Moving you to a better place

ANNUAL REPORT
FINANCIAL YEAR ENDED 30 JUNE 2021

Freightways Limited and its subsidiaries

An eye on our horizons

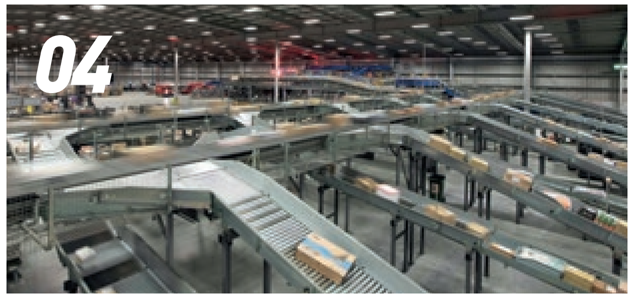
Our vision for Freightways sets out three bold intentions for our company. We'll continue to look for new ways to move and transform things. We'll keep finding ways to improve. And our business decisions will be governed by the extent to which we believe they can achieve the end goals our stakeholders expect of us.

Freightways has always been an entrepreneurial company. We've never been afraid to be first to market and to step outside traditional boundaries to do so.

We draw on our amazing teams to grow our revenue and earnings from existing businesses via organic growth, margin management and efficiency gains. We invest in businesses where our core capability to **pick up, process and deliver** adds value. Our primary investments are typically in synergistic and complementary businesses with smaller cash injections for embryonic opportunities.

Having a goal for everything we do and every relationship we invest in adds purpose and focus to how we do business. There's always a better place to move towards.

Contents



The topline of FY21. Highlights

Our organisational structure

Living our purpose every day

People are at the heart of everything we do at Freightways

Non-financial criteria are front of mind in our decision making and reporting

Supporting the communities in which we work

The leaders of our business

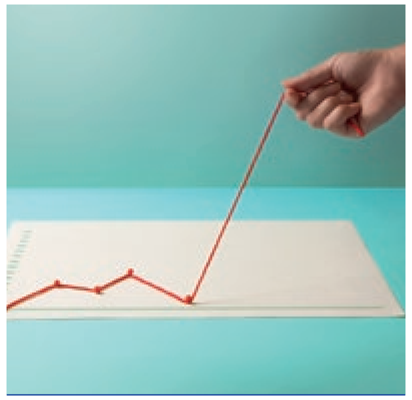
The full financial story for an eventful year

The topline of FY 21

Parcel volumes, courier incomes and lines of business grew

We were able to demonstrate the resilience of our business this year as we dealt with the impact of COVID-19 and also explored new horizons. Our courier businesses attracted more volume, and our information management brands took the opportunity to introduce efficiencies that increased their profitability. Our waste renewal business was affected by lockdowns, particularly in Melbourne, but we still found inventive ways to grow that part of the business.

Financial



Revenue grew
27%

EBITA grew
33.5%*

NPAT grew
29.7%*

Total dividends paid this year:
33.5¢ / SHARE

Volumes for B2B and B2C Express Package deliveries were up

Pricing for Effort (PFE) finished the year at $1.32 up from $0.71 last year

* Before change in fair value of contingent consideration for Big Chill and other income and expenses

Operational

Big Chill marks first anniversary since acquisition in April 2020

Average remuneration for our couriers improved by 8%

Improved Net Promoter Scores across our business

Invested in SaveBoard as part of exploring new horizons for pick up, process and delivery of high-value recyclables

Reduced injuries from
252 → 240
despite a larger workforce

32 ideas assessed through The Startery, our product development hub

Environmental

Named one of the top 10 carbon reducers by Toitū Envirocare

On target to reduce fossil-based virgin plastic use by 70%

Developed a science-based target for carbon reduction of 50% by 2035

Our strategy on a page

The Freightways strategy

Our purpose: What we do

Freightways is a business that is always on the move. Across the Group, we pick up and process physical and digital items with a view to delivering them reliably and efficiently for our customers. We look to develop our people through career opportunities. We seek appropriate and sustainable returns for our investors. And we look to move the dial for communities through the causes we support; by reducing our emissions and employing or contracting local people.

Our principles & capabilities: How we work

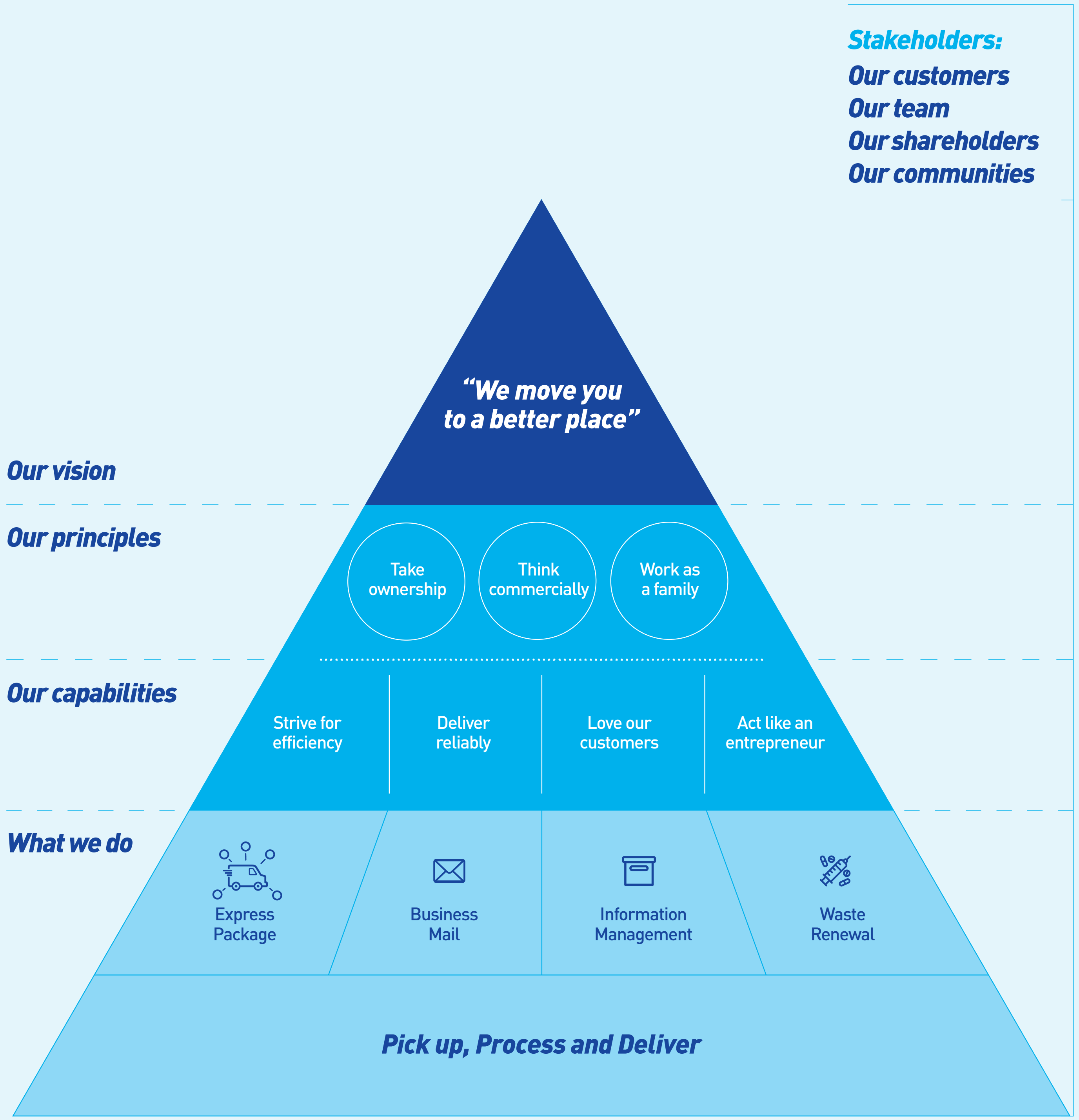
Three principles guide how our teams and our partners deliver.

- We take ownership and responsibility at every level for what we do and what we can improve.
- We think commercially about the deals we make so that they make sense for our customers, our contractors, our business and our shareholders.
- We work as a family by supporting people, by prioritising their safety and wellbeing and by doing everything we can to ensure they get home safe each day.

We depend on our capabilities to deliver what our customers, investors and communities expect. We're efficient. This critical capability enables us to move around 100,000,000 items through our various businesses every year. We are reliable. We target flawless execution which enables us to shift multiple items through multiple touchpoints in our network, across two nations, every day. We act like entrepreneurs. We recognise and execute on high-value opportunities. We always look forward and up.

Our vision: Why we do this

Better outcomes won't just happen. It takes a conscious effort from our team to move things forward for our customers, our team, our shareholders and our communities. Our "why" is to move you to a better place.



Our organisational diagram

A family of brands

Our market-leading brands combine shared infrastructure with specialist knowledge in each niche. We work across a range of business sectors, achieving high levels of quality and efficiency, through our focus on adding value to how we pick-up, process and deliver. Our strong culture and commitment unifies our people and feeds our deep team spirit. We draw on all of that to continue to evolve our businesses to meet the changing needs of our customers.

Express Package

Our multi-brand strategy in the New Zealand courier market caters to a range of customer needs and delivery timeframes. All share branch networks, air and road linehaul, and IT. These brands include New Zealand Couriers, Post Haste, Castle Parcels, NOW Couriers, SUB60, Security Express, Kiwi Express, Stuck, Pass the Parcel and Big Chill Distribution. We also offer airfreight capability for our overnight Express Package delivery service through our joint venture airline, Parcelair, and our linehaul partner, Parceline. This year we continued to implement our Pricing For Effort approach.

Business Mail

DX Mail is New Zealand's only dedicated Business Mail specialist; offering time-sensitive physical postal services from both door-to-door and box-to-box.

Dataprint offers mailhouse-print services and digital mail presentation platforms across New Zealand. Our technology and solutions transform data into effective communications for customers.

Information Management

The Information Management Group (TIMG) helps businesses protect and add value to the data they entrust us with. It offers 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. This year we increased the utilisation of our storage facilities by leasing out spaces for 3PL and other uses.

Waste Renewal

Shred-X offers document destruction, eDestruction and product destruction services. We also provide medical waste collection and processing services under the Med-X brand. This year we continued to find new ways to transform what would once have been waste into new products.

Full year review

A focus on progress

"If last year was about resolving the many and varied challenges posed by COVID-19, this year focused on moving forward. There were still lockdowns and other issues to deal with, but our teams continued to bring a problem-solving attitude to day-to-day operations that saw us manage these issues and focus on implementing our strategy.

By further advancing Pricing For Effort for our courier brands, seeking efficiency opportunities in information management, integrating innovation into our workstreams and growing our waste renewal business, we demonstrated that Freightways has a powerful ability to profitably pick-up, process and deliver for customers at the same time as it develops new services."

An updated purpose – *We move you to a better place* – articulates our approach. As a group of businesses, we are motivated by progress. Whether we are shifting physical and digital items for our customers, helping our people further their careers, increasing returns for our investors or moving the dial for communities, our focus is firmly on what's ahead.

This year, we continued to set new expectations for our customers, and to lift income and drive levels of career aspirations for our people. We delivered healthy returns for our investors, and made plans to continue to reduce our emissions. In FY21, we worked hard to further reduce the number of injuries across a workforce that grew by around 350 people through the acquisition of Big Chill. We did all of that by encouraging everyone who works here to take individual responsibility for making things better and rewarding them for that, by doing deals that make sense, by thinking commercially, and by working as a family that cares for each other and supports safety, security and wellbeing within our businesses.

We marked a year of owning Big Chill, and we are very happy with its progress. They are a clear example of a strongly positioned business which is focussed on meeting the needs of their customers, exploring new ways to generate value and improve earnings. At acquisition, Big Chill were a quality, temperature-controlled, express business. Since then, they have broadened activities to include coolstore-3PL capabilities and we have plans for this to continue as they add new value-adding services in the years ahead.

Big Chill's progress is echoed across the Group. Our Express Package brands such as New Zealand Couriers and Post Haste have evolved from being leading business-to-business couriers, to brands that now include profitable business-to-consumer deliveries. Our Shred-X business is shifting from document destruction to waste renewal by taking on high-value recycling opportunities. Messenger Services are moving from a pure play point-to-point service to one that builds deeper relationships through dedicated services.

We move you to a better place reflects an entrepreneurial mindset that builds on our relationships and keeps providing existing and new customers with complementary services. This year, it's seen us achieve important market share gains in our courier and waste businesses. Coupled with service standards that we believe are superior to those of any of our competitors, our businesses have enjoyed both organic growth and market share gains.

That positive mindset has also been at play in other parts of the business. Our information management business in Australia has achieved a solid turnaround, despite ongoing lockdowns. It has improved profitability by focusing on greater efficiencies.

The growth in medical waste in Australia is a great example of growth through innovation. When we bought Med-X four years ago, it had $3 million in turnover. It now generates $16 million in revenue. There are success stories like this right across Freightways.

Looking ahead, we see opportunities for growth across our courier businesses as ecommerce continues to grow. The emergence of new consumer trends, such as people wanting more direct access to fresh food, are a part of this.

There's plenty of upside, too, in waste renewal. Beyond document destruction and medical waste, we're already making good gains in collecting materials to divert them from landfill. SaveBoard is a great example of how waste materials can be transformed with the right technology, coupled with our ability to pick up and deliver the feedstock through our customer reach.

$16m

Med-X turnover in 2021, up from $3m in 2017

Mark Troughear
Chief Executive Officer

Mark Verbiest
Chairman

Full year review

A radical shift pays off for everyone

Our Pricing for Effort (PFE) initiative continues to build value for our contractors by better remunerating them for the effort required in completing residential deliveries. Last year we achieved a PFE rate of 73 cents per item. This year we lifted that to $1.32 per item. Couple that gain with increases in volumes and PFE has made a noticeable difference for our people. This year, average remuneration for our couriers improved by 8%. In particular, our residential contractors have experienced a healthy increase in earnings.

Just as importantly, we've seen a 10% reduction in turnover in our courier fleet. By retaining more experienced couriers, it means better experiences for our customers. We have an increased number of applicants applying to join our fleets and our people feel more valued, so they are more productive and more commercially minded. As a result, we've come through a challenging time with a growing team and increased business.

Our goal now is to continue tackling PFE opportunities to keep improving contractor and company earnings. Residential deliveries are just one of a range of categories that are yet to be priced properly. There's no doubt in our minds, for example, that local pricing also needs to move to a better place.

Customers are essentially paying the same rate for local delivery that they were paying 25 years ago. In that time, our cities have become much more congested and difficult to move around in. Our efforts to help resolve this have so far been absorbed by our brands. We've had to invest in satellite depots, for example, to try and keep inefficiencies for our couriers to a minimum. At some point, we need to step up, challenge the industry again and update pricing to reflect the true effort now required.

Future-proofing our business

Last year we released our first ever Sustainability Report. This year we have developed a science-based target for emissions reduction which will see us targeting a 50% drop in emissions by 2035. We will maintain a modern fleet and transition to EVs and alternative fuels as they and the networks that support them become available. We have also actively pursued plastic recycling to reduce waste from our own operations and we are targeting a 70% reduction in the use of plastic packaging.

In 2020, we established an innovation hub, The Startery, to help us commercialise ideas generated alongside our business-as-usual activities. The 30 ideas generated so far are an encouraging sign of the Group's ability to recognise and act on initiatives that could shape our future.

> **"We've come through a challenging time with a more engaged team and increased business."**
>
> **Mark Verbiest**
> Chairman

Key figures:

Targeting a **50%** drop in carbon emissions by 2035

8% increase in earnings for contractors in FY21 v FY20

10% reduction in turnover in our courier team in FY21 v FY20

$1.32 per item via our FY21 PFE initiative

Full year review

Business unit performances

Our businesses continued to tackle and adapt to different challenges throughout the year. Here are some of the highlights:

Express Package

- Growth was healthy overall, with important gains in market share as a result of customer acquisition and new customers coming into the market. Growth was also experienced across both B2B and B2C deliveries – in fact, volumes through most of the year were consistently higher than the previous year.
- Big Chill revenues were up 14% aided by the opening of a new temperature-controlled third-party logistics (3PL) warehouse and market share gains. This delivered improved utilisation and therefore stronger margins, a healthy improvement that backs up our confidence in the company's potential.
- NOW Couriers' volumes continued to increase on the back of their same-day guaranteed Auckland delivery promise.
- Our international air freight service to NSW and Victoria, Australia, finished in November 2020 and earned us $8.8 million in revenue.

The Year Ahead

- We will continue to aim for increased penetration into attractive market niches.
- We will implement further rollout of our customer-facing technology.
- The success of Big Chill's 3PL initiatives has given us confidence that there is ample potential for expansion for this part of its business. We will continue to grow this capability.
- The Startery is exploring a range of future opportunities for our Express Package business.

Business Mail

- Volumes recovered post-lockdowns to the point where they were similar to the previous year. This was particularly pleasing in the face of the market declining around 15% overall.
- We are continuing to refine our DX Mail network to make it as efficient as possible.

The Year Ahead

- Dataprint will roll out their digital services.
- DX Mail will continue to explore further efficiency initiatives. We remain confident that New Zealanders are looking for a business mail delivery service with high levels of reliability and quality, and we will continue to look for ways to deliver that proposition.

Information Management in Australia

- Understandably, there was not a lot of growth this year due to lockdowns. However, by finding new ways of working and taking cost out of the Australian business – as well as seeking new revenue opportunities – we were able to improve profitability.
- We continue to see opportunities to optimise the cost base for this business.

The Year Ahead

- We are pursuing opportunities to use our storage facilities for complementary services.
- The Startery has identified a number of opportunities that could expand our Information Management offering which are getting closer to being released to the market.

Waste Renewal
(previously called Secure Destruction)

- A bounce back in New Zealand after lockdowns saw our volumes return to 2019 levels.
- In Australia, business was still impacted by lockdowns in Sydney and Melbourne, but elsewhere returned to levels experienced in 2019.
- Medical waste in Victoria continued to grow in terms of both volume and revenue.
- Volumes of other high-value recyclables such as electronic destruction (computers, hard drives) have increased.
- We are dealing with higher volumes of other recyclable commodities including coffee cups.

The Year Ahead

- We expect collection and processing of medical waste to continue growing.
- We have invested in the SaveBoard business and we look forward to seeing this launch and expand in 2022.
- We are increasingly involved with collecting other higher value commodities, such as textiles and plastics.

Full year review

Balance sheet strength

This year, we developed a new policy to guide our capital management and give investors improved guidance on what to expect from us.

We are committed to maintaining a strong credit profile that supports our growth strategy. Following the acquisition of Big Chill, and the additional debt raised to fund it, we have used healthy cash flow generation to return our balance sheet to a stronger position.

As part of the policy, we have set our key metric for capital management at 2x to 3x Debt/EBITDA. If we make a significant investment, investors should expect the business to focus on cashflow generation to reduce debt. That has been the case this year. With the metric restored, the business will resume looking for acquisitive opportunities.

The current dividend policy of 75% to 80% of NPATA, adjusted for significant one-offs, is well understood and is set at a level that the Board expects to be sustainable in the medium term. This will be managed in line with our ambition to maintain a strong investment grade profile.

Last year, the Board chose not to declare a final dividend for FY20 given the uncertainty in both the New Zealand and Australian markets. This year, the Board has agreed a return to the payment of a full year dividend. We are pleased to declare a full year dividend of 18 cents per share.

"With the metric of 2x to 3x Debt/ EBITDA restored, the business will resume looking for acquisitive opportunities."

Outlook FY22

We've had a record year in terms of earnings and performances across the business, which mirrors the huge effort put in by our teams of people.

What we have seen over the last year, however, is that even the best laid plans can be influenced by economic conditions and lockdowns. On that basis, we are not resting on our laurels.

We will continue to focus on improving our margins, particularly in Australia, and continue to build momentum and profitability in our New Zealand brands. We are conscious of the following macro factors: the tight labour market which is pushing labour costs higher; a heavily constrained supply chain which could hamper the flow of products coming into the country for our couriers to deliver; and any future lockdowns in Australia or New Zealand.

In keeping with our undertaking from last year, we will react decisively to any change in volumes while maintaining the service, safety and environmental standards that our customers, investors and other stakeholders expect. That means we will adjust our cost base to protect our margins. We will also prioritise the best strategies to deliver value to shareholders over the long term.

Last week, New Zealand entered an alert level 4 lockdown. As a result, we have immediately implemented our well-established processes to ensure that all staff and contractors can operate safely. Under alert level 4, activity levels are significantly impacted across all the New Zealand businesses. However, experience from the lockdowns of last year suggests that as soon as alert levels are lowered from alert level 4 to alert level 3 or below, the express package businesses should recover quickly and tend to experience higher volumes than previously expected. Should the level 4 lockdown continue for an extended period we will continue to evaluate our cost base and other options available to us.

In 2021, we welcomed Mark Cairns and Fiona Oliver to the Board and bid farewell to Andrea Staines. Our thanks to Andrea for her time with us, and to all directors for their expertise and guidance this year. We would again like to acknowledge the efforts of all our teams and to thank our shareholders for sharing this journey with us and for your continuing support.

Mark Verbiest
Chairman

Mark Troughear
Chief Executive Officer

$24 – $26M
capital expenditure forecast for FY22

Our dividend policy:
75-80%
of NPATA

Capability 1

Act like an entrepreneur

Having the foresight to seize opportunities others haven't seen yet has always been a hallmark of the Freightways mindset. Recently, the Group has started applying that thinking to an area that we call Horizon Three opportunities.

