4 | 5 |
| $230,000 – $239,999 | 8 | 2 |
| $240,000 – $249,999 | 2 | 2 |
| $250,000 – $259,999 | 2 | 1 |
| $260,000 – $269,999 | 3 | 2 |
| $270,000 – $279,999 | 1 | 2 |
| $280,000 – $289,999 | 1 | - |
| $290,000 – $299,999 | 1 | 2 |
| $300,000 – $309,999 | 2 | 1 |
| $310,000 – $319,999 | 1 | 2 |
| $320,000 – $329,999 | 2 | 1 |
| $340,000 – $349,999 | 1 | - |
| $350,000 – $359,999 | - | 1 |
| $360,000 – $369,999 | - | 1 |
| $370,000 – $379,999 | 3 | 1 |
| $380,000 – $389,999 | - | 2 |
| $400,000 – $409,999 | - | 2 |
| $410,000 – $419,999 | - | 1 |
| $440,000 – $449,999 | 1 | - |
| $450,000 – $459,999 | 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** | | | |
| Mark Verbiest | - | 10,000 | - |
| Kim Ellis | - | 50,000 | - |
| Abby Foote | - | 14,000 | - |
| Peter Kean | 51,500 | - | - |
| Mark Rushworth | - | 8,000 | - |
| Andrea Staines | - | - | - |
| Mark Troughear | 399,167 | 2,486 | 31,442 |
| Mark Royle | - | 173,617 | 33,283 |

# 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 2019:

| | Note | Number<br>Acquired (Disposed) | $<br>Cost (Sale) |
|---|---|---|---|
| **Mark Troughear** | | | |
| Beneficial ownership in partly-paid shares acquired 26 September 2018 | (i) | 17,016 | 170 |
| Beneficial ownership in partly-paid shares disposed of 26 September 2018 | (ii) | (132) | (1) |
| **Mark Royle** | | | |
| Beneficial ownership in partly-paid shares acquired 26 September 2018 | (i) | 7,740 | 77 |
| Beneficial ownership in partly-paid shares disposed of 26 September 2018 | (ii) | (248) | (2) |

Notes:
(i) Allocation of partly-paid shares under the Freightways Senior Executive Performance Share Plan.
(ii) Partly-paid shares redeemed for one cent each and cancelled by the Company under the Freightways Senior Executive Performance Share Plan as the vesting hurdles were not met.

## 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 26th day of August 2019.

**Mark Verbiest**
Chairman

**Abigail Foote**
Director and Chair of the Audit & Risk Committee

## Contents

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

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

We have audited the financial statements which comprise:

- the balance sheet as at 30 June 2019;
- 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 accompanying 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 2019, 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 specified procedures over the poll for the shareholder resolutions at the Annual General Meeting, Executive and Non-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: $4.2 million, which represents 5% of profit before tax.

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

We have 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 71% 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 14 of the financial statements, the Group has goodwill at 30 June 2019 of $212.7 million and brands valued at $113.9 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 14 of the financial statements and include:<br><br>• Growth rates; and<br>• Terminal growth rates; and<br>• Discount rates.<br><br>As detailed in note 14, 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><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 2019 and the 2020 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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Prepaid Ticket Liability ("PTL")*<br><br>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 2019 was $15.7 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><br>• We checked the methodology applied for the year ended 30 June 2019 and satisfied ourselves that it was appropriate, including any changes to the approach from prior years.<br><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><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 sales per the billing system reports to check whether the sale of prepaid tickets was recorded as an increase in the liability. We have tested completeness of the billing system reports through verifying the sequential numbering of the order numbers in the reports.<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><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><br>• We re-performed the calculation of the PTL to test the mathematical accuracy of the model.<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

### *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. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

### *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:

PricewaterhouseCoopers

Chartered Accountants
26 August 2019

PwC

## Income Statement
For the year ended 30 June 2019

| | Note | Group 2019 $000 | Group 2018 $000 |
|---|---|---|---|
| **Operating revenue** | 2 & 3 | **615,692** | **580,886** |
| Other income | 6 | 1,252 | 2,572 |
| Transport and logistics expenses | | (241,907) | (229,812) |
| Employee benefits expenses | | (174,537) | (159,161) |
| Occupancy expenses | | (28,912) | (26,385) |
| General and administration expenses | | (58,119) | (57,798) |
| Other expenses | 6 | (1,252) | (2,572) |
| Non-recurring items | 4 & 6 | 2,354 | 2,556 |
| **Operating profit before interest, income tax, depreciation and software amortisation, and amortisation of intangibles** | | **114,571** | **110,286** |
| Depreciation and software amortisation | 4 | (15,438) | (14,000) |
| **Operating profit before interest, income tax and amortisation of intangibles** | | **99,133** | **96,286** |
| Amortisation of intangibles | 4 | (2,071) | (1,954) |
| **Profit before interest and income tax** | | **97,062** | **94,332** |
| Net interest and finance costs | 4 | (9,566) | (9,666) |
| **Profit before income tax** | | **87,496** | **84,666** |
| Income tax | 5 | (24,119) | (22,505) |
| **Profit for the year** | | **63,377** | **62,161** |
| Profit for the year is attributable to: | | | |
| Owners of the parent | | 63,367 | 62,161 |
| Non-controlling interests | | 10 | - |
| | | **63,377** | **62,161** |
| **Earnings per share** | **25** | | |
| Basic earnings per share (cents) | | 40.8 | 40.1 |
| Diluted earnings per share (cents) | | 40.7 | 40.0 |

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 2019

| | Note | Group 2019 $000 | 2018 $000 |
|---|---|---|---|
| **Profit for the year (NPAT)** | | **63,377** | **62,161** |
| **Other comprehensive income** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | 21 | (2,210) | 1,775 |
| Cash flow hedges taken directly to equity, net of tax | 21 | 328 | 2,261 |
| **Total other comprehensive income after income tax** | | **(1,882)** | **4,036** |
| **Total comprehensive income for the year** | | **61,495** | **66,197** |
| Total comprehensive income for the year is attributable to: | | | |
| Owners of the parent | | 61,485 | 66,197 |
| Non-controlling interests | | 10 | - |
| | | **61,495** | **66,197** |

The above Statement of Comprehensive Income 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 26th day of August 2019.

**Mark Verbiest**
Chairman

**Abigail Foote**
Director

## Statement of Changes in Equity
For the year ended 30 June 2019

| Group | Contributed equity | Retained earnings | Cash flow hedge reserve | Foreign currency translation reserve | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Balance at 1 July 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** |
| Profit for the year | - | 63,367 | - | - | 10 | 63,377 |
| Exchange differences on translation of foreign operations | - | - | - | (2,210) | - | (2,210) |
| Cash flow hedges taken directly to equity, net of tax | - | - | 328 | - | - | 328 |
| **Total Comprehensive Income** | **-** | **63,367** | **328** | **(2,210)** | **10** | **61,495** |
| Dividend payments | - | (47,002) | - | - | - | (47,002) |
| Acquisition of non-controlling interests | - | - | - | - | 114 | 114 |
| Shares issued | 1,180 | - | - | - | - | 1,180 |
| **Balance at 30 June 2019** | **126,440** | **157,226** | **(3,901)** | **(5,879)** | **124** | **274,010** |

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

## Balance Sheet
For the year ended 30 June 2019

| | Note | Group 2019 $000 | 2018 $000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 15,986 | 7,410 |
| Trade and other receivables | 9 | 87,805 | 82,150 |
| Inventories | 10 | 5,009 | 4,804 |
| **Total current assets** | | **108,800** | **94,364** |
| **Non-current assets** | | | |
| Trade receivables and other non-current assets | 9 | 3,984 | 4,803 |
| Property, plant and equipment | 13 | 106,710 | 103,102 |
| Intangible assets | 14 | 365,152 | 358,419 |
| **Total non-current assets** | | **475,846** | **466,324** |
| **Total assets** | | **584,646** | **560,688** |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 68,967 | 66,887 |
| Finance lease liabilities | | 127 | 126 |
| Income tax payable | | 6,429 | 5,525 |
| Provisions | 18 | 860 | 710 |
| Derivative financial instruments | 11 | 880 | 451 |
| Contract liability | 19 | 15,664 | 15,864 |
| **Total current liabilities** | | **92,927** | **89,563** |
| **Non-current liabilities** | | | |
| Trade and other payables | 16 | 3,137 | 3,446 |
| Borrowings (secured) | 20 | 167,394 | 161,800 |
| Deferred tax liability | 15 | 37,762 | 37,506 |
| Provisions | 18 | 4,750 | 4,465 |
| Finance lease liabilities | | 129 | 286 |
| Derivative financial instruments | 11 | 4,537 | 5,399 |
| **Total non-current liabilities** | | **217,709** | **212,902** |
| **Total liabilities** | | **310,636** | **302,465** |
| **Net assets** | | **274,010** | **258,223** |
| **Equity** | | | |
| Contributed equity | | 126,440 | 125,260 |
| Retained earnings | | 157,226 | 140,861 |
| Cash flow hedge reserve | 11 | (3,901) | (4,229) |
| Foreign currency translation reserve | | (5,879) | (3,669) |
| | 21 | 273,886 | 258,223 |
| Non-controlling interests | | 124 | - |
| **Total equity** | | **274,010** | **258,223** |