Taking an ambitious approach to new product lines has seen us establish our own product development hub – The Startery – and push further into applying our three-horizons model to see where business ideas could go.

SaveBoard

SaveBoard is an example of a product created from what would once have been considered waste. The technology, which already operates in the United States, takes Tetra Pak packaging (liquid paperboard) and applies heat and pressure to transform it into a building product. The raw material was once something that would simply have been thrown away.

Now we are investing in processing it into a value-added product, through a new venture that is very much aligned with the circular and sustainable economies. We are also exploring the much bigger Australian market. We have real confidence that this will be a profitable business, given the demand we have already seen due to the shortage of building products and a need for sustainable options in the construction industry.

Of course, Tetra Pak is not the only product that Freightways collects. We also collect coffee cups, grounds, textiles, electronic waste and other complementary waste streams. So if SaveBoard goes as we expect, that will raise possibilities for us to adapt the many other waste streams we work with and look at building processing capability around them.

Not Wasted

The Startery has produced its own successes. Not Wasted is a service that lets people sort their own waste in less time than it takes to make a coffee. The business, which offers secure document destruction and recycling and cardboard recycling, left The Startery a year ago and is now run by The Information Management Group (TIMG).

My Checks

Another company still inside The Startery is My Checks. It was launched in March 2020 and since October has steadily grown and exceeded expectations. My Checks operates in the privacy space, offering background checking for recruitment companies so that they can check potential clients without having to import and store sensitive data. My Checks has already passed three formal rounds of funding, and will remain in The Startery for a few more months. In this case, we used our knowledge of picking up, processing and delivering data to develop a privacy solution to help companies establish who they hire.

Shred-X

Another example of a company that has profited directly from an entrepreneurial approach is Shred-X. It's a living example of our three horizons approach, having begun life as a pure paper recycling company before developing a medical waste business. Now Shred-X is a leading light for waste renewal in Australia.

Extracting Value

We believe the key to successfully acting as an entrepreneur is not only seeing the potential underserved needs in the market. It's also being able to extract new value and new products from processes and services that would otherwise have a single or limited use. Our people are highly skilled at what they do. An entrepreneurial approach builds on that, but also extends it, encouraging them to recognise shortages and pinch points, and then find and define opportunities to solve those issues that we can then go on to apply elsewhere.

Act like an entrepreneur case study

Start anew

The Startery came about because we recognised two things. That our business must continue to evolve and that we must make best use of the opportunities we generate. And that starting new business ventures is difficult, especially when everyone is busy with the work they already have.

The Startery has at its core the idea of building meaningful businesses over a 10-year timeframe: **Create** – where we establish $1 million product lines within a two-year timeframe; **Scale** – where we scale those ideas to $10 million over the next three years; and **Build** – where we expand those businesses out to substantial enterprises over another five years.

The Startery helps our companies get new ideas off the ground without impacting existing operations. It works with them in that initial Create stage to test and scale new ideas through access to funding and specific skills in product development, technology, design and marketing.

The key to doing this effectively is having a repeatable process to test ideas for scale and profitability, and a lean approach to funding where we look at a large number of smaller projects quickly rather than a handful of large ventures. Alongside these ideas, we are developing skills across the Group to ensure all projects are robustly supported. The goal is to ensure that we are committing resources into projects that are the most likely to contribute to our overall profitability.

A key focus of The Startery is finding the right balance between investment and risk. We've specifically developed the business creation process at The Startery to help ensure that the more we invest into a venture, the lower the business risk we are carrying. To ensure that happens, every project goes through seven stages and four broad developments in its time in The Startery.

Each project starts as an idea, where the problem is defined, a solution identified, the market opportunity quantified and a pitch deck prepared. This is the conceptual stage where we focus on the problem that we're solving and the potential size of the prize.

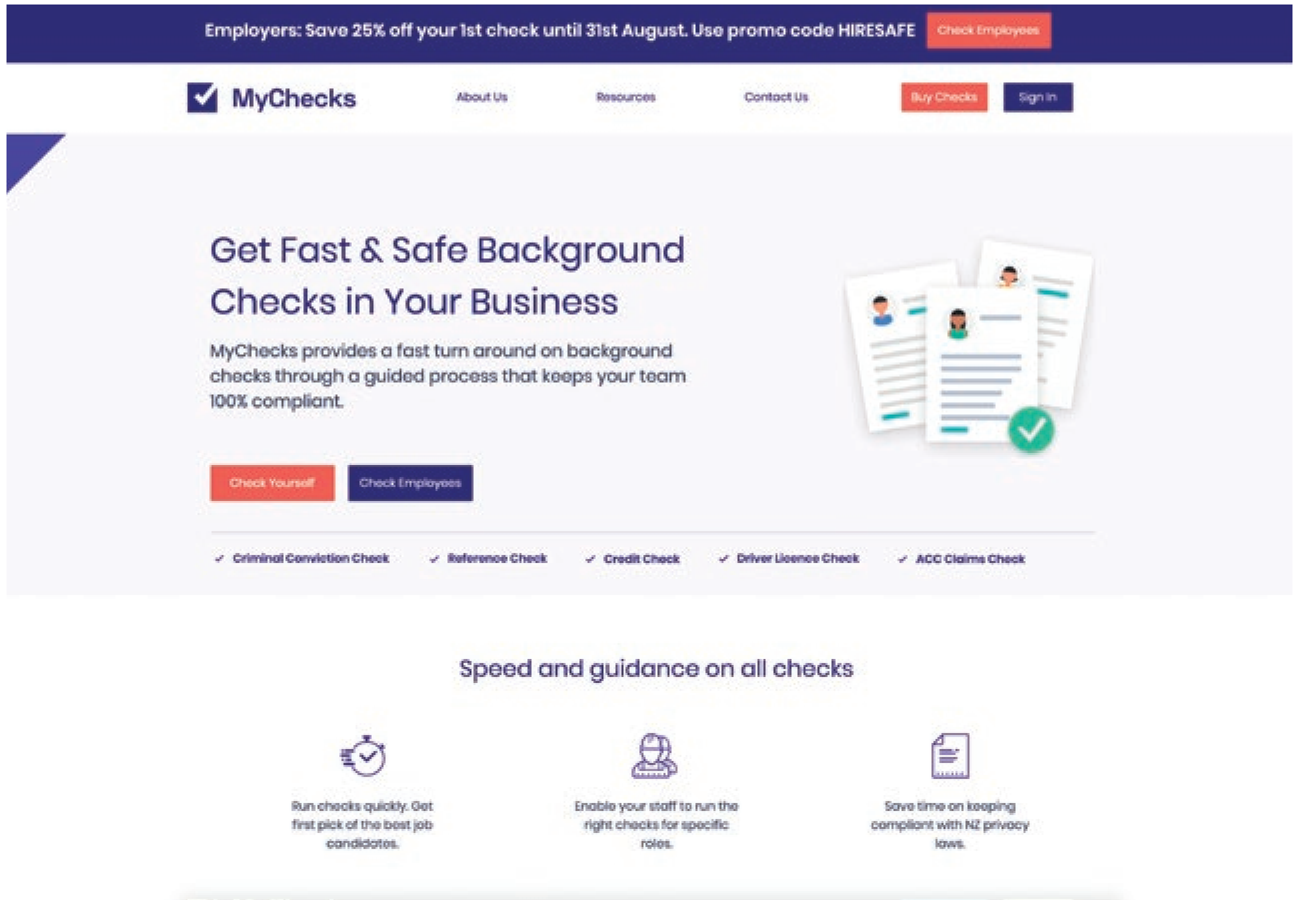
From there, the idea enters desirability testing, where it is tested with customers, prototypes are developed and financial modelling enables us to evaluate things like the path to profitability.

Product testing takes place over two stages, where a minimum viable product is built and tested through two iterations. From this we look to establish a clear scaling strategy and a sales and marketing programme.

The final two stages focus on scale and revenue, with product development, scaling implementation and a plan for integration with the current business.

So far, we have generated more than 30 ideas – 18 of which made it to the point where they were ready for pitch. Nine of those have since been accepted for investment. Of those nine, seven are currently under development within The Startery: five are in desirability testing, one is in product testing, and two have been stood up as a business.

We look forward to introducing new ideas into The Startery over the next year and progressing those projects that have passed muster. Part of acting like an entrepreneur is generating opportunities that enable us to have choices – and striking the right balance between those areas where we are already established, as well as new opportunities that emerge from what we currently do.



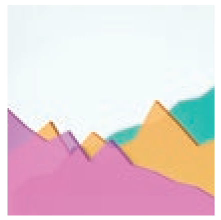
Our three-horizon strategy, built into a 10-year timeframe:

Create

We establish $1 million revenue lines within a 2-year timeframe

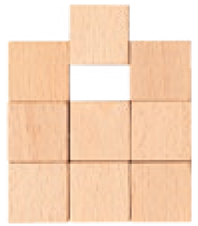
Scale

We scale those businesses to $10 million per annum over the next 3 years



Build

Expand the businesses out to substantial enterprises over another 5 years



Capability 2

Strive for efficiency

Freightways operates in a number of sectors where the rapid movement of high volumes of items requires an acute focus on efficiency as well as accuracy.

To overcome this, we consistently examine our processes to see how, where and when we could make changes to what we do to become more efficient. Sometimes that's about setting new expectations for how we do business; sometimes it's about redesigning our processes to reduce handling or duplication of effort.

Parceline is our internal linehaul business. It moves consolidated containers (TCPs) of freight between cities and to and from airports. It has the goal of operating not only accurately and to a schedule – which can often be challenged by weather and traffic events beyond its control – but also efficiently to give our retail courier brands the most competitive backbone from which to cost their activities.

Over the past year, Parceline has developed and deployed a unique utilisation app that allows us to measure exactly how our trucks are being used on every route. It gives us a detailed understanding of on-time performance, what's being loaded onto our trucks and utilisation levels of each vehicle. The app also enables us to see those routes that are being most used and those that are not, so that we can target customers to make better use of journeys that are available. We've done this in analogue for years, but we can now be much more confident about available routes, costs to run a truck, costs per kg and per item and so much more.

Utilisation on back loads has been an efficiency issue for a long time. The app gives the business visibility of where we have back load space available and when, so that we can find a customer to suit that availability.

In Australia, TIMG have large warehouses that are used to store document archives. The challenge in this industry is to reach high levels of warehouse utilisation to generate returns on the investment made in setting up and leasing these warehouses.

Unused space creates an opportunity for us to work with 3PL companies to literally fill that gap. In Sydney, this strategy is delivering us an immediate yield on what would otherwise just be empty warehouse space. We charge for monthly storage and activity.

In New Zealand, we've also turned our attention to how we could use spare warehousing resources to fuel our core business in specific sectors like eCommerce. Smaller on and off-shore companies that don't have their own storage facilities and yet want to be able to economically fulfil in the New Zealand market can use TIMG as a dropship storage facility to do just that.

Strive for efficiency case study

Once binned, now board

SaveBoard is a new venture backed by Freightways, Tetra Pak and circular economy organisation, Closed Loop, that will see the houses of the future made from building materials upcycled from waste such as beverage cartons, soft plastics and coffee cups.

Right now, around 250,000 tonnes of plastic and packaging waste is sent to landfill every year in New Zealand. The new partnership will create a stable domestic market for products such as food packaging, coffee cups, fast food wrappers, used beverage cartons, soft plastics and coffee cups; and through the process, efficiently limit the volume of waste going to landfill.

SaveBoard will turn these materials into an impact-resistant board with similar performance to plywood, OSB and particleboard; so that it can be used for interior and exterior applications. The board can be manufactured to look like traditional building board products or, in the true spirit of the circular economy, it can feature colourful patterns created from the packaging designs. Already used in the US for roofing, mainly in the hurricane and cyclone belts, SaveBoard is a true substitute to wallboard for lining houses because of its better permeability rating (retains heat and reduces noise) and the fact that it's 100% recyclable.

For us, SaveBoard is an opportunity to efficiently use our resources and our network to fully realise a commitment to circular waste solutions with minimal carbon kilometres all while providing a new strategic growth category. This is an end-product solution that stems from our expertise in pick-up, process and delivery, so it fits well with our core capabilities.

By striving for efficiencies in processing what we collect, and combining our capabilities with those of a food processing and packaging solutions company and a circular economy pioneer, we will soon be able to provide a brand-new sustainable product to one of New Zealand's largest industries.

The product is made with zero water, zero glues, zero chemicals and zero VOC emissions or formaldehydes, meaning it meets all obligations under 14G of the Building Act. Not only does SaveBoard reduce waste, it's also made with ~80% reduction in embodied carbon compared to plywood, and ~90% reduction compared to plasterboard and fibre cement. Recovering and remanufacturing the offcuts and end-of-life boards can mean a zero waste to landfill solution.

The benefits extend even beyond the real impact on climate change. This innovative but proven technology has the potential to decrease the cost of housing and also create healthy homes. Those benefits in themselves are big wins at a time where home affordability remains an issue for many.

SaveBoard is scheduled for its first production run in late 2021. The plant will serve the New Zealand market and save up to 4,000 tonnes of packaging waste from landfill every year.

From there, we will explore setting up a plant in Australia where there is a ban on exporting waste from next year.

Capability 3

Deliver reliably

Delivery is a make-or-break for us. As we remind ourselves constantly, we're only as good as our last pick up, delivery or experience. Building brands that people trust and know they can rely on requires having clear measures in place to ensure we are meeting people's expectations.

Net Promoter Score

All our businesses use Net Promoter Scores (NPS) as a measure because our ultimate measure of success is customer satisfaction. Our NPS measures the loyalty that exists between our brand and the customer. Our NPS scores continue to improve across all our brands.

DIFOT

Our other key metric is DIFOT (delivery in full on time). Our goal is to ensure that each customer receives exactly what they were expecting when they expect it, regardless of whether it's a package, a letter, a critical file or the collection of a document destruction or medical waste bin. To test our reliability, we independently run a network-wide pressure test against our competition. Results for our network are consistently higher – usually in the vicinity of 97-99% DIFOT.

We issue DIFOT reports daily to key customers in time-critical industry niches, such as medical and parts supplies, where delivery in full, on time is critical.

While DIFOT is a clear match for our courier brands, we have also applied the ethos to our other businesses with considerable success.

Our DIFOT rates:

97-99%

is consistently better than other networks

Deliver reliably case study

Taking on the rain

Delivering reliability is all about having a can-do attitude and not saying "no".

At Parceline, it's about doing all we can to keep the freight moving when even nature stacks the odds against us. Our contractors understand the importance of getting freight delivered and do an amazing job of overcoming daunting obstacles.

On Saturday 29 May 2021, heavy rain began falling in South Canterbury. By Sunday evening the road closures had started. Two of our Dunedin drivers and one of our Cromwell drivers were stranded in Christchurch which prevented any of our southbound linehaul from moving.

Monday brought further complications as we attempted to launch a Cromwell truck and a Timaru truck, but we had to recall them after a couple of hours. Later, we managed to get both Dunedin and Invercargill trucks away and home via an opening between Hororata and Charing Cross. Two experienced drivers also departed Dunedin in tandem and successfully made their way to Christchurch and back with two full loads of freight.

On Tuesday, the Ashburton Bridge was closed due to slumping. A group of our contractors responded by scouring the area in 4WDs to locate suitable detours. After encountering countless washed out and damaged roads, we found a safe detour out of Ashburton which we were able to use to restart freight movements.

In this rapidly evolving situation, we needed to assess five critical factors alongside the weather and road conditions, our drivers' hours, their health and safety, finding the best routes, the wear and tear on expensive trucks, and moving the most, urgent items first.

A huge thank you to all contractors and drivers who made this happen.

Capability 4

Love our customers

It's one thing to say we love our customers and put them first. It's another to show that we are doing that. Most companies naturally look to measure what they do. Increasingly, we measure all aspects of our relationships with customers – because that, we believe, forms the basis for long-lasting, loyal relationships.

The duration of our customer relationships is exceptional. Many of these partnerships date back several decades, and in many cases, the same courier has serviced these customers over the same time period.

We allocate significant resources to managing customers and ensuring we have people there to respond to their needs; regardless of whether that is due to unforeseen demand from their customers, supply chain issues that have stressed the need for urgent delivery, or responses to weather events that could cause delays.

Med-X

Last year, as lockdowns affected CBDs in Australia, our paper-based Shred-X business took a big hit. Our Med-X business quickly grew though as aged care homes in particular sought to dispose of contaminated material. By the second lockdown in Victoria, that business had increased 10-fold and turnover had climbed to $1.4m per month in Victoria alone. To meet the need, we moved resources from our Shred-X business and increased our capacity in medical waste. These decisions have enabled us to successfully help our medical waste customers continue doing business.

BI+

Access to rich customer data through tools like BI+ is another initiative to create a centralised data warehouse that will enable us to have greater insights into all areas of our customer activity. We use this platform to see how we perform in real time: day to day, month to month, year to year across our business, residential and rural deliveries and how our couriers are delivering so we can address issues. By analysing this data we can achieve new levels of efficiency and better understand what we need to do to further improve our customer service. Already, the information our sales and operations people have at their fingertips is having a direct and measurable impact on EBIT.

Med-X turnover:

$16m

in FY21

"We use this platform to see how we perform in real time. By analysing this data we can achieve new levels of efficiency and better understand what we need to do to further improve our customer service."

Loving our customers case study

Ashford Handicrafts

An API tailor-made for spinners

Founded in 1934 by Walter Ashford, Ashford Handicrafts manufacture and distribute craft and textile goods and are now the biggest suppliers of spinning wheels in the world. They have been working with Post Haste for more than 10 years, sending wheels, looms and carders to customers around the country from their base in Ashburton.

Ashford were first attracted to Post Haste because the brand's cost point suited their business. Since then, the partnership has flourished and today Ashford are using our API integration sets to increase efficiencies in their despatch area.

For Ashford, integrating with Post Haste's APIs makes sense on three levels. It cuts the time per send by 10 – 20 seconds per item. That may not sound like a lot, but with the volumes that Ashford deal with over the course of a year, that adds up to a substantial saving. Secondly, despatch is now all in one system, which reduces the opportunities for errors. Finally, the API itself gives the company greater visibility over their distribution and enables Ashford to directly account for costs.

"They're good people to work with," says director James Ashford. "We've worked with them for many years and, perhaps because of that, they made the integration itself really easy for us. For example, they took our feedback onboard and made changes to the system to fit the way we do things. We feel like they do stuff specifically for us. That's meant we've been able to keep our workflow integrity rather than being constrained by a system or needing to change our core processes. For us it was all about increasing efficiencies in our despatch area, and that's exactly what has happened."

Brands Co

Helping Brands Co to connect with their customers

Originally known as The Brand Outlet, this company was born in Hawkes Bay in 2013 to offer Kiwis great deals on fragrance and beauty products. For a time, they operated pop-up stores across New Zealand, but in 2016 decided the time had come to shift the business online. Now known as brands.co.nz (Brands Co), the business is now a full e-commerce operation, employing many Hawkes Bay locals to source relevant products from far and wide.

Brands Co has been working with New Zealand Couriers for a number of years due to the company offering a solution that met their needs at a competitive price. "Ecommerce customers depend on us to meet our delivery promise and therefore we depend on New Zealand Couriers, says owner Damien Green. "Every day New Zealand Couriers helps us fulfil this promise and delight our customers. The service is highly reliable. This directly impacts how our customers feel about us and gives us a competitive advantage."

Recently, Brands Co decided to add API access to New Zealand Couriers. This gave their IT team the opportunity to add to their great customer experience by providing them with order status updates, delivery options and dynamic shipping rates at checkout.

"We operate in a very busy and competitive environment," says Damien. "Through our API with New Zealand Couriers, our customers know where their order is at, how it can be delivered and what the latest costs are, so there are no surprises. That's good for them and for us. It means we've been able to steadily grow our business and the loyalty of our customers, and offer more Kiwis better access to more brands that they enjoy."

brands.co.nz

Our People

Helping our people progress

Given the range of businesses we operate across, securing a diverse and committed workforce is, and has always been, crucial to our success.

Our expectation is that each person who works here will be treated, and will treat others, with respect. The number and cost of injuries both reduced this year, by 5% and 39% respectively, despite a larger workforce with the addition of the Big Chill team.

Changing pricing, changing livelihoods

Our insistence on Pricing For Effort has made a massive difference for our courier teams. Our payment systems incentivise our contractors to act as entrepreneurs with no cap arrangements that see their incomes increase in direct alignment with their volumes. As a result, their earnings have continued to rise, with pay for our lowest quartile of couriers rising by around 10% this year.

Improving productivity

Overall, the number of couriers across the Group hasn't grown substantially this year. What has changed are the volumes of work we have been able to accomplish with largely the same sized fleets. Those productivity gains have come through concentrating on how we utilise the various brands in our stable. It leads to better productivity and lower emissions.

Greater emphasis on safety and wellbeing

This year we appointed a General Manager for Health & Safety across the Group. This new role for the business was part of a deliberate shift to move the business from very high levels of compliance to being more visionary and strategic in how we handled the safety and wellbeing of our people.

Training programmes which are customised to our teams in our environment are a critical part of shifting to a proactive culture around safety. Over 700 staff in freight sorting roles took part in our Health and Safety Manual Handling module this year. We have designed a new management training programme for our leaders, who will all work through the module in FY22.

We are also implementing new technology to allow our people to report incidents or hazards on the run. Because this system is accessible to everyone and easy to report, we will see key 'lead indicators' in real time. There is a new app for auditing critical risks and control factors. Any senior manager visiting a site can log on to the business/site they are visiting and see and comment on a critical risk. This is a simple and practical way for our leaders to check what's happening at site level and to ensure that everything they expect to be in place has been implemented and is working as expected.

In the past, we may have waited for people to raise issues with us. Now, our management teams are taking it upon themselves to monitor individual and collective safety and wellbeing, and to take the initiative where they perceive an action is required. Over 200 leaders were trained in mental health awareness last year.

Simpler career planning

Our Diversity & Inclusion Survey revealed that some people didn't understand how they could plan their career with us. Many said they were excited by the opportunities that Freightways offered, but they needed to better understand how to make the most of what was available. Since then, we've been taking steps to make sure everyone is aware of the training, learning and development that is available to them. This year, 276 people undertook training, learning and development to advance their careers with us. 126 of our team also took part in leadership training through our Freightways Fundamentals and Management Concepts programmes. Our new Diversity & Inclusion goal is to use these programmes to promote the opportunities for underrepresented groups in our workforce. Specifically, we are targeting our executive teams to have at least 40% representation of female, non-European ethnicity and young managers (42 years of age or younger) by 2030.

Doing their best work. Sound bites from some of our people.

Fiona Tagipo

Role: Production Manager, Dataprint

Fiona: "The relationship is the key bit isn't it? Building trust with your customers so that they feel listened to. I also think being yourself works in the customer space – bringing a little bit of who you are to your work and your conversations makes people feel like they are more than a number.

"I'd call my approach relaxed, proactive and professional. I like to work hard for the people we work with – give them options, solve more problems for them, show them what we can do.

"When I first started in our warehouse department, things were inefficient. Not enough systems or processes. It made sense to me what should be done. In fact it was the first thing I tackled – implementing a system that would work for everyone."

Dillon Lazarus

Role: Branch Manager, Post Haste

Dillon: "There is this weird infectiousness about the freight industry. The market is always changing. We are always trying to do more in the same or less amount of time. People are a big part of the business, which is why treating everyone uniquely works. Everyone has potential but they also have their own way to unlock that.

"I was fortunate enough to be on the team that launched Kiwi Drive. We started everything from scratch – created the service, opened up the market. You can get opportunities like that every day here.

Our relationship with customers is like a partnership. I'm always asking myself: how can we partner with them to add value to their business? And then how can we go the extra mile to not let them down?"

Leela Tarrant

Role: Client Service Manager, Facilities DX Mail

Leela: "Loving our customers is a big part of my existing role. Helping customers by adding value to their business, often in small ways that have big impacts on stuff like productivity or margin. I like to try and be there for our customers, help them to move forward, innovate so that it works for us and for them.

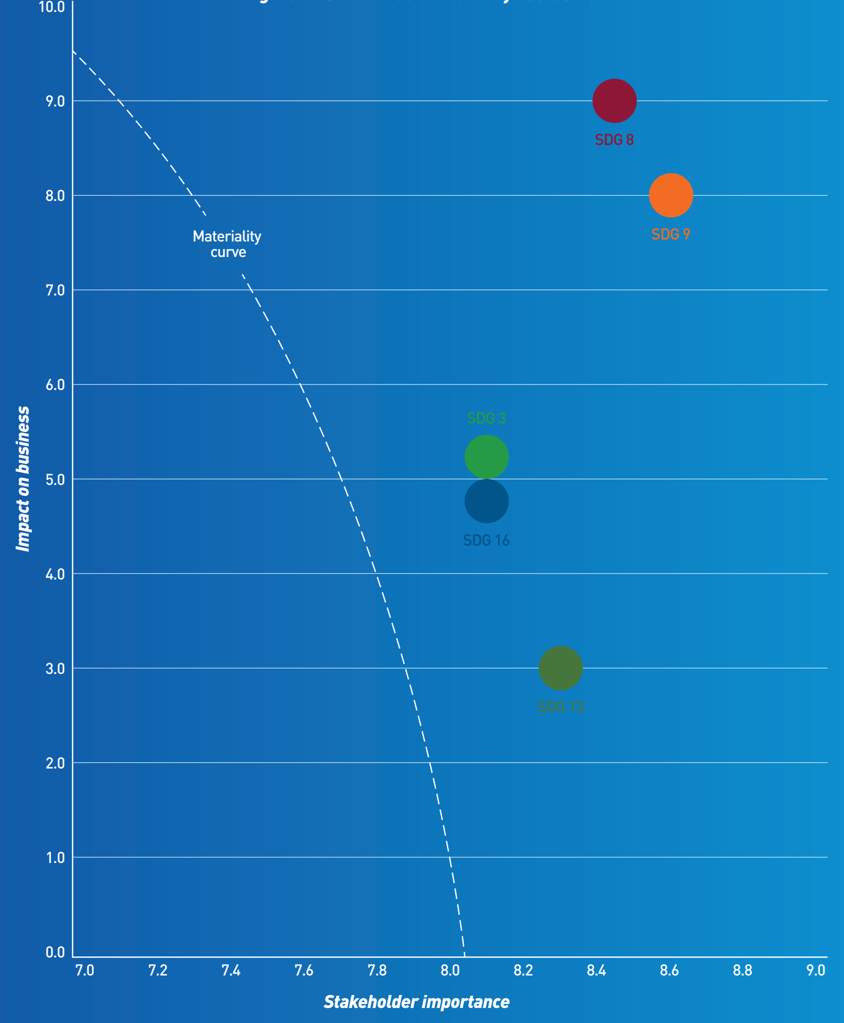
"Reliability is an absolute. Customers rely on us. It's the backbone of our business. Another key focus is efficiency. Inefficiency usually means margin loss.

"You have to take ownership. When I came here, the facilities management billing was inefficient and manual. The risk of errors was high. I took it upon myself to learn the process and then develop a new billing sheet/ process that saved time and reduced the potential for errors."

Our Sustainable Development Goals

Setting strong non-financial goals

Figure 1 – Stakeholder Materiality Assessment



To meet growing demand by stakeholders for broader information about our activities, we continue to incorporate non-financial criteria into our decision-making and public reporting.

Three years ago we conducted an assessment to determine the issues most material to our business and public reporting via the Sustainable Development Goals (SDG) framework.

SDG #3
Good health and wellbeing

- 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 leading to sustainable employment
- Professional development and management/ leadership
- Rewarding contractors for their efforts

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 and integrity
- Transparency

SDG #3

Good health and wellbeing

We believe that everyone has a part to play, every day, in keeping others safe. We've devoted a lot of energy this year to getting that message across in ways that people will take onboard and act on. As part of that, we appointed a new GM responsible for Health & Safety for the Group.

Over the last six months we have developed a culture programme called Delivering Safety Culture to ensure our leaders and managers understand what they must be doing to best look after their people.

Forklifts represent one of our critical risk areas. We've just invested in a virtual reality programme for our drivers that will allow us to simulate our workplace environments and identify potential accidents so that drivers can see where dangers may lie.

Engagement around health and wellbeing is increasing within the business as more and more people come to understand the importance of being and staying well. Every brand now has a champion for Health and Wellbeing. That champion helps build capability and awareness, and normalises conversations so that they are part of how we care and look out for each other.

The Movement is our employee wellness programme. It takes the form of an online portal where our people can find advice on a wide range of wellbeing issues – from help with sleep to information on ear and eye tests. Each company in the Group has its own version that caters to the needs of its teams.

Recognising that everyone has times of difficulty, we've also been promoting our Employee Assistance Programme (EAP), which offers all employees access to an external professional for counselling, guidance or advice via a helpline, regardless of whether the cause of that difficulty is within their professional or private lives.

We undertook a range of campaigns this year to foster understanding and promote tolerance, diversity and interest in, and respect for, our full range of people and cultures.

Our areas of focus:

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

4.8% *reduction in injuries from 252 to 240 during FY21*

Cost of injuries down ***39%*** *this year*


Our areas of focus:

- ***Profitability leading to sustainable employment***
- ***Professional development and management/leadership***
- ***Rewarding contractors for their efforts***

Courier pay increased thanks to Pricing For Effort (PFE)

Training programmes that were halted during 2020 lockdowns, resumed in the second half of the year

SDG #8

Decent work and economic growth

Our courier brands have all done well this year. Volumes were up and our networks flexed quickly to cope with new volumes. Having 100% control of our air and linehaul network has also been a godsend through lockdowns and changing alert levels. It's meant we've employed more people through our businesses as we've grown.

While much of our planned training was halted in 2020 due to COVID-19 and lockdowns, we have made a concerted effort in late 2020 and 2021 to catch up and to keep our promises to our people in terms of accessing their professional development. Again, many of our people have seized opportunities to improve their skills, knowledge and understanding of business management.

Contractors have benefited from network optimisation, improved density and PFE. That lift in earnings has made it easier for couriers to reinvest in modern, fuel-efficient vehicles. Contractor turnover also reduced by 10% year on year and the number of applicants wanting to be a contractor for us increased.

PFE for our couriers has made them more invested and commercially minded – for example, they are now increasing capacity to meet seasonal demand. Our intention going forward is continued year on year growth for our fleet, staying well ahead of inflation, and an improved work/life balance.

SDG #9

Industry, innovation and infrastructure

One of the key outcomes from COVID-19 has been the development of a much stronger direct-to-consumer emphasis for our courier businesses. Previously, we concentrated on deliveries between businesses, but recent changes have made the direct to consumer (B2C) market more attractive and more financially viable.

This year, we have focused on giving both the sellers and receivers of transactions greater choice, control and visibility. Designing for both audiences is critical to developing an end-to-end transaction where receivers have full control over how and when packages are delivered, and senders have the visibility throughout that they need to retain control of the process. Purchase and post-purchase experiences are a make-or-break for merchants today, so we need to play our part in ensuring the businesses we deliver for are offering amazing experiences that customers agree are worth paying for.

Historically, we've offered stand-alone digital tools for sending and tracking items. System integration however was costly and complex, and for that reason, was really only available to our larger customers. To resolve this, we've invested significantly this year in the development of smart APIs (application programme interfaces) to our delivery mainframe, that make automation easily, cost effectively and quickly available to most customers.

Our APIs are already relatively sophisticated and continue to evolve and offer more features. We've already identified exciting areas for improvement, including enhancing our address validation tools and providing better integration with popular ecommerce platforms. The other behaviour we are looking to change is the tendency for our customers to call first. As much as possible, we want them to be able to resolve everything online.

NOW Couriers has become a go-to innovation hub for our courier businesses. Because it is small and locally-focused on just one city (Auckland), this makes it easier for us to have conversations around innovation with those specific customers.

Access to NOW Couriers enables us to offer features and processes that can then be quickly changed to better suit what customers require. It's meant we've been able to really focus on things like customer experience and to ensure our interfaces are easy and intuitive to use. Those innovations are tested in a development environment and informed by feedback from users and customers before we roll them out more broadly. Working this way will make us a nimbler organisation and ensure we only introduce and implement ideas across the whole of our Group courier network that have been proven to work.

Other areas where we are looking to make improvements across the Group include how we improve automated freight sorting through better consignment visibility before items are picked up.

Eighteen months ago we launched The Startery, our direct response to developing new services to market. We adopted a start-up model/entrepreneurial approach to innovation, creating an incubator system that Freightways could continue to replicate. Today, the Startery functions as a fast moving, exploratory think-tank where leaders can come together to critique, fund and empower teams in a lean style.

The Startery team itself is made up of product managers (dubbed 'entrepreneurs'), product marketers, product developers and UX designers. Their role is to provide the skills, resources and funding to get business ideas off the ground without impacting the day-to-day operations and running of the rest of the business. Projects have two years to go from exploration to testing to delivery and making money.

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Our areas of focus:

- **Product and process innovation**
- **Customer experience**
- **Data security**
- **New business opportunities**

More emphasis on experience innovation

NOW Couriers acts as our innovation hub

Our areas of focus:

- ***GHG emissions***
- ***Reducing plastic usage and waste***

Named
TOP 10
carbon reducer by TOITŪ Envirocare in 2020

On target to reduce fossil-based virgin plastic use by 2022

70%+

SDG #13

Climate Action

Our baseline carbon footprint in 2020 was 50,625 tonnes CO2e. This includes all our New Zealand business units and brands, other than the recently acquired Big Chill business. (Big Chill and our Australian business units will be included in future measurements.)

Our 2030 target of 33,170 tonnes CO2e (35% reduction) and our 2035 target of 25,313 tonne CO2e (50% reduction) are both science-based, aligning with what society needs to achieve globally to keep global warming to within 2°C. Our 2020 emissions now include those from Big Chill, the emissions generated from our Trans-Tasman airfreight initiative and also our Australian fleets and networks.

Well over 95% of our emissions come from the combustion of transport fuel. This is the fuel we use across our vehicles and aircraft. We are committed to reducing our emissions to levels that support New Zealand's commitment to the Paris Accord.

Much of our footprint sits in our supply chain, namely the contractors we partner with. We are actively engaging with our contractors and other suppliers on ways we can work together to bring emissions across the supply chain down. Our primary reduction strategies focus on:

- driving greater efficiencies through the network;
- maintaining modern fleets – both vans and trucks;
- moving away from fossil fuel consumption through the electrification of our road fleet over time; and
- a more fuel-efficient air fleet in the future.

As a participant in the transport sector we know it's important that we lead by example in being transparent and accountable around our climate actions. As certified participants in TOITŪ's carbon reduce programme our carbon footprint is disclosed annually on the TOITŪ website. We also disclose our footprint and targets in our Annual and Sustainability Reports. In 2020, TOITŪ Envirocare named us as one of the top 10 carbon reducers.

We are also members of The Climate Leaders Coalition which aims to help New Zealand transition to a low emissions economy and, in doing so, create a positive future for New Zealanders, business, and the economy. Organisations from all sectors of the economy are represented in the Coalition and together the signatories make up 60% of New Zealand's gross emissions.

Plastic is the other big area of focus for us. Freight satchels are essential for protecting our customers' products in our Express Package businesses. Historically, these satchels have been made from fossil-based virgin plastics. In recent years, we've reduced the amount of plastic required by 30% and offered customers sustainable packaging alternatives. Now we are in the process of switching to reusable freight bags that we can use hundreds of times, and single use bags that will contain 80% recycled plastic. By 2022 we aim to have cut our annual fossil-based virgin plastic usage by more than 70%, or 100 tonnes.

SDG #16

Peace, justice and strong institutions

Increasingly, companies are under pressure to reveal not only what they are achieving but also how they are working internally. Consumers have increasing expectations of transparency, and ethical considerations are important to them. They want to feel they are buying products and services from companies that behave well and they are therefore comfortable to support. That same expectation is present in business-to-business interactions. Increasingly organisations partner with other companies that reflect or complement their sustainability stances and values.

At Freightways, we've always prided ourselves on being straight up, leading by example and doing the right thing. We are committed to being a good corporate citizen. We pay taxes in the countries we operate in and abide by all laws and regulations. We pay our suppliers on time, every time. We ensure we only enter into responsible partnerships.

Our history is one of standing up for the things we believe in and making calls where we believe they need making. Our Annual Reports continue to evolve to offer a higher level of disclosure as part of sharing our stories and intentions with regulators, investors, customers, communities and other stakeholders. We've also offered investors and analysts unfettered access to our senior executives. This year, we've included TCFD filings one year earlier than required. In Australia, we have recently filed a Modern Slavery Statement for our businesses.

We continue to report transparently and with increasing detail about things like our ESG initiatives so that everyone can see how our actions align with our intentions. Last year, we introduced our first Sustainability Report. Quantifying our progress in areas such as waste reduction, plastics and of course carbon, aligns with where we think disclosure is heading generally. It's also part of our commitment to ensuring we remain open and honest about the success of all our initiatives – including those that are challenging and for which there are no easy or immediate answers.

Key programs and initiatives

Our range of policies and processes includes:

- Charters for our Board and each of our sub-committees
- Code of Ethics
- Disclosure & Communication Policy
- Diversity & Inclusion Policy
- Insider Trading Policy
- Protected Disclosure (Whistleblower) Policy
- Remuneration Policy
- Risk Management Policy

Our website includes detailed information about:

- Our Board of Directors
- Our Leadership team
- Our brands
- Our results
- Our dividends – including our dividend history, reinvestment plan and policy

We report on our actions through:

- Disclosures to the NZX and ASX
- Climate Leaders Coalition Annual Questionnaire

Our areas of focus:

- ***Integrity and ethics***
- ***Transparency***

Zero
legal actions brought against us FY21

Zero
environmental or safety prosecutions in FY21

Our community

Moving with our communities

Key community initiatives:

- Kidsline (part of Lifeline)
- Keep New Zealand Beautiful
- The Hearing House (Loud Shirt Day)
- Beanies for Babies
- Cancer Society
- Auckland Kidney Society
- McGrath Foundation
- Clontarf Foundation
- Child Cancer Foundation
- KidsCan
- Duffy Books in Homes
- New Zealand Breast Cancer Foundation
- Rotary St Johns

KidsCan

KidsCan is New Zealand's leading charity dedicated to helping Kiwi kids affected by poverty. They partner with low-decile schools and early childhood centres across the country to provide kids in hardship with essentials such as food, jackets, shoes and health products.

As an associate partner, we provide them with direct financial support. We also provide supplier support through NOW Couriers and New Zealand Couriers by providing discounted services and bulk warehousing.

Child Cancer Foundation

Our New Zealand Couriers team has enjoyed a wonderful relationship with Child Cancer Foundation for more than 20 years. We provide free mail collection, reduced and free courier rates throughout the year, regular donations and support with Christmas gifting for families.

This year, we were an Event Partner for their inaugural Go for Gold Gala Dinner and Quiz Fundraiser, a fun evening of camaraderie and friendly competition with a delicious three-course meal by Urban Gourmet, drinks, a live auction and more. The event raised funds which will go directly towards providing essential support for Kiwi children with cancer and their whānau.

Beanies for Babies

This great charity bands together more than 1600 knitters and people who sew to make beanies, hats, shoes and toys for newborns – all for free. We then distribute them to hospitals, Plunket and other charities.

Beanies for Babies have knitted the following for newborns to date:

3532 Beanies

1424 Pairs of Booties

940 Blankets

1. Governance

Task Force on Climate-related Financial Disclosures

Climate risk disclosures prepared in response to the recommendations.

Background

Climate change is one of the most significant challenges we face as a society and will raise many business risks across the economy.

Governments and businesses alike are taking steps to face these challenges in several ways: enacting legislation to foster a low-carbon economy; defining decarbonisation pathways and deadlines to achieve carbon neutrality; making the disclosure of Greenhouse Gas ('GHG') emissions inventories and reduction targets mandatory; and industry-led initiatives such as the Climate Leader's Coalition, with Freightways joining in 2019.

The transport sector is responsible for 19.7% of New Zealand's total greenhouse gas emissions.[1] The New Zealand Climate Change Commission estimates that a 50% reduction in transport emissions is required by 2035 to achieve net zero emissions by 2050.[2]

As one of New Zealand's major transport services provider, the bulk of our GHGs are generated from consuming transport fuels. We have a number of businesses in New Zealand and Australia, covering express package and other complementary services in information management, business mail and chilled transport. Freightways has grown organically and by acquisitions and has representation in every major town in New Zealand.

Our core business of collecting, consolidating, processing and delivering enables us to move thousands of items per day in a resource and emissions-efficient way. Our investments in technology to drive continuous improvement of fuel efficiency aligns with the objective of reducing our GHG emissions.

This is our first Task Force on Climate-Related Financial Disclosures (TCFD) report and describes our current governance and management approach to assessing and managing climate change risks and opportunities to our businesses. As part of this disclosure we have also strengthened our emissions reporting – see page 66.

Freightways' position on climate change:

Freightways recognises that our core business of providing transportation services for our customers is currently emissions intensive. We have an important role to play, both in building resilience to climate change impacts and in the transition to a low-carbon economy. We intend to make direct contributions to climate adaptation and mitigation efforts within our sector and the markets we operate in. We will also work to be a strategic partner for our customers, supporting and enabling their responses to the climate change challenge.

Board oversight

Freightways' Board of Directors are responsible for overseeing the management of risk, including those related to climate change.

The Charter of the Board's Audit & Risk Committee requires that an annual review of key risks and mitigation is performed by each of Freightways' controlled businesses, and is consolidated at a corporate level. Risks are assessed according to their likelihood and potential impact.

Each business is responsible for identifying events that could impact their ability to deliver on its strategy or reduce profitability. Exposure to climate-related risks and carbon prices has been considered when assessing potential business acquisitions.

Freightways' Board is also taking on a longer-term focus, which will be reflected in an updated risk assessment methodology and the prioritisation of climate-related risks.

Management's role

Freightways' Chief Executive Officer (CEO) and Chief Financial Officer (CFO) take responsibility for assessing and managing climate-related risks and opportunities at a corporate level. As part of this role, the CEO and CFO are engaged in structuring Freightways' approach to these climate-related risks and opportunities.

Freightways' business GMs and executive teams are responsible for identifying and assessing risks at an operational level, including climate-related risks, and providing those to Freightways' executive leadership team on a quarterly basis for board Audit & Risk Committee review.

[1]Ministry of Transport report: Transport Emissions: Pathways to Net Zero by 2050. May 2021.
[2]New Zealand Climate Change Commission Draft Advice. March 2021.