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

## Statement of Cash Flows
For the year ended 30 June 2019

| | Note | Group 2019 $000 Inflows (Outflows) | 2018 $000 Inflows (Outflows) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 609,744 | 575,864 |
| Payments to suppliers and employees | | (501,203) | (471,175) |
| **Cash generated from operations** | | **108,541** | **104,689** |
| Interest received | | 137 | 182 |
| Interest and other costs of finance paid | | (9,379) | (9,710) |
| Income taxes paid | | (23,292) | (19,451) |
| **Net cash inflows from operating activities** | 23 | **76,007** | **75,710** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (16,844) | (14,062) |
| Payments for software | | (6,429) | (4,343) |
| Proceeds from disposal of property, plant and equipment | | 2,450 | 1,160 |
| Payments for businesses acquired (net of cash acquired) | 30 | (11,111) | (7,865) |
| Receipts from joint venture | | 2,478 | 464 |
| Cash flows from other investing activities | | (470) | (218) |
| **Net cash outflows from investing activities** | | **(29,926)** | **(24,864)** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (47,002) | (45,372) |
| Increase (decrease) in bank borrowings | | 9,512 | (7,521) |
| Proceeds from issue of ordinary shares | | 748 | 704 |
| Finance lease liabilities repaid | | (91) | (114) |
| **Net cash outflows from financing activities** | | **(36,833)** | **(52,303)** |
| **Net increase (decrease) in cash and cash equivalents** | | 9,248 | (1,457) |
| Cash and cash equivalents at beginning of year | | 7,410 | 8,423 |
| Exchange rate adjustments | | (672) | 444 |
| **Cash and cash equivalents at end of year** | 8 | **15,986** | **7,410** |

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 2019

## 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 not 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).

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and acquisition earn-out payables, which have been measured at fair value.

**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 14.

**(ii) Accounting for contract liability**

A contract liability is recorded in the balance sheet reflecting the future service obligation for courier and postal 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 reviews the historical usage patterns to ensure an adequate contract liability 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 judgement on time value of money. Acquisition earn-out amounts payable shall be remeasured at their fair value resulting from events or factors that emerge after the acquisition date, with any resulting gain or loss recognised in the income statement. Judgement is applied to determine key assumptions (such as growth in sales and margins) adopted in the estimate of post-acquisition performance of the acquired business. Judgement is also applied to determine the appropriate discount rate applied to calculate the present value of the amount payable. Changes to key assumptions may impact the future payable amount. Refer also to Note 30.

### (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 2019

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 Group recognises any non-controlling interest in an acquired entity on an acquisition-by-acquisition basis either at fair value or as the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. 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 IFRS 9 in the income statement. 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); and
- 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.

# Notes to the financial statements
For the year ended 30 June 2019

### (d) Revenue recognition

The majority of contracts the Group entered into with its customers contain multiple performance obligations. The transaction price is allocated to each performance obligation based on the stand-alone selling prices. As the stand-alone selling prices of all goods and services provided are observable and there is no implicit discount offered, transaction prices allocated to individual performance obligations usually match with respective stand-alone selling prices.

**(i) Express package & business mail – courier and postal services**

The Group operates network (hub & spoke) courier, point-to-point courier and postal services. Revenue from courier and postal services is recognised over time in the reporting period in which the service is provided. Revenue from sale of postal products is recognised at the point the sale occurs. Income invoiced and received in advance of a service being provided is recorded in the balance sheet as 'Contract Liability'. This income is brought to account in the year in which the service is provided.

**(ii) Information management – storage and destruction revenue**

The Group provides archive management services for documents and computer media, including storage, retrieval and destruction services. The Group also provides secure handling, treatment and disposal of clinical waste and related services. Revenue from these services is recognised over time in the reporting period in which the service is provided. Revenue from sale of archive boxes, computer media and products generated from destruction activities is recognised when control of the products has transferred, being when the products are delivered to the customer.

**(iii) Information management – digital services**

The Group provides digital information management services, including imaging and document capture (scanning), data extraction, customised digital workflow solutions and application (app) development, under fixed-price and variable-price contracts. Revenue from providing these digital information management services is recognised in the period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total service to be provided, because the service does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed. This revenue is determined based on the efforts expended relative to the total expected effort.

Estimates of revenues, costs or extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the income statement in the period in which the circumstances that give rise to the revision become known by management.

In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes an hourly fee, revenue is recognised in the amount to which the Group has a right to invoice.

**(iv) Financing components**

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

**(v) 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.

**(vi) Dividend income**

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

### (e) Impairment of non-financial assets

In respect of this policy, 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 of disposal, 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

**(i) Classification**

The Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value either through other comprehensive income or through the income statement; and

– those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in the income statement or other comprehensive income.

**(ii) Recognition and derecognition**

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.

**(iii) Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through the income statement, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through the income statement are expensed in the income statement.

# Notes to the financial statements
For the year ended 30 June 2019

### (g) Derivative financial instruments

Derivative financial instruments, such as interest rate caps and collar contracts and interest rate swaps, 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 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) 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.

**(ii) Derivatives that do not qualify for hedge accounting**

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting or where hedge accounting has not been adopted 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) are 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 approximate their fair values.

### (i) Employee entitlements

**(i) Wages, salaries and annual leave**

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

**(ii) Long service leave**

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

**(iii) Share-based compensation**

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

### (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.

# Notes to the financial statements
For the year ended 30 June 2019

### (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

Except as described below, the accounting policies and methods of computation are consistent with those used in the year ended 30 June 2018.

The Group adopted the following new standards for which application was mandatory for the first time in the financial year beginning 1 July 2018 and they have had no material impact on the classification, measurement and recognition of financial instruments or revenue in the financial statements. Disclosures have been expanded in accordance with the requirements of these new standards:

- ***NZ IFRS 9: Financial Instruments*** addresses the classification, measurement and recognition of financial assets and liabilities and introduced new rules for hedge accounting and a new impairment model for financial assets.

  The Group transitioned to NZ IFRS 9 which allows any impact on prior periods to be adjusted through opening equity. However, there was no adjustment required from the Group adopting NZ IFRS 9.
- ***NZ IFRS 15: Revenue for contracts with customers*** 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 replaced the previous 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.

  The Group transitioned to NZ IFRS 15 using the modified retrospective approach, which allows any impact on prior periods to be adjusted through opening equity. However, there was no adjustment required from the Group adopting NZ IFRS 15. The majority of revenue earned by the Group is derived from performance obligations over time when the service has been provided. There has been no change in revenue classification, measurement or recognition from the adoption of the new standard. An amended revenue recognition policy is disclosed in Note 1(d) and revenue is disaggregated in Note 3.

# Notes to the financial statements
For the year ended 30 June 2019

## 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 (hub & spoke), 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 2019

| | Express Package & Business Mail $000 | Information Management $000 | Corporate $000 | Inter-segment Elimination $000 | Consolidated Operations $000 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Sales to external customers | 451,261 | 164,429 | 2 | - | 615,692 |
| Inter-segment sales | 1,716 | 67 | 4,651 | (6,434) | - |
| **Total revenue** | 452,977 | 164,496 | 4,653 | (6,434) | 615,692 |
| Operating profit (loss) before non-recurring items, interest, income tax, depreciation and software amortisation and amortisation of intangibles | 80,015 | 35,347 | (3,145) | - | 112,217 |
| Non-recurring items | - | 2,354 | - | - | 2,354 |
| Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles | 80,015 | 37,701 | (3,145) | - | 114,571 |
| Depreciation and software amortisation | (7,821) | (6,082) | (1,535) | - | (15,438) |
| Operating profit (loss) before interest, income tax and amortisation of intangibles | 72,194 | 31,619 | (4,680) | - | 99,133 |
| Amortisation of intangibles | (50) | (2,021) | - | - | (2,071) |
| Profit (loss) before interest and income tax | 72,144 | 29,598 | (4,680) | - | 97,062 |
| Net interest and finance costs | (11) | (30) | (9,525) | - | (9,566) |
| Profit (loss) before income tax | 72,133 | 29,568 | (14,205) | - | 87,496 |
| Income tax | (19,967) | (8,427) | 4,275 | - | (24,119) |
| Profit (loss) for the year attributable to the shareholders | 52,166 | 21,141 | (9,930) | - | 63,377 |
| **Balance sheet** | | | | | |
| Segment assets | 306,525 | 236,096 | 42,025 | - | 584,646 |
| Segment liabilities | 63,543 | 29,165 | 217,928 | - | 310,636 |