2. Risk Management

Climate-related risks are identified through multiple sources including:

Internal sources:

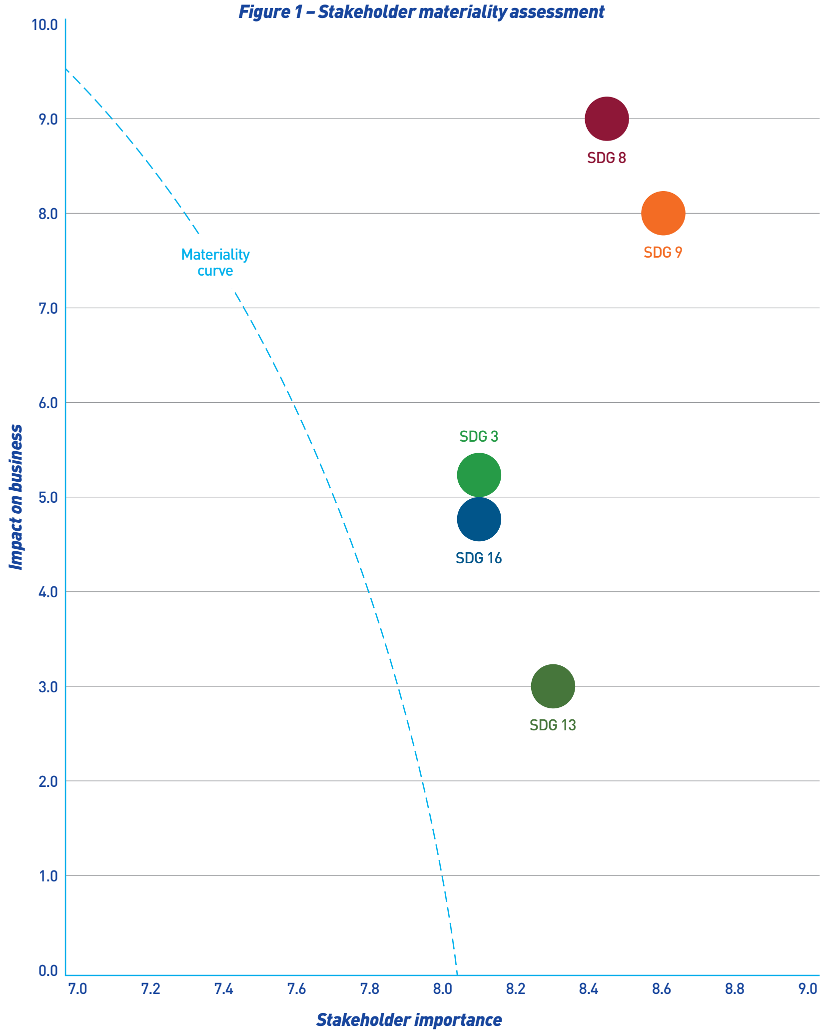
- Our disaster recovery and business continuity plans following acute impact events.
- Regular reviews of the critical risks facing our businesses.

External sources:

- Our involvement in the Climate Leaders Coalition[3] and other industry groups focused on addressing climate change.
- Briefings and advice from climate change specialists.
- Reports produced by government agencies and the United Nations.

Freightways' commitment to incorporating non-financial criteria into our broader risk assessment and decision making led us to conduct a materiality assessment in 2017. This assessment helped us to understand and incorporate into our strategy the views of key stakeholders. The results of this process, shown in Figure 1, clearly indicated the importance of Climate Action – Sustainable Development Goal 13 (SDG13).[4]

Figure 1 – Stakeholder materiality assessment



Collective action

Part of the process of identifying climate risks is working with other industry participants on opportunities for collective action.

That's why Freightways joined the Climate Leaders Coalition at its inception and has undertaken work with the Science-Based Targets Initiative to align its actions with the collective ambition of that group.[4]

Physical climate impacts

Physical climate impacts arise from extreme weather events (e.g. storm, flood, drought) or from the longer-term shifts in climate patterns (e.g. increasing temperatures). These changes may result in financial risks or opportunities due the direct and indirect impacts they can have on business operations, assets, markets or to supply chains.

Transitional climate impacts

Transitional climate impacts refer to risks and opportunities resulting from the policy, legal, technology and market changes occurring in the transition to a low carbon economy. Depending on the nature, speed, and focus of these changes, transitional impacts may pose varying levels of financial and reputational risk or opportunity.

[1]Ministry of Transport report: Transport Emissions: Pathways to Net Zero by 2050. May 2021.
[3]https://www.climateleaderscoalition.org.nz/who/signatories/signatories/freightways
[4]https://www.un.org/sustainabledevelopment/climate-change/

The impact of policy changes on our business model

Another aspect of identifying climate risks is understanding how policy changes align or could impact our business model. For example, the New Zealand Ministry of Transport's May 2021 Transport Emissions Pathways document sets out themes to phase out emissions across our transport system. Table 1 below shows Freightways' actions in line with Themes 2 and 3.

Table 1: Pathways to Zero Carbon by 2050 – Initiatives by theme

	Transport sector emission reduction themes[5]	Freightways initiatives
Theme #2	Phasing out the importation of Internal Combustion Engine (ICE) light vehicles by 2035; banning the use of all ICE light vehicles in 2050; adoption of biofuels in light vehicles and buses and electrifying the Public Transport bus fleet by 2035.	Our plan for EV uptake starts in 2024 and ramps up as availability of alternatives allow. With early action, our entire fleet can be made up of low emission vehicles by 2035.
Theme #3	Energy saving and logistic improvements (such as freight routes optimisation; freight consolidation and improved last mile efficiency); mode-shift from road freight to rail and to coastal shipping; adoption of biofuels for road freight and accelerating uptake of electric medium trucks.	Freightways have systems in place to enable optimisation, such as freight consolidation and last mile efficiency and driver training. As a consolidation business, we understand the economic and environmental benefit of being resource efficient.

We currently address identified climate-related risks on an ad-hoc basis

A more structured approach is being established and progressively implemented to maximise the benefits of acting in line with our carbon reduction target – see the Metrics and Targets' section below on page 66.

Some of the initiatives we have undertaken or have planned, in order to manage the climate risks and opportunities identified, include:

- Lease/purchase more fuel-efficient vehicles.
- Collaborate on airfreight movements using more fuel-efficient airplanes.
- More efficient use of our network and an increase of run density, leading to improved fuel efficiency.
- Employing a contractor model which incentivises efficient fuel use in their own vehicle through factors such as the routes taken, maintenance and minimising total kilometres travelled.
- Collaboration between our separate courier business to gain further efficiencies.
- Offering a carbon neutral service through the Kiwi Express brand.
- Reducing use of virgin fossil-fuel based materials for packaging.
- Implementation of plastic courier satchels, that contain 80% recycled content, for customers use.
- Investing in our circular economy recycling business aiming to reduce waste to landfill.
- LED lighting and solar based energy in warehouses.

2. Risk Management

Likelihood and impact

Our overall risk management process takes into account two variables: likelihood and impact (Figure 2 and 3).

The ratings reflect our short, medium and long-term timeframes and the financial impact on the company. The combination of the ratings results in the ratings matrix, as seen in Figure 4.

Figure 2: *Freightways' risk likelihood ratings*

Likelihood	*Definition*	*Could happen within...*
Very unlikely	Only expected to happen in exceptional circumstances	10 years
Unlikely	Has been known to occur, including in other organisations	3 – 5 years
Possible	Has happened before within the company or industry	1 – 2 years
Likely	Regular occurrence within the company or industry	1 year
Very likely	Happens with high frequency	1 month

Figure 3: *Freightways' risk likelihood impacts*

Impact	*Could reduce EBITA by...*
Minor	<1%
Moderate	<5%
Significant	<10%
Major	<33%
Catastrophic	33%+

Risk register

Each business unit is required to maintain a risk register which also considers mitigation and risk trends.

During the course of our initial climate risk assessment, we identified that climate risks will typically peak in their impact beyond the upper 10-year limit of our risk assessment framework. Therefore, it is possible that these risks may not be rated sufficiently using our current risk framework. Given the uncertainty of future impacts of these risks on the company's earnings, over the next annual risk and strategy sessions with the Board, we will:

- Review an updated brief on the material risks currently identified and any new risks identified in the preceding year.
- Review our risk rating thresholds to assess whether our enterprise risk framework could better reflect the nature of climate risks.
- Decide whether to assign a higher risk rating to our material climate risks to ensure a response proportionate to their potential impact on the business.

Figure 4 – Risk Rating Matrix

Likelihood: probability of occurance	5	4	3	2	1	
Very likely	Medium	Medium	High	Very high	Very high	A
Likely	Low	Medium	High	High	Very high	B
Possible	Low	Medium	Medium	High	High	C
Unlikely	Low	Low	Medium	Medium	High	D
Very unlikely	Low	Low	Low	Medium	High	E
Impact when occurs (EBITA reduction)	Minor	Moderate	Significant	Major	Catastrophic	

3. Strategy

Considering both a low and high emissions scenario, and their impacts

Freightways' climate-related risks and opportunities were qualitatively assessed considering a low and high emissions scenario, and their physical, policy, technology, markets and stakeholder impacts.

These scenarios, outlined in Table 2 below, are informed by Intergovernmental Panel on Climate Change (IPCC) reports and the International Energy Agency (IEA) energy scenarios.

For our key transition risk – exposure to an increasing carbon cost – we conducted a quantitative assessment of the cost of fuel under the New Zealand Climate Change Commission's 'Headwinds' and 'Tailwinds' scenarios in combination with our in-house assessment of our fleet's transition to low emission vehicles (see page 63).

Due to the qualitative nature of this assessment, the results do not speak to the impact on earnings and only assess the likelihood based on our enterprise risk management framework (see page 54). Understanding the full risk assessment rating will require quantitative modelling of the financial impact of each risk in the future.

The tables that follow describe the physical risks (Table 3), transition risks (Table 4) and climate-related opportunities (Table 5) that were identified, and their expected impacts on the business.

Table 2: *Climate risk and opportunity scenarios relevant to the transportation sector*

Scenario	*The path to 2100 in a High emissions scenario*	*The path to 2100 in a Low emissions scenario*
Physical impact	Emissions continue to rise Average global temperature rise of 3.2°C – 5.4°C by 2100	Global emissions decline from the short-term Average global temperature rise of 0.9°C – 2.3°C by 2100
Policy	Little / ineffectual policy action on climate change The Paris Agreement fails as major economies withdraw Australia continues its current climate and energy policy, e.g. no pricing on carbon emissions	Consistent with the International EA Sustainable Development Scenario and NZ Climate Change Commission advice, which shows a carbon price of around US$80/tCO2e (NZD$110-120) by 2030 and NZD$160 by 2035 Strict regulatory requirements e.g. carbon budgets, fuel emission restrictions, increased monitoring and reporting obligations
Technology	Advancements in low-carbon technologies such as alternative transport fuels and energy mainly driven by market supply and demand mechanisms	The NZ Climate Change Commission's advice to the Government is for 100% of new light vehicles and 10% of heavy trucks be electric by 2035 Globally, IEA modelling projects EVs to reach 12.25% of global vehicle fleet, and 28.8% of sales by 2030
Market	Consumer and business purchasing behaviour is driven by quality/price ratio irrespective of the carbon footprint of the product or service	High demand for low-carbon products or services to reduce emissions, this could provide a competitive advantage/disadvantage depending on whether the business can meet the market demand
Stakeholder	Little to no expectations from stakeholders to act on climate change	High stakeholder expectations concerning climate mitigation efforts and resilient investments

3. Strategy

Freightways' business model relies on a network of transportation assets and logistics infrastructure to move goods for our customers.

Physical risk description – Disrupted transport network

The impacts of climate change – including more prevalent extreme weather events, sea level rise, increased average temperatures and high winds – all threaten to damage and disrupt the roads, airports and shipping ports that keep our customers' goods moving around the country and the world.

Extreme weather events, such as storms combined with king tides, are likely to increase temporary disruption to the transport network, especially coastal roads in New Zealand and Australia. This will lead to longer delivery times for customers and higher transport costs as freight is diverted on alternative routes. In the second half of the century, sea level rise and increased temperatures are expected to lead to long term or permanent damage to assets such as Auckland Airport or the Cook Strait ferry crossing and further amplify the impacts of extreme weather events (e.g. storm surges, surface flooding).

This could cause cost increases and impacts on the resilience of our operations. Our planning of alternate routes or alternate runways is helping to address this risk.

Freightways understands this risk is greater under a high emissions scenario where physical climate impacts are more prevalent. According to the New Zealand National Climate Change Risk Assessment, the exposure to physical climate hazards experienced by New Zealand roads, airports and ports varies.[6] Ports are currently considered to have limited exposure to climate hazards; however, this increases to a moderate exposure in 2050. Roads and airports, on the other hand, are already considered to have a major exposure to climate hazards through to 2050. Under a low emissions scenario, this risk is expected to be significantly lower.

We are currently in the beginning stages of understanding this risk to our business. Previous disruptions to the transportation network, most notably the 2016 Kaikoura Earthquake, has provided us with experience in managing disruption successfully.

Physical risk description – Asset damage and utility services disruption

A core part of our business is the processing of items we deliver for our customers. To achieve this, we rely on a wide range fixed assets and utilities services (e.g. fuel, electricity) across our network. Physical climate change impacts such as more prevalent extreme weather, sea level rise and heat stress threaten to damage and disrupt operations at our buildings or the utilities that support these buildings. This may limit our ability to process and deliver goods for our customers on time.

Due to the expansive nature of our network, our buildings are likely to experience different physical climate impacts depending on their location. For buildings in Australia and the north of New Zealand, building failure due to heat will become an issue, making it difficult for buildings' electrical systems to operate and hazardous for the health and safety of our staff during high temperature days.

For operational assets in low lying and coastal areas, damage from continued flooding caused by sea level rise and storm events may eventually render the buildings unusable or uninsurable from mid-century. These kinds of disruption could have a longer-term impact on our network while a suitable replacement building is found. At a country wide level, extreme weather events may lead to damage of electricity infrastructure that could impact several of our sites simultaneously.

Under a high emissions scenario, the physical risk posed to buildings is expected to be greater than under a low emissions scenario. According to the National Climate Change Risk Assessment, the exposure of New Zealand's buildings to climate hazards is already considered major and is expected to grow to an extreme exposure by 2050.[8]

As with the risk of damage and disruption to the transportation network, we are currently still in the early stages of understanding this risk to our business. Going forward, we will need to assess the climate-related risks at a site level. This information will allow us to proactively manage our assets as climate change impacts materialise.

Physical climate risks

Table 3: **Material physical climate risks**

Risk to Freightways	Climatic Drivers	TCFD Risk Type	Operational Impact	Type of Risk Assessment	Risk Assessment and timeframe	Initial risk treatment actions
Extreme weather events and sea level rise cause prolonged/sustained disruptions to the transport network.	Extreme weather Sea level rise Increased temperature	Acute/Chronic	Temporary disruption to certain transport routes Delays in service delivery Higher costs for transportation Significant alteration to network design, routes and transport method.	Qualitative	**2035 Likelihood ratings** Low emission scenario: Unlikely High emission scenario: Possible **2050 Likelihood ratings** Low emission scenario: Unlikely High emission scenario: Very likely	Review our established processes for dealing with weather related events preparing alternate operational plans Review the capability of our experienced team who are involved in the decision making process to prepare for future events
Higher temperatures and extreme weather impair operating assets and disrupt utility services.	Extreme weather Sea level rise Increased temperature Heat Stress	Acute/Chronic	Temporary disruption to processing activities at select buildings Increased delivery times for customers Higher insurance costs for certain buildings Certain buildings are no longer usable	Qualitative	**2035 Likelihood ratings** Low emission scenario: Unlikely High emission scenario: Possible **2050 Likelihood ratings** Low emission scenario: Unlikely High emission scenario: Likely	Further analyse our assets and associated utility services for their vulnerability to physical climate impacts

[6&8] https://environment.govt.nz/publications/national-climate-change-risk-assessment-for-new-zealand-main-report/

3. Strategy

Transitional climate risks

Table 4: **Material transitional risk**

Risk to Freightways	Transition Drivers	TCFD Risk Type	Operational Impact	Type of Risk Assessment	Risk Assessment and timeframe	Risk Treatment
Increasing cost of fuel as a result of higher carbon costs	Reduced availability of New Zealand Units (NZUs) Reducing carbon allowance under national carbon budgets Higher costs of operating ICE vehicles	Technology Policy and Legal	Higher operational costs Increased costs for customers Loss of competitive advantages over other freight companies that have lower carbon footprints Exacerbation of the cost of inefficiencies across the delivery network	Quantitative (2035 assessment) Qualitative (2050 assessment)	2035 Low **emission** scenario: Medium High **emission** scenario: High 2050 Likelihood rating Low **emission** scenario: Unlikely High **emission** scenario: Possible	Achieve reductions in line with our science-based targets Currently planning to transition the fleet to low emissions vehicles in line with targets set using the Science Based Targets Initiative[9] Continue ongoing optimisation and utilisation improvements to our routes and service offerings Frequent upgrading of linehaul units to lower emitting vehicles In the past year, we have managed to decrease our fleet by 4% while increasing the number of items sent through our networks[10]
Climate compliance requirements raise barriers for new drivers, hindering business growth	Restrictions on import and use of internal combustion engine vehicles Increasing fuel costs (due to cost of carbon) High upfront cost of low emissions vehicles	Technology Reputation	Inability to retain or attract drivers or higher cost to contract drivers due to their need for EVs Delays and a loss of reliability for our services Reputational damage	Qualitative	2035 Low **emission** scenario: Possible High **emission** scenario: Very Unlikely 2050 Likelihood rating Low **emission** scenario: Likely High **emission** scenario: Possible	Designing of contracts to incentivise efficient driving, route choices and proper vehicle maintenance Providing early signals to contractors about when replacement vehicles must be low emission Reviewing and adapting contractor renumeration rates to support them into low emission vehicle

Lessons from Kaikoura:

In the early hours of 14 November 2016, a magnitude 7.8 earthquake struck 15km northeast of Culverden, North Canterbury, essentially "unzipping" an approximately 180km length of the northeast coast of the South Island.[7]

This included land slips and upheaval that put the main trunk highway and railway lines out of action for months. Alternative routes, modes, providers and other supporting infrastructure were needed to keep goods moving.

While climatic forces are not causing earthquakes, we understand that it is becoming increasingly likely that they will drive similar disruptions to the transportation network. We need to further investigate the areas of our network most at risk and use our experience in managing disruptions to develop strategies to mitigate this risk in the future.

→ ***This and other events make it clear that our most important strategic asset for building resilience to climate driven impacts is the wellbeing, dedication and ingenuity of our team.***

[7]https://www.geonet.org.nz/earthquake/story/2016p858000
[9]https://sciencebasedtargets.org/[7]https://www.geonet.org.nz/earthquake/story/2016p858000
[10]Freightways 2020 Sustainability Report

3. Strategy

Transitional risk description – Increasing fuel costs as a result of higher cost of carbon

Our business model is reliant on efficient utilisation of various vehicles and assets to process and transport our customers' items at each step in our logistics network. Fuel costs at Freightways are largely paid by our independent contractor drivers as a cost of operating their vehicles.

We believe that this model promotes efficient fuel usage, reducing the amount of transport fuel used by our business. However, regardless of how our fuel costs are paid, we understand that our business has significant financial exposure to changes in transport fuel prices.

With the cost of carbon expected to rise in New Zealand, increases in the carbon price will impact Freightways' fuel costs. This, together with offering an adequate return to our contractor drivers, is helping to drive our adoption of low-emission alternatives in order to avoid the increasing costs of fossil fuel.

We undertook quantitative modelling to better understand the approximate financial impact that higher carbon prices would have on our fuel costs by 2035.

Assessment methodology

We have assessed the net present value (NPV) of our financial exposure to increasing fuel costs as a result of an increasing cost of carbon under two different scenarios.

These scenarios took into consideration our estimated rates of low-emission vehicle uptake within our fleet, our Science Based Targets work and the "Headwinds" and "Tailwinds" scenarios released as part of the draft advice from the New Zealand Climate Change Commission in February 2021.

These scenarios both assume that 100% of the carbon price is passed through in the cost of fuel.

Cost of carbon exposure:

$1.26m

estimated based on 2019 emissions

NZ Climate Change Commission Scenarios used for modelling the impact of carbon price changes on fuel costs.

Tailwinds

- The most optimistic emissions reductions scenario is a steady and clear reduction to net zero emissions by 2050.
- Presents a future where there is are fewer barriers to the uptake of new vehicle technology and widespread behaviour change amongst the population.
- Freightways is able to follow its planned transition to low emissions vehicles, beginning in 2024.

Headwinds

- The least optimistic emissions reductions scenario is a much more sudden and aggressive reduction to net zero emissions by 2050.
- Presents a future where there is delayed uptake of new vehicle technology and slow behaviour change amongst the population.
- Freightways' planned transition to low emissions vehicles is delayed by five years, beginning in 2029.

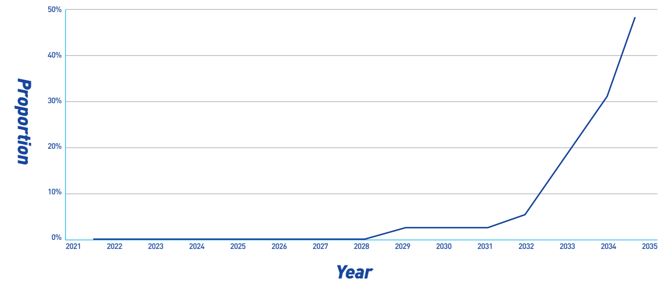
Due to uncertainties surrounding the adoption of low emissions technologies for heavy vehicles and aircraft, the 2050 assessment of this risk is qualitative. Due to Australia not having a carbon price at this time, this modelling was limited to our New Zealand operations.

As a reference point, Freightways estimated exposure to the cost of carbon based on 2019 emissions was $1,266,000.