## Notes to the financial statements
For the year ended 30 June 2019

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 (loss) before non-recurring items, interest, income tax, depreciation and software amortisation and amortisation of intangibles | 74,840 | 35,378 | (2,488) | - | 107,730 |
| Non-recurring items | - | 2,556 | - | - | 2,556 |
| Operating profit (loss) 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 (loss) 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 (loss) 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 (loss) before income tax | 67,839 | 30,229 | (13,402) | - | 84,666 |
| Income tax | (18,729) | (8,105) | 4,329 | - | (22,505) |
| Profit (loss) 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 |

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

For the year ended 30 June 2019, external revenue from customers in the Group's New Zealand and Australian operations was $496.0 million and $119.7 million, respectively (2018: $472.6 million and $108.3 million, respectively). As at 30 June 2019, non-current assets in respect of the New Zealand and Australian operations (excluding deferred tax assets and financial assets) were $310.6 million and $161.2 million, respectively (2018: $306.2 million and $155.3 million, respectively).

# Notes to the financial statements
For the year ended 30 June 2019

## Note 3. Revenue from contracts with customers

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

| | Express Package | Postal | Storage & Handling | Destruction Activities | Other | Total |
|---|---|---|---|---|---|---|
| **2019** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Revenue from external customers | 397,220 | 54,041 | 62,567 | 59,707 | 42,157 | 615,692 |
| Timing of revenue recognition: | | | | | | |
| At a point in time | - | 3,480 | - | 20,083 | 8,848 | 32,411 |
| Over time | 397,220 | 50,561 | 62,567 | 39,624 | 33,309 | 583,281 |
| | 397,220 | 54,041 | 62,567 | 59,707 | 42,157 | 615,692 |
| **2018** | | | | | | |
| Revenue from external customers | 376,604 | 50,492 | 62,130 | 52,721 | 38,939 | 580,886 |
| Timing of revenue recognition: | | | | | | |
| At a point in time | - | 3,468 | - | 18,990 | 6,974 | 29,432 |
| Over time | 376,604 | 47,024 | 62,130 | 33,731 | 31,965 | 551,454 |
| | 376,604 | 50,492 | 62,130 | 52,721 | 38,939 | 580,886 |

# Notes to the financial statements
For the year ended 30 June 2019

## Note 4. Income and expenses

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

| | Note | Group 2019 $000 | Group 2018 $000 |
|---|---|---|---|
| **Income** | | | |
| Interest income | | 81 | 180 |
| **Operating expenses** | | | |
| Net loss (gain) on disposal of property, plant and equipment | | 67 | (994) |
| Depreciation | 13 | 12,516 | 11,778 |
| Amortisation of intangible assets | 14 | 2,071 | 1,954 |
| Amortisation of software | 14 | 2,922 | 2,222 |
| Operating lease expenses | | 27,709 | 24,281 |
| **Auditors' fees** | | | |
| Audit of annual financial statements and review of interim financial statements | | 487 | 402 |
| Annual Shareholders Meeting – specified procedures | | 8 | 8 |
| Directors benchmarking fees | | 23 | 22 |
| Data integrity audit | | - | 54 |
| **Costs of offering credit** | | | |
| Impairment loss (gain) on trade receivables | | (129) | (26) |
| **Interest and finance costs** | | | |
| Interest on bank borrowings | | 9,601 | 9,708 |
| Interest on finance leases | | 24 | 24 |
| Derivative fair value movement | | 22 | (52) |
| Unwinding of discount on acquisition earn-out liability | | - | 166 |
| **Other** | | | |
| Net foreign exchange loss (gain) | | - | 3 |
| Directors' fees | | 633 | 518 |
| Donations | | 345 | 347 |
| **Non-recurring (gain) loss*** | | | |
| Insurance proceeds for replacement racking | | (1,893) | (2,994) |
| Impairment loss on damaged racking | | - | 1,978 |
| Reversal of earn-out payables | | (461) | (1,540) |

* Non-recurring items for the years ended 30 June 2019 and 30 June 2018, 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; and
- reversal of previously-accrued earn-out payables that are no longer expected to be paid.

# Notes to the financial statements
For the year ended 30 June 2019

## Note 5. 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. No deferred tax liability is recognised if it arises from initial recognition of goodwill from a business combination.

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 in other comprehensive income or directly in equity, are also taken to other comprehensive income or directly to equity, respectively.

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 | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| **Current tax** | | |
| Current tax on profit for the year | 24,109 | 22,325 |
| **Deferred tax (Note 15)** | | |
| Reversal of temporary differences | 10 | 180 |
| Total deferred tax | 10 | 180 |
| **Income tax expense** | **24,119** | **22,505** |

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 | 87,496 | 84,666 |
| Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries | 24,724 | 23,934 |
| Tax-effect of amounts which are treated differently when calculating taxable income: | | |
| · Additional amounts deductible | (868) | (1,426) |
| · Other | 263 | (3) |
| **Income tax expense** | **24,119** | **22,505** |

The Group has no tax losses (2018: Nil) and no unrecognised temporary differences (2018: Nil).

# Notes to the financial statements
For the year ended 30 June 2019

| | Group | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| **Imputation credits account** | | |
| **Imputation credits available for use in subsequent reporting periods** | **33,348** | **31,287** |

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 2019 which was declared subsequent to 30 June 2019 will reduce the above-stated available balance of imputation credits by approximately $9.4 million.

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

| **2019** | **Before tax $000** | **Tax (charge)/credit $000** | **After tax $000** |
|---|---|---|---|
| Exchange difference on translation of foreign operations | (2,210) | - | (2,210) |
| Cash flow hedges taken directly to equity | 456 | (128) | 328 |
| **Other comprehensive income** | **(1,754)** | **(128)** | **(1,882)** |
| Current tax | | - | |
| Deferred tax | | (128) | |
| | | **(128)** | |

| **2018** | **Before tax $000** | **Tax (charge)/credit $000** | **After tax $000** |
|---|---|---|---|
| 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)** | |

## Note 6. Non-recurring items, other income and other expenses

Included in non-recurring items is a non-recurring benefit before tax totalling $1.9 million (no tax applicable) in respect of the gain arising during the year upon the progressive recording of the replacement of earthquake-related damaged racking funded by insurance proceeds. A gain on the racking replacement arises because the overall insurance proceeds for new racking will exceed the written down book value of the structurally-compromised racking written-off.

Included in other expenses is an amount of $1.3 million in additional costs of operations resulting from the above-mentioned earthquake, which are also recoverable from insurance, and compensation of $1.3 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 2019

## Note 7. Dividends

| | Group | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| **Recognised amounts** | | |
| **Fully imputed dividends declared and paid during the year:** | | |
| Final dividend for 2018 at 15.25 cents per share (2017: 14.75 cents) | 23,695 | 22,880 |
| Interim dividend for 2019 at 15.0 cents per share (2018: 14.5 cents) | 23,307 | 22,492 |
| | **47,002** | **45,372** |
| **Unrecognised amounts** | | |
| **Final dividend for 2019 at 15.5 cents per share (2018: 15.25 cents)** | **24,107** | **23,712** |

Subsequent to balance date the above unrecognised dividend was approved by a directors' resolution dated 26 August 2019. This amount has not been recognised as a liability at the reporting date, but will be brought to account when paid.

## Note 8. 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 | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| Comprises | | |
| – Cash at bank | 15,882 | 7,301 |
| – Overnight deposits | 104 | 109 |
| **Cash and cash equivalents in statement of cash flows** | **15,986** | **7,410** |

# Notes to the financial statements
For the year ended 30 June 2019

## Note 9. Trade receivables and other non-current assets

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

| | Group | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| **Current** | | |
| Trade receivables | 73,312 | 70,994 |
| Provision for doubtful receivables | (1,500) | (1,629) |
| | 71,812 | 69,365 |
| Accrued revenue | 4,298 | 2,984 |
| Other debtors and prepayments | 11,171 | 9,465 |
| Share plan loans receivable from employee | 524 | 336 |
| | **87,805** | **82,150** |
| **Non-current** | | |
| Share plan loans receivable from employees | 443 | 198 |
| Other non-current assets | 3,541 | 4,605 |
| | **3,984** | **4,803** |

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. The Group applies a simplified approach in calculating expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. For other receivables, 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 | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| Opening balance | 1,629 | 1,655 |
| Provision for doubtful receivables | (7) | 74 |
| Receivables written off during the year as uncollectible | (101) | (117) |
| Exchange rate movement | (21) | 17 |
| **Closing balance (Note 28.1(b))** | **1,500** | **1,629** |

## Note 10. 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 $11.8 million (2018: $11.7 million).

| | Group | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| Finished goods | 2,036 | 1,923 |
| Ticket stocks, uniforms and consumables | 2,973 | 2,881 |
| | **5,009** | **4,804** |

# Notes to the financial statements
For the year ended 30 June 2019

## Note 11. Derivative financial instruments

| | Group | |
|---|---|---|
| | **2019 $000 Asset (Liability)** | 2018 $000 Asset (Liability) |
| **Current** | | |
| Interest rate swaps – cash flow hedge | (668) | (264) |
| Foreign currency options – cash flow hedge | (206) | (187) |
| Forward foreign exchange contracts – cash flow hedge | (6) | - |
| | **(880)** | **(451)** |
| **Non-current** | | |
| Interest rate swaps – cash flow hedge | (5,015) | (5,119) |
| Foreign currency options – cash flow hedge | (165) | (551) |
| Forward foreign exchange contracts – cash flow hedge | 643 | 271 |
| | **(4,537)** | **(5,399)** |

The Group's hedging reserves relate to the following hedging instruments:

| | Cash flow hedge reserve | | | |
|---|---|---|---|---|
| | **Intrinsic value of options** | **Spot component of currency forwards** | **Interest rate swaps** | **Total hedge reserve** |
| | **$000** | **$000** | **$000** | **$000** |
| Balance at 1 July 2017 | (1,164) | (254) | (5,072) | (6,490) |
| Change in fair value of hedging instrument recognised in Other Comprehensive Income (OCI) | 897 | 624 | 1,619 | 3,140 |
| Less: Deferred tax | (251) | (175) | (453) | (879) |
| **Balance at 30 June 2018** | **(518)** | **195** | **(3,906)** | **(4,229)** |
| Change in fair value of hedging instrument recognised in OCI | 348 | 366 | (258) | 456 |
| Less: Deferred tax | (97) | (103) | 72 | (128) |
| **Balance at 30 June 2019** | **(267)** | **458** | **(4,092)** | **(3,901)** |

# Notes to the financial statements
For the year ended 30 June 2019

## Effects of hedge accounting on the financial position and performance are:

| | NZD | | AUD | |
|---|---|---|---|---|
| | 2019 $000 | 2018 $000 | 2019 $000 | 2018 $000 |
| **Interest rate swaps:** | | | | |
| Notional amount | 53,000 | 59,000 | 46,500 | 58,000 |
| Maturity date | Sept. 2019 – Feb. 2024 | Apr. 2019 – Feb. 2024 | Jul. 2019 – Jul. 2023 | Sept. 2018 – Jul. 2023 |
| Hedge ratio | 1:1 | 1:1 | 1:1 | 1:1 |
| | | | | |
| Change in fair value of outstanding hedging instrument | (46) | 713 | (212) | 906 |
| Change in value of hedge item used to determine hedge effectiveness | 46 | (713) | 212 | (906) |
| Weighted average strike rate for the year | 4.7% | 5.0% | 4.0% | 4.3% |
| **Foreign currency options:** | | | | |
| Notional amount | 12,985 | 18,968 | - | - |
| Maturity date | Jul. 2019 – May 2021 | Jul. 2018 – May 2021 | - | - |
| Hedge ratio | 1:1 | 1:1 | - | - |
| | | | | |
| Change in fair value of outstanding hedging instrument | 348 | 897 | - | - |
| Change in value of hedge item used to determine hedge effectiveness | (348) | (897) | - | - |
| Weighted average strike rate for the year | USD0.67: NZD1 | USD0.67: NZD1 | - | - |
| **Forward foreign exchange contracts:** | | | | |
| Notional amount | 18,381 | 10,582 | - | - |
| Maturity date | Jul. 2019 – Jun. 2024 | Jul. 2019 – Jun. 2023 | - | - |
| Hedge ratio | 1:1 | 1:1 | - | - |
| | | | | |
| Change in fair value of outstanding hedging instrument | 366 | 624 | - | - |
| Change in value of hedge item used to determine hedge effectiveness | (366) | (624) | - | - |
| Weighted average strike rate for the year | - | - | - | - |

An expense of $0.1 million, representing predominantly hedge instruments expiring, was recognised in the income statement during the year (2018: income of $0.1 million).

# Notes to the financial statements
For the year ended 30 June 2019

## Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

For hedges of foreign currency purchases, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to assess effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, the economic relationship was 100% effective.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- The credit or debit value adjustment on the interest rate swaps which is not matched by the loan; and
- Differences in critical terms between the interest rate swaps and loans.

## Note 12. 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 |

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

# Notes to the financial statements
For the year ended 30 June 2019

## Note 13. 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 | Shorter of the 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.

| Group | Land $000 | Buildings $000 | Leasehold Alterations $000 | Motor Vehicles $000 | Equipment $000 | Total $000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| **Opening net book value** | 13,800 | 21,907 | 3,762 | 7,431 | 56,202 | 103,102 |
| Additions | - | 5 | 1,104 | 4,964 | 11,234 | 17,307 |
| Acquisitions through business combinations (Note 30) | - | - | - | 299 | 380 | 679 |
| Depreciation expense | - | (1,605) | (629) | (1,516) | (8,766) | (12,516) |
| Disposals | - | - | (395) | (91) | (138) | (624) |
| Exchange rate movement | (55) | (57) | (69) | (283) | (774) | (1,238) |
| **Closing net book value** | **13,745** | **20,250** | **3,773** | **10,804** | **58,138** | **106,710** |
| **As at end of year** | | | | | | |
| Cost | 13,745 | 39,439 | 10,019 | 21,478 | 125,346 | 210,027 |
| Accumulated depreciation | - | (19,189) | (6,246) | (10,674) | (67,208) | (103,317) |
| **Net book value** | **13,745** | **20,250** | **3,773** | **10,804** | **58,138** | **106,710** |

# Notes to the financial statements
For the year ended 30 June 2019

| Group | Land $000 | Buildings $000 | Leasehold alterations $000 | Motor vehicles $000 | Equipment $000 | Total $000 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| **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 | - | - | - | 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** |

The cost of equipment in respect of assets under construction for which depreciation has not commenced as at 30 June 2019 is $0.3 million (2018: $3 million).

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 28.1(d).

## Note 14. 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 2019. This independent report assessed the fair market value of the brand names as at 30 June 2019 to be between $360 million and $397 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 28.1(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 $4.3 million (2018: $2.9 million) for which amortisation has not commenced. Software under development not yet available for use are tested annually for impairment.

## Notes to the financial statements
For the year ended 30 June 2019

**(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.

| Group | Goodwill $000 | Brand names $000 | Software $000 | Customer relationships $000 | Other $000 | Total $000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| **Opening net book value** | 208,179 | 114,775 | 14,359 | 18,086 | 3,020 | 358,419 |
| Additions | - | - | 6,429 | - | 470 | 6,899 |
| Acquisition through business combinations (Note 30) | 8,426 | - | - | 1,722 | - | 10,148 |
| Amortisation expense | - | - | (2,922) | (1,887) | (184) | (4,993) |
| Exchange rate movement | (3,868) | (843) | (69) | (444) | (97) | (5,321) |
| **Closing net book value** | **212,737** | **113,932** | **17,797** | **17,477** | **3,209** | **365,152** |
| **As at end of year** | | | | | | |
| Cost | 231,399 | 113,932 | 33,838 | 26,030 | 4,878 | 410,077 |
| Accumulated amortisation | (18,662) | - | (16,041) | (8,553) | (1,669) | (44,925) |
| **Net book value** | **212,737** | **113,932** | **17,797** | **17,477** | **3,209** | **365,152** |

| Group | Goodwill $000 | Brand names $000 | Software $000 | Customer relationships $000 | Other $000 | Total $000 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| **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 | 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** |

# Notes to the financial statements
For the year ended 30 June 2019

### 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 | |
|---|---|---|---|---|
| | **2019 $000** | 2018 $000 | **2019 $000** | 2018 $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) | 59,510 | 55,361 | 17,095 | 17,805 |
| Shred-X | 36,881 | 36,472 | 3,232 | 3,365 |
| **Total Information Management** | **113,968** | **109,410** | **24,727** | **25,570** |
| **Total** | **212,737** | **208,179** | **113,932** | **114,775** |

**(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 2020 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 4% (2018: 3%). A 1% (2018: 1%) growth rate and 1% (2018: 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 8% (2018: 9%) is considered indicative of the growth in this segment since the Company's expansion into Australia and a 3% (2018: 3%) growth rate and 2.5% (2018: 2.5%) terminal growth rate have been applied to the value-in-use calculation.