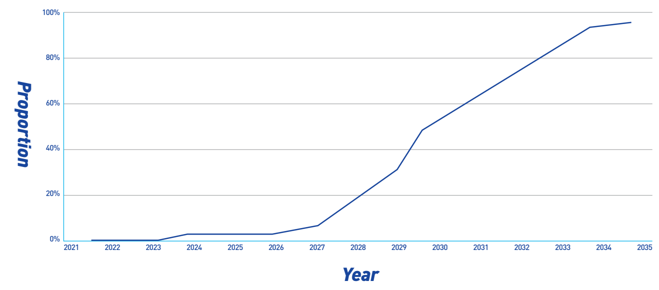
Low emission vehicle adoption rates

Freightways' adoption of low emissions vehicles varies between the Headwinds and Tailwinds scenarios.
This reflects the differing rate of change between the two scenarios. Under a Tailwinds scenario, Freightways acts early to reduce emissions, while a Headwinds scenario sees us delay our emissions response.

Low emissions vehicles as a proportion of total fleet (Headwinds)



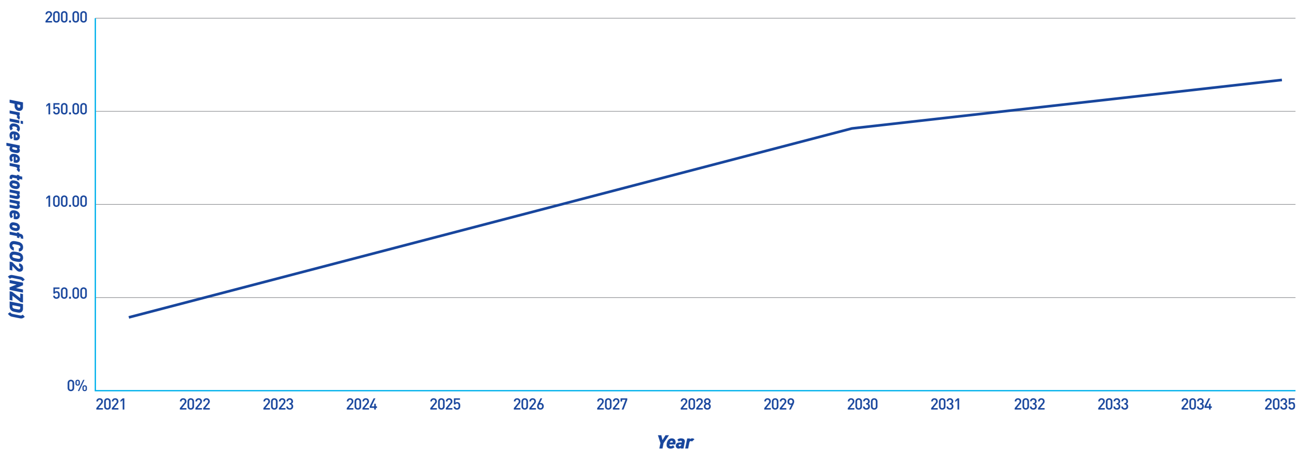
Low emissions vehicles as a proportion of total fleet (Tailwinds)



Carbon price

The annual carbon price in the Climate Change Commission's analysis was consistent across both the Headwinds and Tailwinds scenarios. They are a yearly prediction of what the price of carbon could be to create economic incentives to meet emission reduction targets, as can be seen below:

Estimated Carbon Price (2021-2035)



3. Strategy

Assessment findings

Under a "Tailwinds" scenario, by 2035 all vehicles in the motorbike, passenger vehicle and van fleets are expected to be fully electric. The NPV of our financial exposure to the cost of carbon in transport fuels over the 2022 and 2035 period is approximately NZD $39.9m with a peak financial exposure of approximately $5.6m in 2029, then this risk subsides as the proportion of EVs in the fleet increases steadily. Despite this, continued growth in aviation fuel use means the cost of carbon in 2035 is 40% higher than 2022 levels. By 2050, it is expected that all land-based light transport fleets will be fully electric (or similar low emissions technology), which will considerably reduce Freightways' exposure to this risk. While we have not made any commitments at this time to invest in low-emission aviation fuels or propulsion types, we anticipate more of these options becoming available from 2030 onwards.

Under a "Headwinds" scenario, none of our vehicle fleets becomes fully electric by 2035. The NPV of our financial exposure to the cost of carbon in transport fuels between 2022 and 2035 is approximately $48,739,000 with a peak financial exposure of approximately $7,677,000 in 2031, when the reduction in fuel use from the introduction of PHEVs in the passenger vehicle fleet (from 2029) begins to counteract the rising cost of carbon. Combined with the growth in aviation fuel use, the cost of carbon in 2035 remains at 175% of 2022 levels. By 2050, this risk is expected to have reduced from 2035 levels. However, the delay in adoption of low emission heavy vehicles and the continued use of hydrocarbons in the aircraft fleet mean that Freightways may have exposure to the risk posed by the increasing cost of carbon in transport fuels.

Our transition initiatives

To help reduce this risk over time, we have several initiatives underway. Firstly, we have annual measurement and third-party assurance of our emissions, which allows us to understand the trajectory of our carbon exposure year on year. Secondly, Freightways is developing its emissions reduction plan using the Science Based Targets Initiative. This work includes planning our transition towards low emissions vehicles. Lastly, Freightways is constantly exploring ways to improve the efficiency and utilisation of our routes and service offerings. For example, over the past year, we have managed to decrease our fleet by 4% while still increasing the number of items sent through our networks.

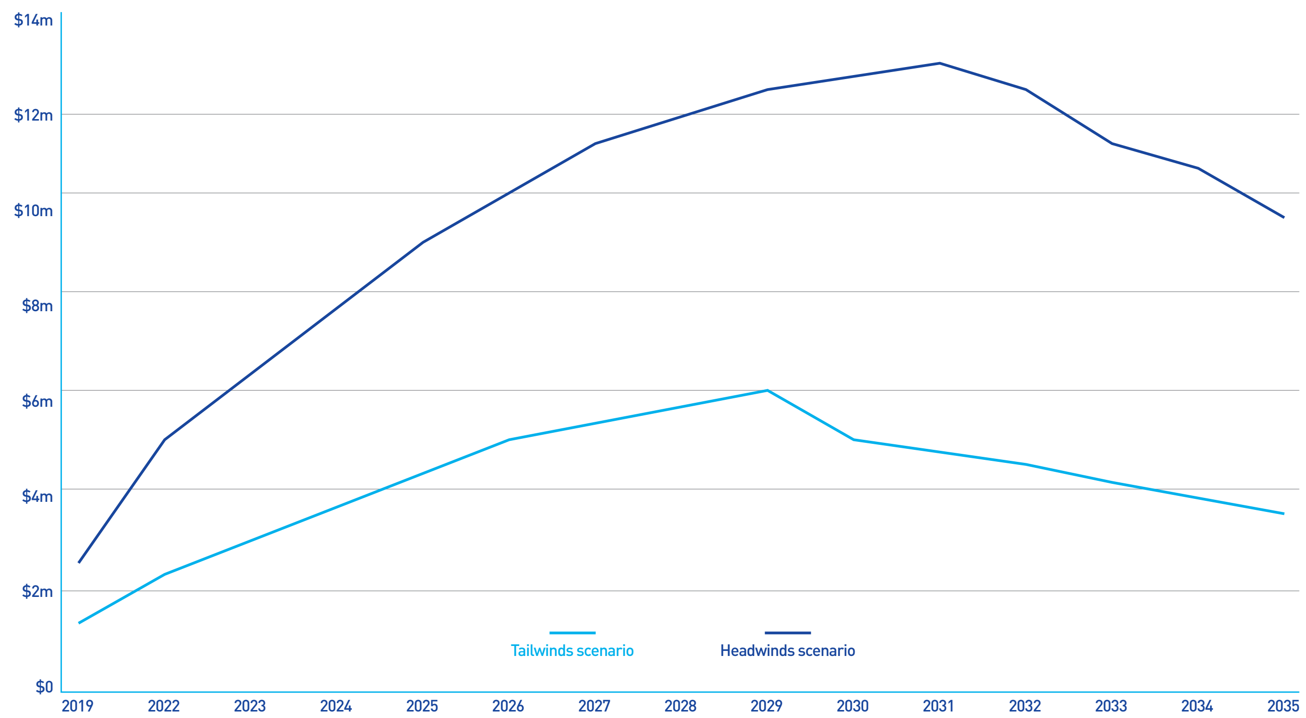
Figure 5, to the right, shows the projected financial exposure that Freightways has to a rising cost of carbon in transport fuels. The dollar cost amount represents only the carbon cost component of the cost of fuel. The remaining components embedded in the price per litre, such as other taxes and the cost of the fuel itself, are in addition to the amount show.

Reduced our fleet by:

4.0%

whilst increasing the number of items sent through our network

Figure 5. Additional cost of fuel due to carbon prices 2022 – 2035 (NZ only)



Financial impacts of carbon content in transport fuels (2022 – 2035)

'Tailwinds' scenario:

By 2035, all vehicles in the motorbike, passenger vehicle and van fleets are expected to be fully electric

3. Strategy

Transitional risk description – climate compliance requirements impact pool of contractor drivers

Freightways recognises the essential role that our contractor drivers play in the success of our business. To ensure we attract and retain the best people in the freight and logistics sector, we work to offer a competitive package for our contractors. A transition to a low carbon economy has the potential to undermine this competitiveness if we do not factor in costs that a transition could bring. In particular, we understand that a low carbon economy will likely lead to higher upfront costs for contractors as they transition to low emissions vehicles.

Conversely, the projected carbon prices in New Zealand will increase fuel costs for those who continue to use fossil fuel vehicles, which may raise barriers to attracting new contractor drivers. This would limit many of our core business activities, causing delays in our services and causing reputational damage amongst our customers.

To help mitigate this risk in the future, Freightways is leveraging several initiatives. Firstly, we have designed the agreements with our contractors to incentivise fuel-efficient driving, route choice and vehicle maintenance. This helps to reduce the emission intensity of our operations and improves margins for our contractors. As part of our Science Based Targets initiative, we can signal to our contractors when we will require any new replacement vehicles to be low emissions. This allows our current and future contractors to factor in the potential extra up-front cost of this transition early on in their financial planning. Finally, to support the upcoming changes to our fleet, we have been improving the remuneration rates for contractors to help them meet any higher upfront costs of transitioning to low emissions vehicles when the time comes.

Table 5: **Climate-related opportunities**

Opportunity for Freightways	Opportunity Drivers	TCFD Opportunity Type	Potential Benefits	Type of Opportunity Assessment	Opportunity materialisation timeframe
New markets and efficiencies spring up as part of the economic transition to net zero	Increased investment and expansion of renewable, low emission, zero waste and social equity activities throughout the economy	Markets Products and Services	Market growth Market share Improved fleet utilisation Greater breadth of revenue streams	Qualitative	5 to 10 years
New offerings enhance customer relationships	Freightways being a partner in its customers' emission reduction Customer demand for greater emissions transparency Improved emissions measuring and reporting tools	Resource Efficiency Products and Services	Additional/ enhanced service offerings for customers Lower prices for freight services for customers Improved company reputation	Qualitative	5 to 10 years
Climate resilient transport network provides Freightways a strategic advantage	Impact of physical climate risks Customer demand for a reliable freight delivery network Investment in the resilience and adaptability of Freightways' network	Resilience	Improved reputation amongst both current and potential customers Overall business resilience against climate change	Qualitative	20 to 30 years

Lessons from COVID-19

In March 2020, all of New Zealand was sent into a "Level 4" lockdown in an attempt to control the spread of the novel coronavirus, SARS-COV-2. The subsequent months of the COVID-19 pandemic saw unexpected changes to everyday life and the habits of businesses and consumers. These changes had a major impact on Freightways as we sought to handle the significant increase in use of delivery services across our portfolio of businesses.

The COVID-19 pandemic has shown us how rare but significant global events can shift the societal norms which underpin our business. Our experience from COVID-19 shows the benefits of having a resilient business.

→ We understand that preparing our business to take advantage of the climate-related opportunities that we have highlighted in this report, will put us in a good position as the impacts of climate change materialise over the coming decades.

New markets and efficiencies

The drivers of climate change are known to extend beyond simply emissions from transport. As the world continues to invest in sustainability activities that reduce carbon emissions, we believe that there will be new markets and customers that our business can serve. For example, the rise of product stewardship and producer responsibility is increasing the need for reverse logistics. Not only will this develop new business opportunities for Freightways, but it will also support improved fleet utilisation and optimisation through a reduction in 'empty kilometres' vehicles travel.

Customer growth and improved relationships

Our customers are becoming increasingly aware of not just their own direct carbon emissions but the often much larger amount of indirect emissions of their suppliers and business partners. Leveraging our technology to provide customers with accurate data on the emissions embedded in their transported goods is a transition action we are already fielding requests for.

As low emissions vehicles enter the fleet over the coming decade, customers will also able to report on the reduction in indirect transportation emissions. Additionally, transitioning our fleet to low emissions, low cost-to-run vehicles could yield cost savings to our drivers and our business.

Improved competitive advantage

As physical climate risks become more material, the importance of a resilient transport network will grow. Through investing in our network over the coming decade, including assessing and responding to our network's vulnerabilities to physical climate change impacts, we can improve our network resilience and flexibility. This has the potential to give Freightways an advantage amongst others in our sector who do not attempt to invest in their network's resiliency. The result would likely see new customers leverage our network as they seek our reliability in the face of increase physical climate impacts.

4. Metrics & Targets

Our key transition activities are the rate of uptake of low emission vehicles within our fleet and other steps to reduce emissions per tonne kilometre. We expect these activities will be reflected in how quickly we are able to reduce our emissions.

To understand and report transparently against our emissions reduction goals, we are committed to managing and reducing our carbon footprint and have been measuring Scope 1, 2 and 3 GHG emissions since 2014 for our New Zealand operations, meeting the requirements of Toitū Carbonreduce™ certification and ISO 14064-1:2006.

Scope 1, Scope 2, and 3 emissions

Freightways' emissions for FY20 were 50,624.57 tCO2e, shown in Figure 6. In the seventh year of reporting under the Toitū Carbonreduce, an absolute reduction in Scope 1 and 2 emissions of 14,748.30 tCO2e has been achieved against the 2013-14 base year.[11]

The total includes all New Zealand business units and brands, other than the recently acquired Big Chill business.

Over 95% of our emissions come from the fuel we use in our fleet cars, our contracted courier vans and trucks, and the aircrafts we use.

We are currently performing an internal Science Based Targets Initiative[12] to update our GHG emissions inventory and targets, including business acquisitions and emissions from our Australian operations. This work will be concluded by November 2021.

While the results of that work have not yet been audited, we are working toward a 2030 target of 30% reduced emissions and a 2035 target of 50% reduction in CO2e, from a 2019 baseline. These targets are science-based, aligning with what society needs to achieve globally to keep global warming to within 2°C.

Figure 6: Freightways' FY20 Emissions

Scope	tC02e
Scope 1	3,679.88
Scope 2	825.95
Scope 3 Mandatory	18,165.11
Scope 3 Additional	27,953.63
Scope 3 One Time	0.00
Total Gross Emissions	**50,624.57**

[11]https://www.toitu.co.nz/what-we-offer/carbon-management
[12]https://sciencebasedtargets.org/

Our Board

Mark Verbiest
Chairman | LLB, CF Inst D

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

Peter Kean
PMD Harvard

Mark Cairns
BE (Hons), BBS, MMGT, FIPENZ

Kim Ellis
BE (Hons), BCA (Hons)

Mark Rushworth
BE(Hons), MEM

Fiona Oliver
Fiona Oliver joined the Board in FY22.
LLB, BA, CF Inst D

Our Leadership Team

Mark Troughear
Chief Executive Officer
BMS, University of Waikato

Stephen Deschamps
Company Secretary & Chief Financial Officer
B Poli Sci, M Fin, (Institut d'Etudes Politiques, Paris) MBA, Master in Finance

Neil Wilson
General Manager
Freightways

Steve Wells
General Manager
Express Package Division

Matthew Cocker
Chief Information Officer
PhD, Georgetown University

Nicola Silke
General Counsel and Company Secretary
LLB (Hons), BA: University of Canterbury

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 2021 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 Chairman of Meridian Energy Ltd and Summerset Group Holdings Limited. He is also a Director of ANZ Bank New Zealand Limited.

Mark Cairns | BE(Hons), BBS, MMGT, FIPENZ

Mark was appointed a Director in April 2021. He was Chief Executive of Port of Tauranga, New Zealand's largest and most successful port, from 2005 until his retirement in June 2021 to pursue a full-time governance career. Mark was previously Chief Executive of Toll Owens Limited and Owens Cargo Company Limited. Mark has extensive experience in logistics, infrastructure, contracting and significant exposure to capital markets. Mark is also a Director of Meridian Energy Limited and Sanford Limited. In 2019, Mark received the prestigious Caldwell Partners Leadership Award from the Institute of Finance Professionals and the Deloitte/Management Magazine Executive of the Year Award in 2012.

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 and Green Cross Health 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 and Ultimate Care Group.

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 13 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 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 and is involved in a number of private companies both in New Zealand and in Australia.

Fiona Oliver | LLB, BA, CF Inst D

Fiona was appointed a Director in July 2021. She is a professional Director, holding governance roles across a range of business sectors including renewable energy, natural gas, technology, and financial services. She is a Director (and Audit Committee Chair) of Gentrack Group Limited, the First Gas Group, BNZ Life Insurance Limited and BNZ Insurance Services Limited and Wynyard Group Limited (in liquidation). Fiona's Executive career was in the financial services sector in New Zealand and overseas. In New Zealand, her roles included Chief Operating Officer of Westpac's investment arm, BT Funds Management, and General Manager of AMP NZ's Wealth Management division. In Sydney and London, Fiona managed the Risk and Operations function for AMP's private capital division. Prior to this, Fiona was a senior corporate and commercial solicitor in New Zealand and overseas, specialising in mergers and acquisitions.

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.

The Board has determined for the purposes of the NZX Listing Rules that, as at 30 June 2021, Mark Verbiest, Mark Cairns, Kim Ellis, Abby Foote, Peter Kean and Mark Rushworth are independent Directors. Fiona Oliver was appointed a Director on 5 July 2021 and the Board has determined that she is an independent Director as at 5 July 2021.

Directors' Report

Board skill matrix

The Board focuses on governance, strategy and the oversight of the performance of the different Freightways businesses and brands. The 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. The Board Skill Matrix below sets out the skills of each Director against the range of expertise Freightways requires to succeed.

Deep Expertise (NED)	Mark Verbiest	Mark Cairns	Kim Ellis	Abby Foote	Peter Kean	Fiona Oliver	Mark Rushworth
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	●	●			●		●

Principal activities

The principal activities of the Group during the year ended 30 June 2021 were the operation of express package & business mail services and information management services.

Consolidated result for the year

	2021 $000	2020 $000
Operating revenue	**800,533**	**630,940**
Operating profit before interest and income tax	99,891	84,720
Net interest and finance costs	(22,667)	(18,420)
Profit before income tax	77,224	66,300
Income tax	(27,591)	(18,925)
Profit for the year attributable to the shareholders	**49,633**	**47,375**

Directors holding office during the year were:

Parent:

Mark Verbiest (Chairman)

Mark Cairns (Appointed 1 April 2021)

Kim Ellis

Abby Foote

Peter Kean

Mark Rushworth

Andrea Staines (Resigned 29 October 2020)

Subsidiaries:

Mark Troughear

Stephan Deschamps

Mark Royle (Australian subsidiaries only – resigned 1 March 2021)

Stephen Micallef (Australian subsidiaries only – since 1 March 2021)

Colin Neal (Big Chill Distribution Limited only)

Mark Shapland (Big Chill Distribution Limited only)

Note: Fiona Oliver was appointed a Director of Freightways Limited on 5 July 2021.

Approved remuneration of directors (effective 1 November)

			Group Fees (per annum)	
	Position	Note	**2021 $**	2020 $
Board of Directors	Chair	(i)	165,000	165,000
	Member – NZ		93,000	93,000
	Member – NZ		93,000	93,000
	Member – AU	(ii)	98,900	98,900
Audit & Risk Committee	Chair	(i)	104,000	104,000
People & Remuneration Committee	Chair	(i)	100,000	100,000
Committee work pool (if required)			42,145	42,145
Total annual fee pool limit		(iii)	696,045	696,045

Notes:
(i) Inclusive of Board member fee
(ii) Based on A$93,000 (2020: A$93,000)
(iii) Approved by shareholders at Annual Shareholders Meeting in October

Remuneration received by directors

	2021 $	2020 $
Directors of Freightways (Parent company)		
Mark Verbiest	165,000	155,083
Mark Cairns (Appointed 1 April 2021)	23,250	-
Kim Ellis	100,000	92,500
Abby Foote	104,000	97,467
Peter Kean	93,000	85,683
Mark Rushworth	93,000	85,683
Andrea Staines (Resigned 29 October 2020)	33,595	90,568
Total non-executive Directors	**611,845**	**606,984**

In the last quarter of the prior financial year, Directors took a 20% reduction in fees to mitigate the impact of COVID-19.

Directors of the Company's subsidiaries do not receive any remuneration or other benefits in their capacity as a director of those companies, except indemnity and insurance referred to in the Directors' and Officers' Liability Insurance section on page 79.