A pre-tax discount rate of 10% (2018: 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 2019

## Note 15. Deferred tax 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:

| Group | Property, plant and equipment $000 | Employee entitlements $000 | Accruals and provisions $000 | Derivative financial instruments $000 | Intangible assets $000 | Total $000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Balance at beginning of year | (8,912) | 4,173 | 3,017 | 1,638 | (37,422) | (37,506) |
| Prior period adjustment | (513) | (162) | 39 | - | - | (636) |
| Transfer to income statement | (1) | 137 | 8 | 6 | 475 | 625 |
| Amounts relating to business combinations (Note 30) | - | 86 | 26 | - | (516) | (404) |
| Adjustment for cash flow hedge reserve | - | - | - | (128) | - | (128) |
| Exchange rate movement | (3) | (86) | (40) | - | 416 | 287 |
| **Balance at end of year** | **(9,429)** | **4,148** | **3,050** | **1,516** | **(37,047)** | **(37,762)** |

| Group | Property, plant and equipment $000 | Employee entitlements $000 | Accruals and provisions $000 | Derivative financial instruments $000 | Intangible assets $000 | Total $000 |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| 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 | - | 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)** |

# Notes to the financial statements
For the year ended 30 June 2019

## Note 16. 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. Acquisition earn-out payables have been measured at fair value. The amounts are unsecured.

| | Group | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| **Current** | | |
| Trade creditors | 34,168 | 37,074 |
| Employee entitlements | 17,174 | 15,995 |
| Other creditors and accruals | 17,625 | 12,729 |
| Acquisition earn-out payables | - | 1,089 |
| | **68,967** | **66,887** |
| **Non-current** | | |
| Acquisition earn-out payables | 1,464 | 2,024 |
| Other non-current payables | 1,673 | 1,422 |
| | **3,137** | **3,446** |

## Note 17. 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:

| | **2019 $000** | 2018 $000 |
|---|---|---|
| Within one year | 27,178 | 27,163 |
| After one year but not more than five years | 66,248 | 71,425 |
| After five years | 33,867 | 37,710 |
| | **127,293** | **136,298** |

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

## Note 18. 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 2019

### 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.

| Group | Customer claims $000 | Long service leave $000 | Lease obligations $000 | Total $000 |
|---|---|---|---|---|
| **2019** | | | | |
| Balance at beginning of year | 552 | 2,716 | 1,907 | 5,175 |
| Current year provision | 72 | 521 | 198 | 791 |
| Amounts relating to business combinations | - | 174 | 87 | 261 |
| Expenses incurred | - | (355) | (96) | (451) |
| Movement in exchange rate | - | (119) | (47) | (166) |
| **Balance at end of year** | **624** | **2,937** | **2,049** | **5,610** |

| Group | 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** |

| | **2019 $000** | 2018 $000 |
|---|---|---|
| **Analysis of total provisions** | | |
| Current | 860 | 710 |
| Non-current | 4,750 | 4,465 |
| **Total** | **5,610** | **5,175** |

# Notes to the financial statements
For the year ended 30 June 2019

## Note 19. Contract liability

A contract liability of $15.7 million (2018: $15.9 million) is recorded in the balance sheet reflecting the future service obligation for courier and postal products that have been sold in advance of their use.

Revenue recognised during the year that was included in the contract liability balance at the beginning of the year was $15.7 million (2018: $15.2 million).

The Group elected to use the practical expedient regarding the disclosure requirement of the transaction price allocated to unsatisfied performance obligations. The original expected duration is one year or less in all customer contracts.

There are no other significant financing components in the Group's revenue arrangement.

## Note 20. 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 | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| **Non-current** | | |
| **Bank borrowings** | **167,394** | 161,800 |

**(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 2019, the carrying amount of the assets pledged as security is $223 million (2018: $207 million).

**(b) Finance facilities**

The following finance facilities existed at the reporting date:

| | Facilities denominated in New Zealand Dollars | | Facilities denominated in Australian Dollars | |
|---|---|---|---|---|
| **Group** | **2019 $000** | 2018 $000 | **2019 $000** | 2018 $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 | 103,500 | 100,423 | 97,000 |
| Maturing 1 September 2019 | - | 37,000 | - | 35,000 |
| Maturing 1 September 2020 | 26,000 | 26,000 | 2,000 | 24,500 |
| Maturing 1 September 2021 | 30,500 | 30,500 | 27,250 | 27,500 |
| Maturing 1 September 2022 | 37,000 | - | 21,173 | - |
| Maturing 1 September 2023 | - | - | 20,000 | - |
| Maturing 11 July 2025 | - | - | 20,000 | - |
| Maturing 15 December 2026 | 10,000 | 10,000 | 10,000 | 10,000 |
| Amount of loan facilities used | 73,000 | 74,000 | 90,250 | 80,600 |
| Amount of loan facilities unused | 30,500 | 29,500 | 10,173 | 16,400 |
| Effective interest rate at 30 June as amended for interest rate hedges | 6.19% | 6.31% | 5.20% | 5.02% |

# Notes to the financial statements
For the year ended 30 June 2019

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 June 2019, the Group negotiated a three-year extension of its syndicated bank facilities that were maturing on 1 September 2020. The extended facilities became effective from 31 July 2019.

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$30 million has been drawn as at 30 June 2019.

The Group was in compliance with all of its banking covenants throughout the year ended 30 June 2019.

### Net debt reconciliation

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

| | Liabilities from financing activities | | | | | |
|---|---|---|---|---|---|---|
| **Group** | **Cash** **$000** | **Other borrowings due within 1 year** **$000** | **Other borrowings due after 1 year** **$000** | **Bank borrowings due within 1 year** **$000** | **Bank borrowings due after 1 year** **$000** | **Total** **$000** |
| Balance at 1 July 2017 | **8,423** | **(147)** | **(204)** | **-** | **(166,241)** | **(158,169)** |
| Cashflow | (1,457) | 114 | - | - | 7,521 | 6,178 |
| Acquisitions – finance leases | - | (93) | (82) | - | - | (175) |
| Exchange rate movement | 444 | - | - | - | (3,080) | (2,636) |
| **Balance at 30 June 2018** | **7,410** | **(126)** | **(286)** | **-** | **(161,800)** | **(154,802)** |
| Cashflow | 9,248 | 91 | - | - | (9,512) | (173) |
| Exchange rate movement | (672) | - | - | - | 3,918 | 3,246 |
| Other non-cash movements | - | (92) | 157 | - | - | 65 |
| **Balance at 30 June 2019** | **15,986** | **(127)** | **(129)** | **-** | **(167,394)** | **(151,664)** |

## Note 21. 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 | | | |
|---|---|---|---|---|
| | **2019 Ordinary shares** | 2018 Ordinary shares | **2019 $000** | 2018 $000 |
| Balance at beginning of year | 155,111,888 | 154,933,678 | 125,260 | 124,430 |
| Partly-paid ordinary shares issued | - | - | 1 | 1 |
| Partly-paid shares, fully paid up to ordinary shares | 107,491 | 102,721 | 103 | 303 |
| Shares issued for employee share plan | 155,000 | 75,000 | 1,054 | 529 |
| (Increase) decrease in employee share plan unallocated shares | (3,155) | 489 | 22 | (3) |
| Balance at end of year | **155,371,224** | **155,111,888** | **126,440** | **125,260** |

# Notes to the financial statements
For the year ended 30 June 2019

### Contributed Equity

**(i) Fully paid ordinary shares**

As at 30 June 2019 there were 155,378,437 shares issued and fully paid (2018: 155,115,946). 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 26 September 2018, 90,970 partly-paid shares were issued to certain senior executives under the rules of the Freightways Senior Executive Performance Share Plan (the 'Plan') (2018: 96,018). The issue price per share was $7.56 (2018: $7.83) 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 22). During the year, 13,949 partly-paid shares were redeemed and cancelled (2018: 15,790). As at 30 June 2019 there were 289,043 partly-paid shares on issue, paid up to one cent per share (2018: 319,513). 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 21 August 2018, 107,491 were fully paid-up by the past Managing Director as part of his resignation arrangements, as allowed by the Plan rules. In 2018, 102,721 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 Plan. The average issue price per share fully paid-up was $6.52 (2018: $5.07).

**(iv) Employee Share Plan**

On 13 September 2018, the Company issued 155,000 fully paid ordinary shares at $6.80 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (September 2017: 75,000 fully paid ordinary shares at $7.05 each). In total, participating employees were provided with interest-free loans of $1.1 million to fund their purchase of the shares in the Share Plan (September 2017: $0.5 million). The loans are repayable over three years and repayment commenced in October 2018.

As at 30 June 2019 the Trustee held 563,787 (2018: 486,672) fully paid ordinary shares (representing 0.4% (2018: 0.3%) of all issued ordinary shares) of which 7,213 (2018: 4,058) were unallocated. These shares are held for allocation in the future.

The Employee Share Plan operates in accordance with section CW 26C 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 22. 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 and are generally 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.

## Notes to the financial statements
For the year ended 30 June 2019

Details of outstanding allocations are as follows:

| **Share allocation date:** | 11 Sep 2013 | 10 Sep 2014 | 14 Sep 2015 | 12 Sep 2016 | 13 Sep 2017 | 26 Sep 2018 |
|---|---|---|---|---|---|---|
| Number of partly-paid shares allocated | 148,386 | 124,221 | 121,691 | 103,682 | 96,018 | 90,970 |
| Market price per share at date of allocation | $4.12 | $5.11 | $5.39 | $6.82 | $7.83 | $7.56 |
| 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 | $1,484 | $1,242 | $1,217 | $1,037 | $960 | $910 |
| Total amount paid-up upon vesting: | | | | | | |
| • Year ended 30 June 2017 | $483,225 | $38,005 | - | - | - | - |
| • Year ended 30 June 2018 | $30,213 | $475,193 | - | $12,898 | - | - |
| • Year ended 30 June 2019 | $3,354 | $21,604 | $203,681 | $231,819 | $238,815 | - |
| Escrow periods ended 30 June: | 2016 | 2016 | 2018 | 2017 | 2018 | 2019 |
| | (100%) | (6.5%) | (100%) | (2.1%) | (3.5%) | (1.4%) |
| | - | 2017 | - | 2018 | 2019 | 2020 |
| | - | (93.5%) | - | (2.1%) | (3.5%) | (4.1%) |
| | - | - | - | 2019 | 2020 | 2021 |
| | - | - | - | (95.8%) | (93%) | (94.5%) |

| **Total number of partly-paid shares on issue:** | **2019** | 2018 |
|---|---|---|
| Balance at beginning of the year | 319,513 | 342,006 |
| Issued during the year | 90,970 | 96,018 |
| Cancelled during the year | (13,949) | (15,790) |
| Fully paid-up during the year | (107,491) | (102,721) |
| Balance at end of the year | 289,043 | 319,513 |
| Partly-paid shares eligible to be paid up at end of year | - | 107,491 |

| | **2019 $000** | 2018 $000 |
|---|---|---|
| Total amount expensed during the year for the senior executive performance share plan | 354 | 814 |
| Liability recognised at year end for estimated income tax applicable to bonuses payable to facilitate the paying-up of vested partly-paid shares | 624 | 739 |

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 2019

## Note 23. Reconciliation of profit for the year with cash flows from operating activities

| | Note | Group 2019 $000 | 2018 $000 |
|---|---|---|---|
| Profit for the year | | 63,377 | 62,161 |
| **Add non-cash items** | | | |
| Depreciation and amortisation | 4 | 17,509 | 15,954 |
| Movement in provision for doubtful debts | | (129) | (26) |
| Movement in deferred income tax | | 260 | 1,059 |
| Net (gain) loss on disposal of property, plant and equipment | | 67 | (994) |
| Net foreign exchange loss | | - | 3 |
| Movement in derivative fair value | | 22 | (52) |
| Impairment of property, plant and equipment | | - | 1,978 |
| Non-recurring items | | (461) | (1,540) |
| **Movement in working capital, net of effects of acquisitions of businesses** | | | |
| Decrease (increase) in trade and other receivables | | (7,768) | (7,150) |
| Decrease (increase) in inventories | | (139) | 598 |
| Increase (decrease) in trade and other payables | | 2,457 | 849 |
| Increase (decrease) in income taxes payable | | 812 | 2,870 |
| **Net cash inflows from operating activities** | | **76,007** | **75,710** |

## Note 24. Capital commitments and contingent liabilities

The Group had made capital commitments to purchase or construct buildings and equipment for $1.5 million at 30 June 2019 (2018: $3.8 million), principally relating to the completion of operating facilities throughout the Group.

As at 30 June 2019, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $4.0 million (2018: $6.1 million). The letters of credit relate predominantly to support for regular payroll payments. The bank guarantees relate to security given to various landlords in respect of leased operating facilities.

## Note 25. 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 2019 | 2018 |
|---|---|---|
| Profit for the year attributable to shareholders ($000) | 63,367 | 62,161 |
| Weighted average number of ordinary shares ('000) | 155,332 | 155,080 |
| **Basic earnings per share (cents)** | **40.8** | **40.1** |

# Notes to the financial statements
For the year ended 30 June 2019

### 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 | |
|---|---|---|
| | **2019** | 2018 |
| Profit for the year attributable to shareholders ($000) | 63,367 | 62,161 |
| Weighted average number of ordinary shares ('000) | 155,332 | 155,080 |
| Effect of dilution ('000) | 289 | 319 |
| Diluted weighted average number of ordinary shares ('000) | 155,621 | 155,399 |
| **Diluted earnings per share (cents)** | **40.7** | **40.0** |

* 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 4), are 39.3 and 39.2 cents, respectively (2018: both 38.4 cents).

## Note 26. Net tangible assets per security

Net tangible assets (liabilities) per security at 30 June 2019 was ($0.47) (2018: ($0.55)).

## Note 27. 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 ANZ Bank New Zealand Limited and Z Energy Limited.

### Payments to joint venture

During the year, the Group paid Parcelair Limited $11.8 million (2018: $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 | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| Short term employee benefits | 6,407 | 8,173 |
| Long term employee benefits | - | - |
| Post-employment benefits | - | - |
| Termination benefits | - | - |
| Share-based payments (Note 22) | 354 | 814 |

# Notes to the financial statements
For the year ended 30 June 2019

## Note 28. Financial risk management

### 28.1 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 table below 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 | Less than 6 months $000 | 6-12 months $000 | 1-2 years $000 | 2-5 years $000 | More than 5 years $000 | Total $000 |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Bank borrowings | 3,124 | 3,136 | 9,077 | 143,840 | 45,004 | 204,181 |
| Trade and other payables | 56,733 | 15,043 | 182 | 2,140 | 815 | 74,913 |
| Finance lease liabilities | 54 | 76 | 112 | 16 | - | 258 |
| Derivative financial instruments – interest rate swaps* | 1,252 | 1,241 | 1,642 | 1,548 | - | 5,683 |
| **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 |

* 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 2019

### (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.

A default in a financial asset is when the counterparty fails to make contractual payments when debt recovery processes have been exhausted and/or the counterparty is declared bankrupt or in the case of companies, placed in administration, receivership or liquidation.

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 | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| Cash and cash equivalents | 15,986 | 7,410 |
| Trade and other receivables | 78,036 | 74,048 |
| | 94,022 | 81,458 |

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:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Gross carrying amount** | **Expected loss rate** | **Loss allowance** | **Gross carrying amount** | **Expected loss rate** | **Loss allowance** |
| | **$000** | **%** | **$000** | **$000** | **%** | **$000** |
| Current | 60,828 | nil | - | 59,049 | nil | - |
| 31-60 days over standard terms | 8,781 | 2% | 132 | 8,424 | 2% | 169 |
| 60-90 days over standard terms | 1,471 | 25% | 368 | 1,533 | 30% | 460 |
| 91+ days over standard terms | 2,232 | 45% | 1,000 | 1,988 | 50% | 1,000 |
| | 73,312 | | 1,500 | 70,994 | | 1,629 |

The Group has $11 million (2018: $10.3 million) of financial assets that are overdue and not impaired.

# Notes to the financial statements
For the year ended 30 June 2019

### (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 20, at 30 June 2019 the Group had Australian dollar denominated bank borrowings of AUD90,250,000 (2018: AUD80,600,000). Of these borrowings, AUD14,200,000 (2018: 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 2019

Sensitivity analysis:

| | Interest rate movement | | | | | NZD/AUD movement |
|---|---|---|---|---|---|---|
| | Impact on profit | | | Impact on other components of equity | | Impact on liabilities & equity |
| | Carrying amount $000 | +100 basis points $000 | -100 basis points $000 | +100 basis points $000 | -100 basis points $000 | + or – 10% in value of NZD $000 |
| **2019** | | | | | | |
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 15,986 | 115 | (115) | 115 | (115) | - |
| Trade and other receivables | 80,951 | - | - | - | - | - |
| **Financial liabilities** | | | | | | |
| Borrowings | 167,394 | (1,205) | 1,205 | (1,205) | 1,205 | 1,350/(1,650) |
| Derivative financial instruments | 5,417 | 577 | (577) | 1,661 | (1,706) | - |
| **2018** | | | | | | |
| **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) | - |

### (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 and foreign exchange hedges are calculated as the present value of the estimated future cash flows.