Chief Executive's remuneration

	2021 $	2020 $
CEO – Mark Troughear		
Salary	692,000	630,000
Benefits	37,000	37,000
Subtotal	729,000	667,000
Pay for Performance:		
STI	241,000	176,000
LTI	-	-
Subtotal	241,000	176,000
Total remuneration	**970,000**	**843,000**

Five-year summary: Chief Executive's remuneration

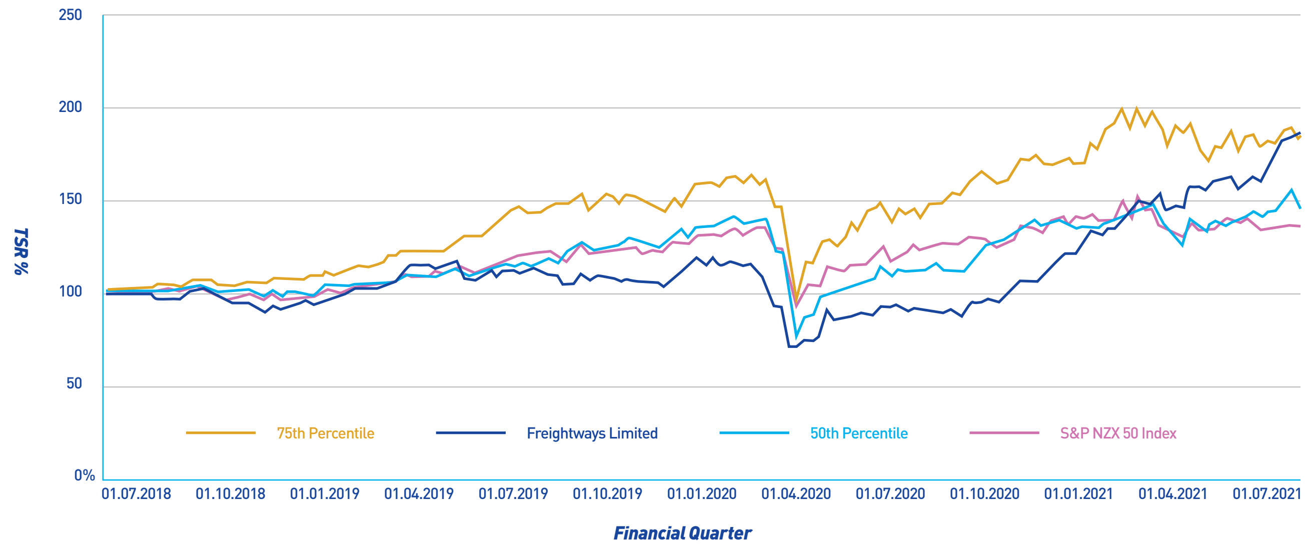
Financial Year	CEO / MD	Total remuneration ($000)	% STI against maximum	% vested LTI against maximum	Span of LTI performance period
2021	Mark Troughear	970	88	-	N/A
2020	Mark Troughear	843	72	-	N/A
2019	Mark Troughear	873	100	-	N/A
2018	Mark Troughear (appointed 1 Jan 2018)	342	100	-	FY14-FY19
2018	Dean Bracewell (resigned 31 Dec 2017)	850	100	87	FY13-FY18
2017	Dean Bracewell	1,370	100	92	FY12-FY17

The remuneration of the CEO in the remuneration tables above includes the STI and LTI incentive payments made during the year ended 30 June 2021 in respect of the two previous six-month performance periods (1 January to 30 June 2020 and 1 July to 31 December 2020). No amount is included above in respect of incentive payments for the period 1 January to 30 June 2021, as these were paid in August 2021.

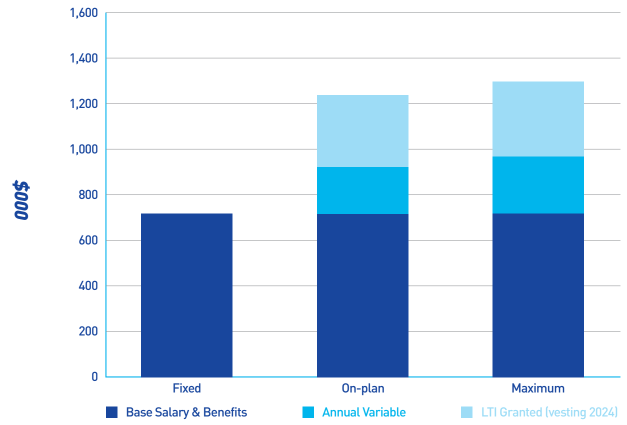
Breakdown of Chief Executive's pay for performance (FY21)

	Description	Performance measures	Achieved (%)
STI	30% of total remuneration. Based on a combination of financial and non-financial performance measures.	50% weighting on achievement of Board approved earnings before interest, tax and amortisation (EBITA).	88
		50% weighting on individual performance comprising strategy development & delivery, health & safety and improving contractors' earnings.	89
LTI	Conditional awards of shares prior to July 2019 under long-term incentive scheme.	50% weighting on a minimum 3-year annual compound growth rate in Earnings Per Share (EPS).	-
		50% weighting on Total Shareholder Return (TSR) performance against NZX50 index median, pro-rated up to 100% for achieving the 75th quartile of the index constituents.	-
LTI	Conditional awards of shares under long-term incentive scheme. Introduced in July 2019 with a vesting period of 3 years ending 30 June 2022.	Relative TSR (rTSR) – Based on Freightways' TSR compared to that of the constituents of the NZX50 Index over the vesting period. 50% of the rTSR Share Rights eligible for vesting will vest if Freightways outperforms the NZX50 Index median, pro-rated up to 100% for achieving the 75th quartile of the Index constituents.	N/A – investing in FY22
		Absolute TSR (aTSR) – Up to 50% of Share Rights will vest based on exceeding a cost of capital hurdle over the vesting period.	N/A – investing in FY22

Three-year summary: TSR performance



Chief Executive's remuneration performance pay for FY21



Chief Financial Officer's remuneration

Remuneration of the CFO comprises a fixed remuneration package representing 75% of total remuneration, an 'at risk' portion representing 25% payable on achievement of short-term financial objectives and 1% of earnings before interest, tax and amortisation (EBITA) over a Board approved EBITA target. The CFO also participates in the Freightways Senior Executive Performance Share Plans described in Note 23 of the Financial Statements by way of an annual allocation of performance share rights (PSRs) equivalent to 25% of fixed remuneration, but otherwise on the same terms and conditions as other Freightways executives. The PSRs have a 3-year vesting period and are subject to the achievement of financial hurdles, as described in Note 23.

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. In addition, the officers receive 2% of earnings before interest, tax and amortisation (EBITA) over a Board approved EBITA target. The officers also participate in the Freightways Senior Executive Performance Share Plan (the 'Plan') described in Note 23 of the Financial Statements by way of an annual allocation of PSRs. The PSRs have a 3-year vesting period and are subject to the achievement of financial hurdles, as described in Note 23. 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	
	2021	2020
$100,000 – $109,999	55	44
$110,000 – $119,999	50	53
$120,000 – $129,999	41	31
$130,000 – $139,999	29	24
$140,000 – $149,999	16	17
$150,000 – $159,999	23	10
$160,000 – $169,999	9	13
$170,000 – $179,999	14	13
$180,000 – $189,999	10	9
$190,000 – $199,999	9	6
$200,000 – $209,999	11	12
$210,000 – $219,999	7	2
$220,000 – $229,999	6	6
$230,000 – $239,999	4	4
$240,000 – $249,999	5	3
$250,000 – $259,999	1	4
$260,000 – $269,999	2	2
$270,000 – $279,999	6	1
$290,000 – $299,999	1	1
$300,000 – $309,999	2	4
$310,000 – $319,999	3	-
$320,000 – $329,999	-	1
$330,000 – $339,999	1	1
$350,000 – $359,999	1	1
$370,000 – $379,999	1	1
$420,000 – $429,999	1	2
$430,000 – $439,999	1	-
$440,000 – $449,999	1	-
$550,000 – $559,999	-	1

Directors' Report

Entries in the register of Directors' interests

The Register of Directors' Interests records that the following Directors of Freightways Limited have an equity interest in the Company.

Freightways Limited shares

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

	Fully-paid ordinary shares	
	Beneficially	**Non-beneficially**
Director		
Mark Verbiest	10,000	-
Mark Cairns	-	10,000
Kim Ellis	-	50,000
Abby Foote	-	14,363
Peter Kean	51,500	-
Mark Rushworth	-	18,000

The following table shows transactions recorded in respect of securities acquired or disposed of by Directors of Freightways Limited during the year ended 30 June 2021:

	Number	$000
	Acquired (Disposed)	**Cost (Sale)**
Mark Cairns		
Non-beneficial ownership in ordinary shares acquired on 3 April 2021 and 4 April 2021	10,000	112

Directors' Report

Other interests

Listed below are details of the entries made in the Interests Register of the Company during the year, together with the existing entries as at 30 June 2021.

Name	Name of company / entity	Nature of interest
Abby Foote	Sanford Limited	Director
	Television New Zealand Limited	Director**
	Z Energy Limited	Director & Chair
Kim Ellis	Ballance Agri-Nutrients Limited	Director
	Envirowaste Services Limited	Advisor
	FSF Management Company Limited	Director
	Green Cross Health Limited	Director & Chair
	New Zealand Social Infrastructure Fund Limited	Director & Chair
	Port of Tauranga Limited	Director
	The Ultimate Care Group Limited	Advisor*
Mark Cairns	Coda GP Limited	Director*/**
	Meridian Energy Limited	Director*
	Northport Limited	Director*/**
	Quality Marshalling Limited	Director & Chair*/**
Mark Rushworth	UP Education	Group Chief Executive
Mark Verbiest	ANZ Bank New Zealand Limited	Director
	Meridian Energy Limited	Director & Chair
	Property Income Fund Limited	Advisor
Peter Kean	New Zealand Rugby Union	Director**
	Sanford Limited	Director
	Southfuels Limited	Director
	Trojan Holdings Limited	Director

* Entry added by notice given by the director during the year.
** Entry removed by notice given by the director during the year.

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. Freightways' liability insurance also covers Officers of the Group. The insurance does not cover liabilities arising from criminal actions.

For and on behalf of the Board this 23rd day of August 2021.

Mark Verbiest
Chairman

Abigail Foote
Director and Chair of the Audit & Risk Committee

Financial Statements

Independent auditor's report

To the shareholders of Freightways Limited

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 2021, 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).

What we have audited

The Group's financial statements comprise:

- the balance sheet as at 30 June 2021;
- 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 significant accounting policies and other explanatory information.

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.

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for 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 agreed upon procedures over resolutions at the Annual Shareholders Meeting and Executive's remuneration benchmarking. The provision of these other services has not impaired our independence as auditor of the Group.

Key audit matters

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

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Independent Auditor's Report
To the shareholders of Freightways Limited

Description of the key audit matter	How our audit addressed the key audit matter
Revenue recognition The Group's revenue of $800.5 million for the current year primarily consisted of express package & business mail – courier, refrigerated transport and postal services, and information management – storage, destruction & digitisation revenue, as disclosed in note 4 of the financial statements. The Group has deferred revenue of $14.6 million for service obligations not yet performed as at 30 June 2021, reported as a contract liability in note 20. Revenue recognition under NZ IFRS 15 is a key audit matter due to the complexity of the standard and the number of revenue streams and information systems used to record revenue. Management judgement is also required to estimate the contract liability for deferred revenue based upon historical usage patterns as disclosed in note 1(a)(ii).	We obtained an understanding and evaluated the Group's processes and controls relating to revenue recognition for each material revenue stream and recognition of a contract liability for deferred revenue. Our audit procedures in relation to revenue recognition for each material revenue stream under NZ IFRS 15 included: • challenging judgements made by management in applying the standard, including assessing a sample of individual contracts against the requirements of NZ IFRS 15, particularly the determination of performance obligations; • testing a sample of revenue transactions to assess the completion of performance obligations; • testing a sample of revenue transactions to assess the accuracy of pricing to supporting documentation; • for a sample of transactions within accounts receivable at balance date we obtained either confirmation of the amount owing from the customer, or evidence of the amount owing from alternative procedures including testing of subsequent receipts or shipping documentation; and • assessing the disclosures made against the requirements of the accounting standards. Our audit procedures in relation to the contract liability for deferred revenue included: • testing the system reports from which the data used in the contract liability calculation is derived • assessing and evaluating the models used by management utilising substantive analytical procedures over the release to revenue for estimated unredeemed tickets based upon historical usage patterns.

Impairment assessment of goodwill and indefinite lived brands

As disclosed in note 16, the Group has intangible assets which include goodwill of $295.5 million and indefinite lived brand names of $126.9 million as at 30 June 2021.

Goodwill and brand names are allocated to cash-generating units (CGUs) for the purpose of impairment testing.

Management performed an annual impairment assessment using value in use (VIU) models to determine whether the carrying value of assets held by each CGU is recoverable.

Our audit focussed on this area as it involves estimation and judgement about future business performance which includes certain key assumptions such as revenue growth, EBITDA margin, terminal year growth rate and the discount rate.

For each CGU, the recoverable amount based on the value in use was higher than the carrying value of the CGU and as a result, no impairment charge was recognised. However, as disclosed in note 16 the value in use model for The Information Management Group (Australia) and New Zealand Document Exchange would result in impairment if a reasonably possible change in key assumptions was to occur.

In addressing the estimation and judgements used in the value in use models, our audit procedures included:

- gaining an understanding of the business process applied by management in preparing the impairment assessments;
- considering the appropriate determination of each CGU and recalculating the carrying amounts of the CGU assets;
- evaluating whether corporate costs had been allocated appropriately and included in the cash flows for each CGU;
- testing the mathematical accuracy of the models used to determine the VIU of each CGU;
- reviewing historical years actual revenue and EBITDA against the original budgeted performance to determine the reliability of the budgeting process and considering the impact on forecast performance;
- obtaining an understanding of the current and forecast outlook for the business and management's basis for determining the key assumptions in preparing the forecast cash flows;
- agreeing forecast future performance included in the impairment assessments to the budgets approved by the Board of Directors;
- with the assistance of our auditor's valuation expert, assessing the appropriateness of the terminal growth and discount rates as well as considering industry trends and external market forecasts for the industry; and
- performing a sensitivity analysis over key assumptions to determine whether reasonably possible changes would result in impairment of goodwill.

These audit procedures were varied to reflect the level headroom and sensitivity to impairment for each CGU. We also reviewed the financial statements for appropriate identification and disclosure of key assumptions.

PwC

Independent Auditor's Report
To the shareholders of Freightways Limited

Our audit approach

Overview

Overall group materiality: $5.0 million, which represents approximately 5% of profit before tax from continuing operations excluding the one off and non-operating impact of the increase in the fair value of contingent consideration recognised in relation to the acquisition of Big Chill Distribution Limited.

We chose profit before tax from continuing operations 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 chose to adjust profit before tax as described above because, in our view, it provides a more stable measure of the Group's performance.

Following our assessment of the risk of material misstatement:

- Full scope audits were performed for four components of the Group based on their financial significance;
- Specified audit and analytical review procedures were performed on the remaining 18 entities.

As reported above, we have two key audit matters, being:

- Revenue recognition
- Impairment assessment of goodwill and indefinite lived brands

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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.

How we tailored our group audit scope

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 industry in which the Group operates.

PwC

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

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.

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/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Independent Auditor's Report
To the shareholders of Freightways Limited

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 Keren Blakey.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
23 August 2021

Auckland

Financial Summary
For the year ended 30 June 2021

	Note	2021 $000	2020 $000	Increase %
Operating revenue		800,533	630,940	**26.9**
EBITA	(i)	107,543	88,197	**21.9**
NPAT	(ii)	49,633	47,375	**4.8**
EBITA (excluding other income & expenses)		130,589	97,795	**33.5**
NPAT (excluding other income & expenses, net of tax)		72,679	56,036	**29.7**
Other income and expenses:				
Impairment of intangible assets – software		-	(608)	
Write-off of obsolete software	(iii)	-	(2,739)	
Impairment of goodwill		-	(5,194)	
Impairment of brand names		-	(1,581)	
Acquisition advisory fee		-	(981)	
Change in fair value of contingent consideration – Big Chill Distribution Limited		(23,046)	-	
Reversal of accrued earn-out payables		-	1,505	
Total		**(23,046)**	**(9,598)**	
Tax benefit applicable to other income and expenses		-	937	
Other income and expenses, net of tax		**(23,046)**	**(8,661)**	

Notes:

(i) Operating profit before interest, income tax and amortisation of intangibles
(ii) Profit for the year attributable to the shareholders
(iii) Software totalling $1.6 million has been written off during the current financial year. This is considered immaterial and has included within general and administration expenses in the Income Statement rather than be separately disclosed in other expenses.

The Directors believe that the other income and expenses detailed above should not be included when assessing the underlying trading performance of the Group.

Income statement
For the year ended 30 June 2021

	Note	Group 2021 $000	Group 2020 $000
Operating revenue	3 & 4	**800,533**	**630,940**
Transport and logistics expenses		(309,318)	(253,443)
Employee benefits expenses		(226,669)	(168,017)
Occupancy expenses		(7,063)	(5,143)
General and administration expenses		(69,859)	(59,666)
Change in fair value of contingent consideration – Big Chill Distribution Limited	31	(23,046)	-
Depreciation and software amortisation	5	(57,035)	(46,876)
Amortisation of intangibles	5	(7,652)	(3,477)
Other income and expenses	5	-	(9,598)
Operating profit before interest and income tax		**99,891**	**84,720**
Net interest and finance costs	5	(22,667)	(18,420)
Profit before income tax		**77,224**	**66,300**
Income tax:			
Tax applicable to profit before income tax		(27,591)	(20,355)
Tax benefits as result of tax law change		-	1,430
Total income tax	6	(27,591)	(18,925)
Profit for the year		**49,633**	**47,375**
Profit for the year is attributable to:			
Owners of the parent		49,555	47,332
Non-controlling interests		78	43
		49,633	**47,375**
Earnings per share	26		
Basic earnings per share (cents)		30.0	30.0
Diluted earnings per share (cents)		29.9	29.9

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 2021

	Note	Group 2021 $000	Group 2020 $000
Profit for the year (NPAT)		**49,633**	**47,375**
Other comprehensive income Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	22	(2,310)	1,475
Cash flow hedges taken directly to equity, net of tax	22	880	1,826
Total other comprehensive income after income tax		**(1,430)**	**3,301**
Total comprehensive income for the year		**48,203**	**50,676**
Total comprehensive income for the year is attributable to:			
Owners of the parent		48,125	50,633
Non-controlling interests		78	43
		48,203	**50,676**

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 23rd day of August 2021.

Mark Verbiest
Chairman

Abigail Foote
Director

Statement of changes in equity
For the year ended 30 June 2021

Group	Note	Contributed equity $000	Retained earnings $000	Cash flow hedge reserve $000	Foreign currency translation reserve $000	Non-controlling interests $000	Total equity $000
Balance at 1 July 2019		**126,440**	**142,817**	**(3,901)**	**(6,110)**	**124**	**259,370**
Profit for the year		-	47,332	-	-	43	47,375
Exchange differences on translation of foreign operations		-	-	-	1,475	-	1,475
Cash flow hedges taken directly to equity, net of tax		-	-	1,826	-	-	1,826
Total Comprehensive Income		**-**	**47,332**	**1,826**	**1,475**	**43**	**50,676**
Dividend payments	8	-	(47,403)	-	-	(53)	(47,456)
Shares issued	22	54,190	-	-	-	-	54,190
Balance at 30 June 2020		**180,630**	**142,746**	**(2,075)**	**(4,635)**	**114**	**316,780**
Profit for the year		-	49,555	-	-	78	49,633
Exchange differences on translation of foreign operations		-	-	-	(2,310)	-	(2,310)
Cash flow hedges taken directly to equity, net of tax		-	-	880	-	-	880
Total Comprehensive Income		**-**	**49,555**	**880**	**(2,310)**	**78**	**48,203**
Dividend payments	8	-	(25,658)	-	-	(44)	(25,702)
Shares issued	22	1,941	-	-	-	-	1,941
Balance at 30 June 2021		**182,571**	**166,643**	**(1,195)**	**(6,945)**	**148**	**341,222**

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

Balance sheet
As at 30 June 2021

	Note	Group 2021 $000	2020 $000
Current assets			
Cash and cash equivalents	9	19,940	16,686
Trade and other receivables	10	103,947	100,381
Income tax receivable		-	384
Inventories	11	7,438	6,019
Total current assets		**131,325**	**123,470**
Non-current assets			
Trade receivables and other non-current assets	10	6,825	7,348
Property, plant and equipment	14	128,338	134,649
Right-of-use assets	15	275,849	278,142
Intangible assets	16	494,503	498,966
Investment in associates		7,510	7,842
Total non-current assets		**913,025**	**926,947**
Total assets		**1,044,350**	**1,050,417**
Current liabilities			
Trade and other payables	18	102,944	87,656
Borrowings (secured)	21	-	5,210
Lease liabilities	15	31,078	30,641
Income tax payable		11,982	18,824
Provisions	19	1,562	1,225
Derivative financial instruments	12	1,082	750
Contract liability	20	14,593	15,142
Total current liabilities		**163,241**	**159,448**
Non-current liabilities			
Trade and other payables	18	51,352	27,386
Borrowings (secured)	21	163,696	216,484
Deferred tax liability	17	36,726	41,425
Provisions	19	6,979	6,331
Lease liabilities	15	280,557	280,431
Derivative financial instruments	12	577	2,132
Total non-current liabilities		**539,887**	**574,189**
Total liabilities		**703,128**	**733,637**
Net assets		**341,222**	**316,780**
Equity			
Contributed equity	22	182,571	180,630
Retained earnings		166,643	142,746
Cash flow hedge reserve	12	(1,195)	(2,075)
Foreign currency translation reserve		(6,945)	(4,635)
	22	**341,074**	**316,666**
Non-controlling interests		148	114
Total equity		**341,222**	**316,780**

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

Statement of cash flows
For the year ended 30 June 2021

	Note	Group 2021 $000 Inflows (Outflows)	2020 $000 Inflows (Outflows)
Cash flows from operating activities			
Receipts from customers		792,279	634,749
Payments to suppliers and employees		(594,705)	(474,653)
Cash generated from operations		**197,574**	**160,096**
Interest received		22	48
Interest and other costs of finance paid		(22,748)	(19,380)
Income taxes paid		(39,835)	(13,599)
Net cash inflows from operating activities	24	**135,013**	**127,165**
Cash flows from investing activities			
Payments for property, plant and equipment		(12,360)	(18,318)
Payments for software		(5,645)	(5,313)
Proceeds from disposal of property, plant and equipment		399	849
Payments for businesses acquired (net of cash acquired)	31	-	(94,973)
Payments for investment in associates		-	(7,468)
Receipts from joint venture and associate		3,354	1,202
Cash flows from other investing activities		(213)	(226)
Net cash outflows from investing activities		**(14,465)**	**(124,247)**
Cash flows from financing activities			
Dividends paid		(25,702)	(47,456)
Increase (decrease) in bank borrowings		(58,985)	45,802
Proceeds from issue of ordinary shares		799	24,126
Principal elements of lease payments		(33,319)	(24,954)
Net cash outflows from financing activities		**(117,207)**	**(2,482)**
Net increase in cash and cash equivalents		3,341	436
Cash and cash equivalents at beginning of year		16,686	15,986
Exchange rate adjustments		(87)	264
Cash and cash equivalents at end of year	9	**19,940**	**16,686**

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

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 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 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 financial statements also comply with International Financial Reporting Standards (IFRS).

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

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

Critical accounting estimates and judgments

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 assessments are performed by management, annually or where there is an indicator of impairment, 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 the greater of value-in-use and fair value less cost of disposal calculations. These calculations require the use of estimates. Refer to Note 16.

(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 appropriate 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 to Note 31.

(vi) Purchase price allocation for acquisitions

During the financial year ended 30 June 2020, the Group acquired 100% of the shares in Big Chill Distribution Limited. This allocation was provisional in the 30 June 2020 financial statements and has since been finalised (refer Note 31). All identifiable assets and liabilities including intangible assets were measured at fair value at acquisition date. In deriving a fair value for identifiable intangibles, the Group used a variety of valuations methods and key assumptions to reflect what a typical market participant would apply if they were to buy or sell each asset on an individual basis.

(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 income statement from the date of acquisition or up to the date of disposal.

The 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 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.

(d) Impairment of non-financial assets

Assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs 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).

(e) 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.

(f) 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.

(g) 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.

(h) Changes in accounting policies

The accounting policies and methods of computation are consistent with those used in the year ended 30 June 2020.

Note 2. Accounting treatment of cloud computing arrangements

The Group has capitalised costs incurred in configuring or customising certain suppliers' application software in certain cloud computing arrangements as intangible assets (30 June 2021 – $0.8 million; 30 June 2020 – $0.6 million; 1 July 2019 – $1.2 million), as the Group considered that it would benefit from those costs to implement the cloud-based software over the expected terms of the cloud computing arrangements. Following the IFRS IC agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement in March 2021 (ratified by the International Accounting Standards Board (IASB) in April 2021), the Group has commenced a review of these capitalised costs to determine whether they would need to be expensed or reclassified as prepayments. The IFRS IC concluded that costs incurred in configuring or customising software in a cloud computing arrangement can be recognised as intangible assets only if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Costs that do not result in intangible assets are expensed as incurred, unless they are paid to the suppliers of the cloud-based software to significantly customise the cloud-based software for the Group, in which case the costs paid upfront are recorded as prepayments for services and amortised over the expected terms of the cloud computing arrangements.

At the time of finalising the 30 June 2021 financial statements, the review process is still in progress, due to the short timeframe between the release of the agenda decision and the Group's financial year end, the Group has not had sufficient time to fully assess the potential impact of the agenda decision. A detailed review of large projects previously capitalised as intangible assets, and project costs recognised as work-in-progress as at 30 June 2021, needs to be carried out at a transactional level to ensure correct treatment. The Group expects to implement the updated accounting policy in the next financial period.

Note 3. 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 (hub & spoke) courier, refrigerated transport, point-to-point courier and postal services.

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

Corporate and other
Comprises corporate, financing and property management services.

The Group has no individual customer that represents more than 4% of external sales revenue.

As at and for the year ended 30 June 2021:

	Express Package & Business Mail $000	Information Management $000	Corporate $000	Inter-segment Elimination $000	Consolidated Operations $000
Income statement					
Sales to external customers	629,760	170,770	3	-	800,533
Inter-segment sales	3,254	(104)	4,795	(7,945)	-
Total revenue	**633,014**	**170,666**	**4,798**	**(7,945)**	**800,533**
Operating profit (loss) before change in fair value of contingent consideration, interest, income tax, depreciation and software amortisation and amortisation of intangibles	142,817	50,849	(6,042)	-	187,624
Change in fair value of contingent consideration – Big Chill Distribution Limited (Note 31)	-	-	(23,046)	-	(23,046)
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	142,817	50,849	(29,088)	-	164,578
Depreciation and software amortisation	(33,323)	(21,876)	(1,836)	-	(57,035)
Operating profit (loss) before interest, income tax and amortisation of intangibles	109,494	28,973	(30,924)	-	107,543
Amortisation of intangibles	(5,280)	(2,372)	-	-	(7,652)
Profit (loss) before interest and income tax	104,214	26,601	(30,924)	-	99,891
Net interest and finance costs	(6,290)	(4,881)	(11,496)	-	(22,667)
Profit (loss) before income tax	97,924	21,720	(42,420)	-	77,224
Income tax	(27,208)	(6,509)	6,126	-	(27,591)
Profit (loss) for the year attributable to the shareholders	**70,716**	**15,211**	**(36,294)**	-	**49,633**
Balance sheet					
Segment assets	641,580	360,217	42,553	-	1,044,350
Segment liabilities	257,853	171,871	273,406	-	703,130

Notes to the financial statements
For the year ended 30 June 2021

As at and for the year ended 30 June 2020:

	Express Package & Business Mail $000	Information Management $000	Corporate $000	Inter-Segment Elimination $000	Consolidated Operations $000
Income statement					
Sales to external customers	472,151	158,783	6	-	630,940
Inter-segment sales	2,272	(58)	4,900	(7,114)	-
Total revenue	474,423	158,725	4,906	(7,114)	630,940
Operating profit (loss) before other income and expense, interest, income tax, depreciation and software amortisation and amortisation of intangibles	101,690	47,055	(4,074)	-	144,671
Other income and expenses	(3,347)	(5,270)	(981)	-	(9,598)
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	98,343	41,785	(5,055)	-	135,073
Depreciation and software amortisation	(23,929)	(21,215)	(1,732)	-	(46,876)
Operating profit (loss) before interest, income tax and amortisation of intangibles	74,414	20,570	(6,787)	-	88,197
Amortisation of intangibles	(1,168)	(2,309)	-	-	(3,477)
Profit (loss) before interest and income tax	73,246	18,261	(6,787)	-	84,720
Net interest and finance costs	(3,810)	(5,188)	(9,422)	-	(18,420)
Profit (loss) before income tax	69,436	13,073	(16,209)	-	66,300
Income tax	(18,815)	(5,492)	5,382	-	(18,925)
Profit (loss) for the year attributable to the shareholders	**50,621**	**7,581**	**(10,827)**	**-**	**47,375**
Balance sheet					
Segment assets	646,991	360,582	42,844	-	1,050,417
Segment liabilities	259,016	162,098	312,523	-	733,637

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

For the year ended 30 June 2021, external revenue from customers in the Group's New Zealand and Australian operations was $672.1 million and $128.4 million, respectively (2020: $513.6 million and $117.3 million, respectively). As at 30 June 2021, non-current assets in respect of the New Zealand and Australian operations (excluding deferred tax assets and financial assets) were $457.8 million and $172.5 million, respectively (2020: $468.5 million and $173.0 million, respectively).

Note 4. Revenue from contracts with customers

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, refrigerated transport & storage and postal services

The Group operates network (hub & spoke) courier, refrigerated transport and storage, point-to-point courier and postal services. Revenue from these services is recognised over the time of delivery, being from the time of acceptance of the goods to delivery to the final destination. 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. Revenue from refrigerated storage is recognised over time in the reporting period 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.

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:

2021	Express Package & Refrigerated Transport $000	Postal $000	Storage & Handling $000	Destruction Activities $000	Other $000	Total $000
Revenue from external customers	572,623	48,475	60,694	70,616	48,125	800,533
Timing of revenue recognition:						
At a point in time	-	2,706	-	20,492	11,009	34,207
Over time	572,623	45,769	60,694	50,124	37,116	766,326
	572,623	**48,475**	**60,694**	**70,616**	**48,125**	**800,533**

2020	Express Package & Refrigerated Transport $000	Postal $000	Storage & Handling $000	Destruction Activities $000	Other $000	Total $000
Revenue from external customers	421,668	49,122	60,295	61,592	38,263	630,940
Timing of revenue recognition:						
At a point in time	-	3,191	-	18,307	10,176	31,674
Over time	421,668	45,931	60,295	43,285	28,087	599,266
	421,668	**49,122**	**60,295**	**61,592**	**38,263**	**630,940**

Note 5. Income and expenses

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

	Note	Group 2021 $000	Group 2020 $000
Income			
Interest income		22	47
Operating expenses			
Net loss on disposal of property, plant and equipment		367	951
Depreciation of property, plant and equipment	14	17,000	14,762
Depreciation of right-of-use assets	15	35,148	28,409
Amortisation of intangible assets	16	7,652	3,477
Amortisation of software	16	4,887	3,705
Auditor's fees			
Audit of annual financial statements and review of interim financial statements		622	541
Annual Shareholders Meeting – agreed upon procedures		9	9
Executives' remuneration benchmarking		31	30
Costs of offering credit			
Impairment loss on trade receivables		329	1,024
Interest and finance costs			
Interest on bank borrowings		10,110	9,715
Interest on leases		11,111	8,752
Derivative fair value movement		1,468	-
Other			
Directors' fees		612	607
Donations		252	296
Change in fair value of contingent consideration – Big Chill Distribution Limited	31 & (i)	23,046	-
Other income and expenses			
– Impairment of goodwill	(ii)	-	5,194
– Impairment of brand names	(ii)	-	1,581
– Impairment of intangible assets – software	(iii)	-	608
– Write-off of obsolete software	(iii)	-	2,739
Acquisition advisory fee	(iv)	-	981
Reversal of accrued earn-out payables	(v)	-	(1,505)

(i) The estimated discounted future final payment for the BCD has been increased from $27.2 million as at 30 June 2020 to $51.3 million as at 30 June 2021. This increase of $23 million (net of impact of unwinding of discount on acquisition earn-out liability of $1 million) reflects the strong performance of BCD, which will determine the final payment for the acquisition of the company, to be made in August 2022. Refer Note 31.

(ii) Impairment loss in respect of (a) the carrying value of goodwill and brand names recognised upon the acquisition of the LitSupport print & copy bureau ($5.8 million), and (b) an amount of the goodwill originally recognised upon the acquisition of the NSW-based State Waste Services (SWS) business ($1 million) with $1.5 million earn-out payable for SWS reversed in 2020, refer (v) below.

(iii) Write-off of internally-developed software considered obsolete as a result of the accelerated introduction of new software applications and systems in response to business and market demands.

(iv) Advisory fee paid for assistance with the successful acquisition of Big Chill Distribution Limited.

(v) Reversal of previously-accrued earn-out payables no longer expected to be paid related to the acquisition of SWS.

Income and expenses classified as "non-recurring" in the 30 June 2020 financial statements have been reclassified as "other income and expenses" in the current period to remove the presentation of non-NZ GAAP financial measures within the income statement.

Note 6. 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	
	2021 $000	2020 $000
Current tax		
Current tax on profit for the year	34,022	22,964
Deferred tax (Note 17):		
Reversal of temporary differences	(6,431)	(2,609)
Reversal arising from change in tax law	-	(1,430)
Total deferred tax	(6,431)	(4,039)
Income tax expense	**27,591**	**18,925**

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	77,224	66,300
Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries	21,773	18,525
Tax-effect of amounts which are treated differently when calculating taxable income:		
- Additional amounts non-deductible	5,727	1,275
- Adjustment for change in tax law – deferred tax on re-introduction of deductibility of building depreciation	-	(1,430)
- Other	91	555
Income tax expense	**27,591**	**18,925**

The Group has no tax losses (2020: Nil).

The Group is yet to assess the potential impact of the IFRIC agenda decision on cloud computing arrangements (refer Note 2). This change in accounting treatment may give rise to temporary differences. Other than this, there are no unrecognised temporary differences (2020: Nil).

	Group	
	2021 $000	2020 $000
Imputation credits account		
Imputation credits available for use in subsequent reporting periods	**55,131**	**35,196**

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.

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

2021	**Before tax $000**	**Tax (charge)/credit $000**	**After tax $000**
Exchange difference on translation of foreign operations	(2,310)	-	(2,310)
Cash flow hedges taken directly to equity	1,222	(342)	880
Other comprehensive income	**(1,088)**	**(342)**	**(1,430)**
Current tax		-	
Deferred tax		(342)	
		(342)	

2020	**Before tax $000**	**Tax (charge)/credit $000**	**After tax $000**
Exchange difference on translation of foreign operations	1,475	-	1,475
Cash flow hedges taken directly to equity	2,536	(710)	1,826
Other comprehensive income	**4,011**	**(710)**	**3,301**
Current tax		-	
Deferred tax		(710)	
		(710)	

Notes to the financial statements
For the year ended 30 June 2021

Note 7. Impact of COVID-19

The on-going COVID-19 global pandemic has accelerated a number of trends that were already evident before the start of the pandemic. Amongst them is a faster adoption of online shopping that positively impacts volume for Freightways' express package businesses. At the same time, with a number of information management's customers having employees working from home and using less paper, some of the information management activities continue to recover at a slower pace. This slower recovery is partially mitigated by continuing to develop new service lines and managing costs. The risk of a resurgence of COVID-19 in New Zealand or Australia creates a continued level of uncertainty, although Freightways' businesses are now well prepared to operate efficiently in different levels of lockdown. During the year, $0.8 million was received from the Australian government in relation to the JobKeeper subsidy.

Notes to the financial statements
For the year ended 30 June 2021

Note 8. Dividends

	Group	
	2021 $000	2020 $000
Recognised amounts		
Fully imputed dividends declared and paid during the year:		
No final dividend paid for 2020 (2019: 15.5 cents)	-	24,084
Interim dividend for 2021 at 15.5 cents per share (2020: 15.0 cents)	25,658	23,319
	25,658	**47,403**
Unrecognised amounts		
Final dividend for 2021 at 18 cents per share (2020: nil)	**29,797**	**-**

Note 9. 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	
	2021 $000	2020 $000
Cash at bank	19,833	16,578
Overnight deposits	107	108
Cash and cash equivalents in statement of cash flows	**19,940**	**16,686**

Note 10. 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	
	2021 $000	2020 $000
Current		
Trade receivables	90,711	88,923
Provision for doubtful receivables	(3,014)	(2,909)
	87,697	86,014
Accrued revenue	774	4,841
Other debtors and prepayments	14,963	8,994
Share plan loans receivable from employee	513	532
	103,947	**100,381**
Non-current		
Share plan loans receivable from employees	373	325
Other non-current assets	6,452	7,023
	6,825	**7,348**

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	
	2021 $000	2020 $000
Opening balance	2,909	1,500
Provision for doubtful receivables	176	1,152
Receivables written off during the year as uncollectible	(73)	(106)
Provisions added from acquired businesses	-	350
Exchange rate movement	2	13
Closing balance (Note 29.1(b))	**3,014**	**2,909**

Note 11. 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 $11.3 million (2020: $10.7 million).

	Group	
	2021 $000	2020 $000
Finished goods	3,491	2,576
Ticket stocks, uniforms and consumables	3,947	3,443
	7,438	**6,019**

Note 12. 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 acounting

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.

	Group 2021 $000 Asset (Liability)	Group 2020 $000 Asset (Liability)
Current		
Interest rate swaps – cash flow hedge	(1,039)	(742)
Foreign currency options – cash flow hedge	-	(8)
Forward foreign exchange contracts – cash flow hedge	(43)	-
	(1,082)	**(750)**
Non-current		
Interest rate swaps – cash flow hedge	(791)	(3,783)
Forward foreign exchange contracts – cash flow hedge	214	1,651
	(577)	**(2,132)**

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 2019	**(267)**	**458**	**(4,092)**	**(3,901)**
Change in fair value of hedging instrument recognised in Other Comprehensive Income (OCI)	362	1,015	1,159	2,536
Less: Deferred tax	(101)	(284)	(325)	(710)
Balance at 30 June 2020	**(6)**	**1,189**	**(3,258)**	**(2,075)**
Change in fair value of hedging instrument recognised in OCI	8	(1,481)	2,695	1,222
Less: Deferred tax	(2)	415	(755)	(342)
Balance at 30 June 2021	**-**	**123**	**(1,318)**	**(1,195)**

Notes to the financial statements
For the year ended 30 June 2021

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

	NZD 2021 $000	NZD 2020 $000	AUD 2021 $000	AUD 2020 $000
Interest rate swaps:				
Notional amount	42,000	54,000	20,000	36,500
Maturity date	05/22 – 05/25	09/20 – 05/25	01/22 – 07/23	09/20 – 07/23
Hedge ratio	1:1	1:1	1:1	1:1
Change in fair value of outstanding hedging instrument	1,633	522	1,061	637
Change in value of hedge item used to determine hedge effectiveness	(1,633)	(522)	(1,061)	(637)
Weighted average strike rate for the year	2.9%	4.5%	3.8%	3.9%
Foreign currency options:				
Notional amount	-	5,834	-	-
Maturity date	-	07/20 – 05/21	-	-
Hedge ratio	-	1:1	-	-
Change in fair value of outstanding hedging instrument	8	362	-	-
Change in value of hedge item used to determine hedge effectiveness	(8)	(362)	-	-
Weighted average strike rate for the year	USD0.68: NZD1	USD0.66: NZD1	-	-
Forward foreign exchange contracts:				
Notional amount	18,381	18,381	-	-
Maturity date	07/21 – 06/24	07/19 – 06/24	-	-
Hedge ratio	1:1	1:1	-	-
Change in fair value of outstanding hedging instrument	(1,481)	1,014	-	-
Change in value of hedge item used to determine hedge effectiveness	1,481	(1,014)	-	-
Weighted average strike rate for the year	-	-	-	-

There was no derivative movement recognised in the income statement during the year (2020: nil).

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 not being matched by the loan; and
- Differences in critical terms between the interest rate swaps and loans.

Notes to the financial statements
For the year ended 30 June 2021

Note 13. 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
Big Chill Distribution Limited	Temperature-controlled transport & facilities	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.

Note 14. 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.

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.

Group	Land $000 (restated)	Buildings $000	Leasehold Alterations $000 (restated)	Motor Vehicles $000	Equipment $000	Total $000
2021						
Opening net book value	15,771	19,004	12,223	29,327	58,324	134,649
Additions	-	13	1,263	4,007	7,151	12,434
Acquisitions through business combinations (Note 31)	-	-	-	11	-	11
Transferred to intangible assets (Note 16)	-	-	-	-	(1,115)	(1,115)
Depreciation expense	-	(1,576)	(1,826)	(4,551)	(9,047)	(17,000)
Disposals	-	-	(66)	(240)	(459)	(765)
Exchange rate movement	11	7	5	34	67	124
Closing net book value	**15,782**	**17,448**	**11,599**	**28,588**	**54,921**	**128,338**
As at end of year						
Cost	15,782	39,847	19,873	45,013	138,046	258,561
Accumulated depreciation	-	(22,399)	(8,274)	(16,425)	(83,125)	(130,223)
Net book value	**15,782**	**17,448**	**11,599**	**28,588**	**54,921**	**128,338**

Group	Land $000 (restated)	Buildings $000	Leasehold Alterations $000 (restated)	Motor Vehicles $000	Equipment $000	Total $000
2020						
Opening net book value	13,615	20,250	3,903	10,804	58,138	106,710
Additions	2,120	344	1,875	4,823	9,167	18,329
Acquisitions through business combinations	-	-	7,457	17,145	782	25,384
Depreciation expense	-	(1,621)	(932)	(2,323)	(9,886)	(14,762)
Disposals	-	-	(125)	(1,331)	(343)	(1,799)
Exchange rate movement	36	31	45	209	466	787
Closing net book value	**15,771**	**19,004**	**12,223**	**29,327**	**58,324**	**134,649**
As at end of year						
Cost	15,771	39,827	19,363	42,167	134,799	251,927
Accumulated depreciation	-	(20,823)	(7,140)	(12,840)	(76,475)	(117,278)
Net book value	**15,771**	**19,004**	**12,223**	**29,327**	**58,324**	**134,649**

Land totalling $0.1 million as at 30 June 2019 has been reclassified to leasehold alterations in the opening balance for the financial year ended 30 June 2020 to accurately reflect the nature of the asset.

The cost of equipment in respect of assets under construction for which depreciation has not commenced as at 30 June 2021 is $0.1 million (2020: $0.5 million).

The latest independent valuations of land and buildings (performed in June 2020) assess these assets to have a total fair value of $88.4 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 29.1(d).

Note 15. Leases

This note provides information for leases where the Group is a lessee.