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

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

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

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

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

## Notes to the financial statements
For the year ended 30 June 2019

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 |
|---|---|---|---|---|
| **2019** | | | | |
| **Liabilities** | | | | |
| Derivative financial instruments | - | 5,417 | - | 5,417 |
| Contingent consideration in a business combination | - | - | 1,464 | 1,464 |
| **Total liabilities** | **-** | **5,417** | **1,464** | **6,881** |
| **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** |

# Notes to the financial statements
For the year ended 30 June 2019

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 | |
|---|---|---|
| | **2019 $000** | 2018 $000 |
| Opening balance | 3,113 | 1,786 |
| Acquisition of businesses | - | 2,855 |
| Losses recognised in the income statement | - | 166 |
| Settlement | (1,097) | - |
| Purchase price adjustment | (461) | (1,540) |
| Exchange rate adjustments | (91) | (154) |
| **Closing balance** | **1,464** | **3,113** |
| Total losses for the year included in the income statement for liabilities held at the end of the reporting period, under: | | |
| • Non-recurring items | (461) | (1,540) |
| • Net interest and finance costs | - | 166 |
| | **(461)** | **(1,374)** |

Contingent consideration in a business combination relates to the prior year acquisition of the business and assets of State Waste Services (explained in Note 30).

### 28.2 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 maintain its operating leverage (net debt divided by profit before interest, tax, depreciation and amortisation) below a maximum level. There have been no breaches of banking covenants or events of review during the current or prior year.

# Notes to the financial statements
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## Note 29. Financial instruments by category

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

| | Financial assets at amortised cost | | Derivatives used for hedging | | Total | |
|---|---|---|---|---|---|---|
| | **2019 $000** | 2018 $000 | **2019 $000** | 2018 $000 | **2019 $000** | 2018 $000 |
| **Group** | | | | | | |
| Trade and other receivables (excluding prepayments) | 80,951 | 76,835 | - | - | 80,951 | 76,835 |
| Cash and cash equivalents | 15,986 | 7,410 | - | - | 15,986 | 7,410 |
| **Total** | **96,937** | **84,245** | **-** | **-** | **96,937** | **84,245** |

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

| | Derivatives used for hedging | | Other financial liabilities at amortised cost | | Total | |
|---|---|---|---|---|---|---|
| | **2019 $000** | 2018 $000 | **2019 $000** | 2018 $000 | **2019 $000** | 2018 $000 |
| **Group** | | | | | | |
| Borrowings (excluding finance lease liabilities) | - | - | 167,394 | 161,800 | 167,394 | 161,800 |
| Finance lease liabilities | - | - | 256 | 412 | 256 | 412 |
| Derivative financial instruments | 5,417 | 5,850 | - | - | 5,417 | 5,850 |
| Trade and other payables | - | - | 51,310 | 50,990 | 51,310 | 50,990 |
| **Total** | **5,417** | **5,850** | **218,960** | **213,202** | **224,377** | **219,052** |

## Note 30. Business combinations

During the year ended 30 June 2019, the Group acquired three small information management businesses in Australia for an aggregate purchase consideration totalling approximately $10.5 million. These businesses have been integrated into the Australian businesses of the Group's information management division. The acquisitions were:

- the business & assets of Formfile Records Management in Victoria on 5 July 2018
- the business & assets of Specialised Security Shredding in Western Australia (WA) on 1 August 2018
- a 75% interest in Southwest Onsite Data Backup Management Pty Ltd in WA on 1 October 2018

The contribution of these businesses to the Group results for the year ended 30 June 2019 was revenue of $3.2 million and operating profit before interest, income tax and amortisation of intangibles of $0.2 million.

If these acquisitions had all occurred at the beginning of the period, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the year is estimated at $3.4 million and $0.2 million, respectively.

# Notes to the financial statements
## For the year ended 30 June 2019

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

| | $000 |
|---|---|
| **Purchase consideration:** | |
| Cash consideration paid during the year | 10,540 |
| **Fair value of assets and liabilities arising from the acquisition:** | |
| Cash | 526 |
| Trade and other receivables | 120 |
| Inventories | 223 |
| Plant and equipment | 679 |
| Customer relationships | 1,722 |
| Goodwill | 8,426 |
| Trade and other payables | (273) |
| Provisions | (365) |
| Deferred tax liability | (404) |
| Non-controlling interest | (114) |
| | 10,540 |

The goodwill of $8.4 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. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interest in Southwest Onsite Data Backup Management Pty Ltd has been recognised at fair value.

The acquisition accounting for these acquisitions 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 respective acquisition dates and upon confirmation of certain determinants.

**Prior period acquisitions:**

### LexData

On 1 July 2016, the Group acquired the business & assets of LexData Management Pty Ltd (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.

It has been determined, as at 30 June 2019, that there is no earn-out payment payable, as the relevant financial performance hurdles based on earnings performance for the years ended 30 June 2017, 2018 and 2019 were not met. The estimated discounted future earn-out payment that the Group had been carrying of $0.3 million was released to the income statement and included in non-recurring items for the year ended 30 June 2019.

### 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 was branded as Med-X and integrated into the Group's Shred-X business within the information management division.

As at 30 June 2019, an estimated discounted future earn-out payment of $1.5 million may be payable in September 2021, but is contingent upon certain financial performance hurdles being achieved for the years ending 30 June 2019, 2020 and 2021, collectively. This current estimated earn-out payment is $0.2 million lower than the prior year and the difference was released to the income statement and included in non-recurring items for the year ended 30 June 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 $4.5 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 2019

## Note 31. Significant events after balance date

### Dividend declared

On 26 August 2019, the Directors declared a fully imputed final dividend of 15.5 cents per share (approximately $24.1 million) in respect of the year ended 30 June 2019. The dividend will be paid on 1 October 2019. The record date for determination of entitlements to the dividend is 13 September 2019.

### Debt facilities

The Group has negotiated a three-year extension to its existing syndicated bank facilities of NZ$26 million and A$2 million that were maturing on 1 September 2020. The extension is effective from 31 July 2019.

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

## Note 32. Standards, amendments and interpretations to existing standards that are not yet effective

From time to time, certain new standards, amendments and interpretations of existing standards are published by the International Accounting Standards Board (IASB) and the External Reporting Board (XRB) that become mandatory for future periods and which the Group will adopt when they become mandatory. As at 30 June 2019, the following new standard and amendments are applicable to the Group:

- **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 $127 million (refer Note 17). Upon adoption, NZ IFRS 16 will have a material impact on a number of elements of, and disclosures within, the Group's balance sheet, income statement and statement of cash flows. Importantly, the Group's actual overall cash flows will be unaffected by the adoption of this standard.

  The Group has implemented a new lease management system to manage its lease portfolio which also calculates the full financial impact of IFRS 16 on the Group's operating leases as at 1 July 2019, being the date of adoption. In calculating the financial impact, management was required to make various key judgements, including:

  – incremental borrowing rate (IBR) used to discount the ROU assets and the future lease payment obligations (lease liabilities);

  – lease terms, including any rights of renewal expected to be exercised;

  – foreign exchange conversion rates; and

  – application of practical expedients and recognition exemptions allowed under IFRS 16, including exemptions for low value assets and short-term leases.

  Management has applied IBR's of between 2.45% to 4.23% to discount the ROU assets and the future lease payment obligations, depending on the nature of the relevant leases. Some of the factors taken into consideration when calculating the IBR for each asset category included observable market rates, economic conditions and lease tenor.

## Notes to the financial statements
For the year ended 30 June 2019

The new standard allows a choice of transition methods. Management has determined that the most appropriate approach for the Group will be to use the modified retrospective transition method. Under this transition method, the Group is allowed to retrospectively value the ROU asset on a lease by lease basis without having to restate comparatives and to recognise the cumulative effect of initially applying the standard as an adjustment to retained earnings. Alternatively, the ROU asset can be measured to equal the value of the lease liability. In arriving at the below estimated potential financial impact of adopting the new standard, the latter approach has been applied to value the ROU asset for the majority of the Group's operating leases by number, but with 20 high value property operating leases (representing approximately 80% of the lease liability to be recognised) being retrospectively valued.

Management's process estimates that the potential financial impact on the balance sheet as at 1 July 2019 will be as follows:

– Recognition of ROU assets of approximately $198 million;

– Recognition of lease liabilities of approximately $221 million;

– Deferred tax asset $7 million; and

– Decrease in opening retained earnings of approximately $16 million.

The financial impact on the income statement for the year of adoption is estimated to be an approximate reduction in net profit after tax of less than $2 million. This is made up of the following estimated changes:

– a $28 million decrease in operating lease rental expenses (removed);

– a $23 million increase in depreciation (relating to ROU assets);

– a $8 million increase in interest expense (relating to lease liabilities); and

– a $1 million decrease in tax expense.

The only changes to the Group's statement of cash flows as a result of adopting the new standard will be to presentation, 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 may change from the final impact of adoption for the following reasons:

– there may be changes to the terms & conditions of some existing lease contracts; and

– finalisation of various judgements by management regarding:

- the application of the various practical expedients available upon adoption;
- the expectation of exercising rights of lease renewals; and
- the IBR to be used for discounting future lease payments.

- **NZ IFRS 3: Business Combinations – Definition of a business** (mandatory from 1 July 2020)

  The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. It narrows the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs. It also removes the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. In addition, an entity can apply an optional "concentration test" that, if met, eliminates the need for further assessment. Under this optional test, where substantially all the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets), the assets acquired would not represent a business.

  The guidance might result in more acquisitions being accounted for as asset acquisitions and affect related accounting. It would also affect the accounting for disposal transactions.

  The amendments to NZ IFRS 3 described above are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. The amendments will therefore be effective for the year ending 30 June 2021.

  There are no other new standards, amendments or interpretations that are not yet effective that are applicable to 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 2019

| | Number of holders | Number of shares held | % of issued capital |
|---|---|---|---|
| **Size of shareholding** | | | |
| 1 to 1,999 | 2,466 | 2,623,323 | 1.69 |
| 2,000 to 4,999 | 2,326 | 7,055,355 | 4.54 |
| 5,000 to 9,999 | 1,157 | 7,536,160 | 4.85 |
| 10,000 to 49,999 | 791 | 13,235,741 | 8.52 |
| 50,000 to 99,999 | 41 | 2,635,795 | 1.70 |
| 100,000 to 499,999 | 27 | 4,878,550 | 3.14 |
| 500,000 to 999,999 | 8 | 5,818,614 | 3.74 |
| 1,000,000 and over | 13 | 111,594,899 | 71.82 |
| Total shareholders | 6,829 | 155,378,437 | 100.00 |

| | | | |
|---|---|---|---|
| **Geographic distribution** | | | |
| New Zealand | 6,675 | 151,722,337 | 97.65 |
| Australia | 96 | 3,449,992 | 2.22 |
| Other | 58 | 206,108 | 0.13 |
| | 6,829 | 155,378,437 | 100.00 |

### Substantial product holders as at 31 July 2019

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

| | Voting securities | |
|---|---|---|
| | Number | % |
| Fisher Funds Management Limited | 12,396,434 | 7.98 |
| 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 | 6.47 |
| Investment Services Group Limited | 7,905,571 | 5.09 |
| Mawer Investment Management Limited | 7,836,221 | 5.04 |

The total number of issued voting securities of the Company as at 31 July 2019 was 155,378,437.

# Shareholder information

**Top twenty registered shareholders of listed shares** as at 31 July 2019

| | Number of Shares held | % of issued capital |
|---|---|---|
| HSBC Nominees (New Zealand) Limited <HKBN45> * | 14,524,978 | 9.35 |
| Citibank Nominees (New Zealand) Limited <CNOM90> * | 12,693,578 | 8.17 |
| TEA Custodians Limited <TEAC40> * | 11,850,900 | 7.63 |
| National Nominees New Zealand Limited <NNLZ90> * | 7,713,236 | 4.96 |
| FNZ Custodians Limited | 7,585,924 | 4.88 |
| ANZ Custodial Services New Zealand Limited <PBNK90>* | 6,317,358 | 4.07 |
| Accident Compensation Corporation <ACCI40> * | 5,200,142 | 3.35 |
| JPMorgan Chase Bank <CHAM24> * | 4,966,588 | 3.20 |
| Custodial Services Limited <A/C 3> | 3,947,950 | 2.54 |
| HSBC Nominees (New Zealand) Limited <HKBN90> * | 3,921,362 | 2.52 |
| Custodial Services Limited <A/C 4> | 3,341,094 | 2.15 |
| Port Devon Limited | 3,153,469 | 2.03 |
| BNP Paribas Nominees (NZ) Limited <COGN40>* | 2,881,444 | 1.85 |
| Forsyth Barr Custodians Limited <1-Custody> | 2,659,103 | 1.71 |
| JBWere (NZ) Nominees Limited <NZ Resident A/C> | 2,600,289 | 1.67 |
| ANZ Wholesale Australasian Share Fund <PNAS90>* | 2,515,985 | 1.62 |
| HSBC Nominees A/C NZ Superannuation Fund Nominees Limited <SUPR40> * | 2,156,555 | 1.39 |
| Custodial Services Limited <A/C 2> | 2,067,338 | 1.33 |
| Investment Custodial Services Limited <A/C C> | 1,919,356 | 1.24 |
| Dean John Bracewell + Phillipa Anne Bracewell + Bracewell Trustee Company Limited <Bracewell Family A/C> | 1,853,733 | 1.19 |
| | **103,870,382** | **66.85** |

*Held through NZ Central Securities Depository Limited

# Corporate governance statement

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

### The role of the Board of Directors

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

### Board responsibilities

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

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

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

A formal Board Charter, which can be found at https://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 & Inclusion

The Company has a formal diversity & inclusion policy which can be found at https://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 2019, the Board was comprised of 4 male and 2 female directors (2018: 4 male and 2 female directors), and all 5 officers of the Company, who are not directors of the Company, were male (2018: all 5 officers of the Company, who were not directors of the Company, were male).

The Company conducted 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. Summary results of the survey can be found on page 20.

# Corporate governance statement

## Board meetings

The following table outlines the number of board meetings attended by Directors during the course of the 2019 financial year:

| Director | Meetings Held | Meetings Attended |
|---|---|---|
| Mark Verbiest | 10 | 10 |
| Kim Ellis | 10 | 10 |
| Abby Foote | 10 | 10 |
| Peter Kean | 10 | 10 |
| Mark Rushworth | 10 | 10 |
| Sue Sheldon CNZM (resigned 25 October 2018) | 3 | 3 |
| Andrea Staines (appointed 20 August 2018) | 8 | 7 |

## 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 Report and Half Year Results Release and making recommendations on financial and accounting policies. The Company's Audit & Risk Committee Charter can be found at https://www.freightways.co.nz/about/corporate-governance/.

The Group has an established internal audit function for financial controls and also engages Ernst & Young to perform complementary internal audits of non-financial control related areas of the Group. Ernst & Young utilise the expertise of their relevant Subject Matter Professionals to execute an internal audit programme that effectively covers a broad spectrum of risks. Ernst & Young regularly reports on their activities to the Audit & Risk Committee.

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

| Director | Meetings Held | Meetings Attended |
|---|---|---|
| Abby Foote (appointed to Committee on 6 August 2018) | 4 | 4 |
| Mark Rushworth | 5 | 5 |
| Sue Sheldon CNZM (resigned from Committee on 6 August 2018) | 1 | 1 |
| Mark Verbiest | 5 | 5 |

**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 https://www.freightways.co.nz/about/corporate-governance/.

The members of the People & Remuneration Committee are Kim Ellis (Chairman), Peter Kean, Andrea Staines and Mark Verbiest. Meetings were held and attended, as follows:

| Director | Meetings Held | Meetings Attended |
|---|---|---|
| Kim Ellis | 6 | 6 |
| Peter Kean | 6 | 6 |
| Sue Sheldon CNZM (resigned from Committee on 6 August 2018) | 1 | 1 |
| Andrea Staines (appointed to Committee on 25 October 2018) | 5 | 5 |
| Mark Verbiest (appointed to Committee on 25 October 2018) | 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 https://www.freightways.co.nz/about/corporate-governance/.

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

| Director | Meetings Held | Meetings Attended |
|---|---|---|
| Mark Verbiest | 1 | 1 |
| Kim Ellis | 1 | 1 |
| Abby Foote | 1 | 1 |
| Peter Kean | 1 | 1 |
| Mark Rushworth | 1 | 1 |
| Andrea Staines | 1 | 1 |

### 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 https://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 https://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 https://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 https://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.

The Company has an internal audit function which uses internal and contracted (co-sourced) external suppliers. An ongoing programme of audits is carried out over multi-years, some being undertaken every year. This programme is regularly mapped against the Company's key risks as assessed through its risk management process.

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

### Health & safety risks

Under the Board's oversight, the Company's management team and Health & Safety Committee are responsible for oversight of the Company's health & 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 & safety practices of the Company. Health & 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

Mark Verbiest (Chairman)

Kim Ellis

Abby Foote

Peter Kean

Mark Rushworth

Andrea Staines OAM

### 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