The Group's leases predominantly relate to property, equipment and vehicles. Rental contracts are typically made for fixed periods of 3 to 12 years but may have extension options. Lease terms are negotiated on an individual basis and contains a wide range of different terms and conditions. The lease agreements do not impose covenants other than the leased assets may not be used as security for borrowing purposes. The right-of-use (ROU) asset is depreciated over the shorter of the asset's useful life and the expected lease term on a straight-line basis.

Lease liabilities have been measured at the present value of the remaining lease payments, discounted using a discount rate derived from the incremental borrowing rate (IBR) when the interest rate implicit in the lease was not readily available. Factors taken into consideration when calculating the IBR for each asset category included observable market rates, economic conditions and lease tenure. The incremental borrowing rates applied to lease liabilities range between 1.69% to 4.39% (2020: 2.45% to 4.23%), with a weighted average rate of 3.69% (2020: 3.61%).

Some property leases contain an extension option exercisable by the Group. At the commencement of a lease, the Group assesses whether it is reasonably certain an extension option will be exercised. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group. The extension options are only exercisable by the Group and not the lessor. Where it is reasonably certain the extension will be exercised, that extension period and related costs are recognised on the balance sheet.

The following tables show the movements and analysis in relation to the ROU assets and lease liabilities created upon adoption of NZ IFRS 16.

The balance sheet shows the following amounts relating to leases:

Group	2021 $000	2020 $000
Right-of-use assets		
Opening net book value	**278,142**	-
Recognised on transition	-	200,068
Lease additions, modifications and terminations	32,671	104,550
Depreciation for the year	(35,148)	(28,409)
Exchange rate movement	184	1,933
Closing net book value	**275,849**	**278,142**
Cost	393,757	367,280
Accumulated depreciation	(117,908)	(89,138)
Closing net book value	**275,849**	**278,142**

Group	2021 $000	2020 $000
Right-of-use assets		
Buildings	257,385	259,023
Equipment	3,647	6,823
Motor vehicles	14,817	12,296
	275,849	**278,142**

Group	2021 $000	2020 $000
Lease liabilities		
Operating lease commitments discounted using the Group's incremental borrowing rate	-	112,229
Adjustments as a result of different treatment of extension and termination options	-	111,084
Opening lease liabilities	**311,072**	**223,313**
Lease additions, modifications and terminations	32,929	109,787
Interest for the year	11,111	8,752
Lease repayments	(43,725)	(33,706)
Other lease liabilities	-	668
Exchange rate movement	248	2,258
Closing lease liabilities	**311,635**	**311,072**

Group	2021 $000	2020 $000
Lease liabilities		
Current	31,078	30,641
Non-current	280,557	280,431
	311,635	**311,072**

Lease liabilities maturity analysis:

2021	Minimum lease payments $000	Interest $000	Present value $000
Within one year	41,674	10,599	31,075
One to five years	137,308	33,456	103,852
Beyond five years	210,064	33,356	176,708
Total	**389,046**	**77,411**	**311,635**
2020			
Within one year	41,449	10,808	30,641
One to five years	127,506	34,835	92,671
Beyond five years	227,222	39,462	187,760
Total	**396,177**	**85,105**	**311,072**

Lease related expenses included in the income statement:

Group	2021 $000	2020 $000
Depreciation charge for right-of-use assets		
Buildings	26,244	22,099
Motor vehicles	6,502	3,432
Equipment	2,402	2,878
	35,148	**28,409**
Interest on leases	11,111	8,752

Total cash outflow in relation to leases is $43.7 million (2020: $33.7 million).

Note 16. Intangible assets

(i) Goodwill

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

(ii) Brand Names

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

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

An independent valuation of the brand names was conducted by Deloitte in August 2021. This independent report assessed the fair market value of the brand names as at 30 June 2021 to be between $483 million and $530 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 29.1(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 $1.4 million (2020: $2.8 million) for which amortisation has not commenced. Software under development not yet available for use is tested annually for impairment.

(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
2021						
Opening net book value	301,283	118,307	15,762	58,683	4,931	498,966
Additions	-	-	5,562	-	68	5,630
Acquisition through business combinations (Note 31)	(6,120)	8,500	-	61	-	2,441
Transferred from property, plant and equipment (Note 14)	-	-	1,115	-	-	1,115
Amortisation expense	-	-	(4,887)	(6,214)	(1,438)	(12,539)
Written-off	-	-	(1,565)	-	-	(1,565)
Exchange rate movement	342	62	6	38	7	455
Closing net book value	**295,505**	**126,869**	**15,993**	**52,568**	**3,568**	**494,503**
As at end of year						
Cost	314,167	126,869	38,296	70,605	7,103	557,040
Accumulated amortisation and impairment	(18,662)	-	(22,303)	(18,037)	(3,535)	(62,537)
Net book value	**295,505**	**126,869**	**15,993**	**52,568**	**3,568**	**494,503**

COVID-19 has resulted in the accelerated development and deployment of various new IT initiatives and strategies, leading to the need to write-off certain previously capitalised software that is now considered obsolete.

Group	Goodwill $000	Brand names $000	Software $000	Customer relationships $000	Other $000	Total $000
2020						
Opening net book value	212,737	113,932	17,797	17,477	3,209	365,152
Additions	-	-	4,937	-	173	5,110
Acquisition through business combinations	91,475	5,500	37	44,009	1,900	142,921
Amortisation expense	-	-	(3,705)	(3,069)	(408)	(7,182)
Impairment loss	(5,194)	(1,581)	(608)	-	-	(7,383)
Written-off	-	-	(2,739)	-	-	(2,739)
Exchange rate movement	2,265	456	43	266	57	3,087
Closing net book value	**301,283**	**118,307**	**15,762**	**58,683**	**4,931**	**498,966**
As at end of year						
Cost	319,945	118,307	35,419	70,480	7,024	551,175
Accumulated amortisation and impairment	(18,662)	-	(19,657)	(11,797)	(2,093)	(52,209)
Net book value	**301,283**	**118,307**	**15,762**	**58,683**	**4,931**	**498,966**

Impairment tests for indefinite life intangible assets

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

	Goodwill		Brand names	
	2021 $000	2020 $000	**2021 $000**	2020 $000
Big Chill	77,635	83,755	14,000	5,500
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	**176,404**	**182,524**	**103,205**	**94,705**
The Information Management Group (New Zealand)	17,577	17,577	4,400	4,400
The Information Management Group (Australia)*	56,798	56,615	15,945	15,894
Shred-X*	44,727	44,567	3,319	3,308
Total Information Management	**119,102**	**118,759**	**23,664**	**23,602**
Total	**295,506**	**301,283**	**126,869**	**118,307**

* The increases in goodwill and brand names in The Information Management Group (Australia) and Shred-X are due to foreign currency translation.

(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 the greater of value-in-use and fair value less costs of disposal calculations specific to the CGU associated with both goodwill and brand names.

The value-in-use calculations use post-tax cash flow projections based on financial budgets prepared by management and approved by the Board for the year ended 30 June 2022. Cash flows beyond June 2022 have been extrapolated using growth rates which take into consideration current and forecast economic conditions for the relevant products and industries. A probabilistic approach was also adopted where a number of different growth scenarios were considered and weighted by likelihood of achievement. In addition, the sensitivity of the main financial variables was tested and considered in the final estimation. No adjustments have been made to forecast cash flows for the unknown impacts of future legislative changes in relation to climate change.

A 1% (2020: 1%) revenue growth rate, a consistent EBITDA margin assuming costs increase in line with revenue and 1% (2020: 1%) terminal growth rate have been applied to the express package & business mail businesses in the value-in-use calculation.

A 2% (2020: 2%) revenue growth rate, a consistent EBITDA margin assuming costs increase in line with revenue and 2% (2020: 2%) terminal growth rate, reflecting both historical and expected growth, have been applied to the value-in-use calculation for the information management segment with the same scenarios and sensitivities applied as described in the Significant estimate – sensitivity to changes in assumptions section below.

Post-tax discount rates, reflecting the current environment in financial markets and the countries each CGU operates in, have been used. The CGU specific post-tax discount rates applied are:

	Post-tax discount rate	
	2021 %	2020 %
Big Chill	7.0	6.6
Messenger Services	7.5	7.5
New Zealand Couriers	7.5	7.5
New Zealand Document Exchange	11.4	10.6
Dataprint	11.4	10.6
Post Haste, Castle Parcels and NOW Couriers	7.5	7.5
The Information Management Group (New Zealand)	7.5	7.5
The Information Management Group (Australia)	6.9	6.6
Shred-X	6.9	6.6

* In the current financial year, the Group has moved from a Group post-tax discount rate to CGU specific post-tax discount rates. The prior year disclosure has been updated for comparative purposes (the 2020 Group post-tax discount rate disclosed was 7.5%). The change to prior period CGU specific rates did not result in an impairment in the prior year.

(ii) Significant estimate – Sensitivity to changes in assumptions

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

The value-in-use analysis prepared for TIMG AU is based on the following key assumptions:

- 100% achievement of FY22 budgeted revenue;
- 2% Revenue growth per year (with a range of scenarios from – 4% to 4% p.a considered);
- 2% terminal EBITA growth rate; and
- post-tax discount rate of 6.9%

The recoverable amount of TIMG AU would equal its carrying amount if the key assumptions were to change as follows:

	2021	
	From %	To %
Achievement of FY22 budgeted revenue	100	84
Revenue growth per year	2	-3.1
Terminal EBITA growth rate	2	0.8
Post-tax discount rate	6.9	7.9

In the prior year, the value-in-use analysis prepared for New Zealand Document Exchange (NZDX) was sensitive to changes in key assumptions. For comparative purposes, the current year NZDX value-in-use analysis shows the recoverable amounts of goodwill and brand names significantly exceed their carrying values. The NZDX value-in-use analysis has been prepared based on the following key assumptions:

- 100% achievement of FY22 budgeted revenue;
- 1% Revenue growth per year (with a range of scenarios from – 4% to 4% p.a considered);
- 1% terminal EBITA growth rate; and
- post-tax discount rate of 11.4%

The recoverable amount of NZDX would equal its carrying amount if any of the key assumptions were to change as follows:

	2021	
	From %	To %
Achievement of FY22 budgeted revenue	100	73
Revenue growth per year	1	-9.1
Terminal EBITA growth rate	1	-6.1
Post-tax discount rate	11.4	15.6

Following are the significant estimate notes included in last year's annual report carried forward to this year's annual report for comparative purposes:

Significant estimate – impairment loss – 30 June 2020

An impairment loss of $5.8 million (A$5.5 million) has been recognised in the CGU of The Information Management Group (Australia) (TIMG AU). The LitSupport business acquired by Freightways in December 2014 and incorporated into the TIMG AU CGU has not performed to management's expectation. LitSupport was acquired for a potential total consideration of $32.2 million, made up of an initial payment of $18.3 million and potential earn-out of $13.9 million. As a result of not meeting an initial financial hurdle for the 2015 calendar year, the vendors were required to refund $5.3 million of the initial purchase price to Freightways. The financial performance hurdles for the potential earn-out of $13.9 million were also not met and none of the earn-out was paid to the vendors. This resulted in the total purchase consideration for LitSupport being $13 million instead of the initial potential total consideration of $32.2 million.

The performance of LitSupport has continued to deteriorate in the last 12 months, exacerbated by the impact of COVID-19, and is not expected to recover to the extent that the recoverable amounts of goodwill and brand names will exceed their carrying values. The impairment modelling applied probability sensitivities, including a number of different scenarios, an assessment of historical delivery against budget as well as the sensitivity to key financial assumptions driving the valuation. In addition, the modelling used a series of balanced assumptions to the underlying cash flow forecasts to lower the risk of over (or under)-stating the future performance of the CGU. The following scenarios and sensitivities were used in preparing the valuation model:

- *90% achievement of FY21 budgeted revenue*
- *only 2% Revenue growth per year (with a range of scenarios going from – 4% to 4% p.a considered);*
- *a consistent EBITDA margin assuming costs increase in line with revenue; and*
- *low 2% terminal EBITA growth rate*

The value-in-use calculation described above resulted in impairment losses of $4.2 million (A$4 million) and $1.6 million (A$1.5 million) being recognised in the 2020 financial year in respect of the TIMG AU CGU's goodwill and brand names, respectively. The impairment losses have been determined based on the greater of the recoverable amount from value-in-use and fair value less cost of disposal calculations. No other class of asset in the TIMG AU CGU was considered impaired by management.

For all other CGU, with the exception of the ones mentioned above, the value-in-use and fair value less cost of disposal calculations indicate that the recoverable amounts of goodwill and brand names of other CGU held by the Group exceed their carrying values and therefore there is no impairment in the value of those intangible assets.

Significant estimate – Sensitivity to changes in assumptions – 30 June 2020

With regard to the value-in-use assessment for all CGU's, other than TIMG AU described above and New Zealand Document Exchange (NZDX) discussed below, 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.

The value-in-use analysis prepared for TIMG AU based on the key assumptions described above is most sensitive to a change in revenue growth, terminal growth and post-tax discount rate. If the revenue growth and terminal growth rate used was reduced from 2% to 1%, the impairment loss recognised against intangibles would have been $9 million and $17.1 million, respectively. Conversely, if the revenue growth and terminal growth rate used was increased from 2% to 3%, the impairment loss recognised against intangibles would have been $2.8 million and nil, respectively, with the latter showing the recoverable amount exceeding the carrying amount by $10.2 million.

If the post-tax discount rate used increased from 7.5% to 8.5%, the impairment loss recognised against intangibles would have been $19.4 million. Conversely, if the post-tax discount rate used was decreased from 7.5% to 6.5%, there would be no impairment loss, as the recoverable amount would have exceeded the carrying amount by $13.5 million. The carrying value of the NZDX CGU has been assessed as at 30 June 2020 by management as being on par with its recoverable amount (2019: recoverable amount exceeded carrying value by $22.5 million). The analysis was performed by comparing the value-in-use of NZDX with its fair value less cost of disposal. The value-in-use analysis used the key assumptions described above (revenue growth rate of 1%, a consistent EBITDA margin assuming costs increase in line with revenue, probability weighted scenarios, post tax discount factor of 7.5%), with the value-in-use being sensitive to a change in the discount factor, although this would not materially change the value-in-use. The analysis also recognised the ongoing decline in postal volumes in New Zealand and the direct impact COVID-19 has taken in accelerating the market's already growing demand for digital communication solutions. NZDX has seen a recovery of its activity post lockdown, but a further deterioration of the economic and competitive environment could reduce the estimated recoverable amount of the NZDX CGU below the current carrying value of its intangible assets (2019: no reasonably possible change in any of the assumptions would cause the carrying value to materially exceed recoverable amount).

Note 17. 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	Leases $000	Total $000
2021							
Balance at beginning of year	(8,553)	4,952	3,954	806	(50,011)	7,427	(41,425)
Prior period adjustment	-	413	158	-	(289)	-	282
Transfer to income statement	573	2,592	885	-	2,156	962	7,168
Amounts relating to business combinations (Note 31)	-	-	-	-	(2,398)	-	(2,398)
Adjustment for cash flow hedge reserve	-	-	-	(342)	-	-	(342)
Exchange rate movement	-	7	4	-	(34)	12	(11)
Balance at end of year	**(7,980)**	**7,964**	**5,001**	**464**	**(50,576)**	**8,401**	**(36,726)**

Group	Property, plant and equipment $000	Employee entitlements $000	Accruals and provisions $000	Derivative financial instruments $000	Intangible assets $000	Leases $000	Total $000
2020							
Balance at beginning of year	(9,429)	4,148	3,050	1,516	(37,047)	-	(37,762)
Adjustment on adoption of IFRS 16	-	-	(354)	-	-	6,746	6,392
Restated balance at beginning of year	(9,429)	4,148	2,696	1,516	(37,047)	6,746	(31,370)
Prior period adjustment	(530)	175	16	-	11	-	(328)
Transfer to income statement							
• re-introduction of tax deductibility of building depreciation	1,430	-	-	-	-	-	1,430
• other	(26)	(75)	899	-	1,719	611	3,128
Amounts relating to business combinations	-	654	315	-	(14,469)	-	(13,500)
Adjustment for cash flow hedge reserve	-	-	-	(710)	-	-	(710)
Exchange rate movement	2	50	28	-	(225)	70	(75)
Balance at end of year	**(8,553)**	**4,952**	**3,954**	**806**	**(50,011)**	**7,427**	**(41,425)**

Note 18. 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.

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.

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.

Group	2021 $000	2020 $000
Current		
Trade creditors	54,084	44,556
Employee entitlements	31,561	21,138
Other creditors and accruals	17,299	21,962
	102,944	**87,656**
Non-current		
Acquisition earn-out payables	51,251	27,386
Other non-current payables	101	-
	51,352	**27,386**

Note 19. Provisions

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

Explanation of provisions

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

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

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

Group	Customer claims $000	Long service leave $000	Lease obligations $000	Total $000
2021				
Balance at beginning of year	905	3,639	3,012	7,556
Current year provision	38	606	489	1,133
Expenses incurred	-	(149)	(10)	(159)
Movement in exchange rate	(5)	12	4	11
Balance at end of year	**938**	**4,108**	**3,495**	**8,541**

Group	Customer claims $000	Long service leave $000	Lease obligations $000	Total $000
2020				
Balance at beginning of year	624	2,937	2,049	5,610
Current year provision	210	659	459	1,328
Amounts relating to business combinations	71	202	473	746
Expenses incurred	-	(235)	-	(235)
Movement in exchange rate	-	76	31	107
Balance at end of year	**905**	**3,639**	**3,012**	**7,556**

	2021 $000	2020 $000
Analysis of total provisions		
Current	1,562	1,225
Non-current	6,979	6,331
Total	**8,541**	**7,556**

Note 20. Contract liability

A contract liability of $14.6 million (2020: $15.1 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 $12.9 million (2020: $14.3 million).

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

Notes to the financial statements
For the year ended 30 June 2021

Note 21. 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 2021 $000	Group 2020 $000
Bank borrowings		
Current	-	5,210
Non-current	163,696	216,484
	163,696	**221,694**

(a) Secured borrowings

The bank borrowings security was changed to a negative pledge deed in March 2021 when the Group negotiated an extension of its syndicated bank facilities (refer Note 21(b)). The negative pledge includes a provision restricting the Group from granting security interests and a cross-guarantee of all relevant indebtedness by majority of the Company's subsidiaries (2020: 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).

(b) Finance facilities

The following finance facilities existed at the reporting date:

	Facilities denominated in New Zealand Dollars		Facilities denominated in Australian Dollars	
	2021 $000	2020 $000	2021 $000	2020 $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	170,000	229,500	130,000	120,423
Maturing 30 April 2021	-	6,000	-	-
Maturing 14 November 2021	-	20,000	-	-
Maturing 14 May 2022	-	30,000	-	-
Maturing 1 September 2022	-	37,000	-	21,173
Maturing 1 September 2023	-	56,500	-	49,250
Maturing 23 December 2023	-	70,000	-	-
Maturing 15 March 2024	120,000	-	-	-
Maturing 23 December 2024	-	-	-	20,000
Maturing 15 March 2025	30,000	-	80,000	-
Maturing 11 July 2025	-	-	20,000	20,000
Maturing 15 December 2026	10,000	10,000	10,000	10,000
Maturing 19 March 2028	10,000	-	20,000	-
Amount of loan facilities used	71,000	114,710	85,500	99,923
Amount of loan facilities unused	99,000	114,790	44,500	20,500
Effective interest rate at 30 June as amended for interest rate hedges	5.37%	5.44%	4.41%	4.55%

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 March 2021, the Group negotiated an extension of its syndicated bank facilities. Multiple tranches of New Zealand dollars (NZD) facilities totalling $213.5 million were merged into two facilities at reduced limits of NZ$120 million maturing on 15 March 2024 and NZ$30 million maturing on 15 March 2025. The lower limits reflect the expected needs of the Group and the fact that temporary facilities that had been set up at the onset of the COVID-19 pandemic were no longer required. The three tranches of Australian dollars (AUD) facilities totalling A$90.4 million were combined into one facility at a reduced limit of A$80 million maturing on 15 March 2025. The refinancing resulted in the recognition of a modification loss of $0.9 million in the income statement. In determining the modification loss to be recognised, the Group considered both qualitative and quantitative factors in determining whether the refinancing represented a modification or extinguishment of the previous facilities.

In March 2021, the Group entered into a new US$160 million uncommitted finance facility with a US-based lender on the same terms as the syndicated bank facilities negotiated during March 2021. Of this facility, the US dollar equivalent of NZ$20 million and A$50 million was drawn as at 30 June 2021. The drawn amounts mature in July 2025, December 2026 and March 2028, as detailed in the maturity table above.

(c) Big Chill Distribution Limited CreditPlus Facility

The fleet financing facility with a $6 million limit operated by Big Chill Distribution Limited was repaid progressively by March 2021 and was then cancelled.

Compliance with banking covenants

The Group was in compliance with all of its banking covenants throughout the year ended 30 June 2021. The Group's banking covenants forecast indicates that the Group will remain compliant with all of its banking covenants in the next twelve months. The forecast includes a sensitivity analysis of a 20% decline in forecast earnings before interest, income tax, depreciation and amortisation.

Net debt reconciliation

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

Group	Cash $000	Liabilities from financing activities Leases $000	Bank borrowings $000	Total $000
Balance at 1 July 2019	**15,986**	**(223,569)**	**(167,394)**	**(374,977)**
Cashflow	436	24,954	(45,802)	(20,412)
Lease additions, modifications and terminations	-	(110,199)	-	(110,199)
Acquisitions – borrowings	-	-	(6,023)	(6,023)
Exchange rate movement	264	(2,258)	(2,475)	(4,469)
Balance at 30 June 2020	**16,686**	**(311,072)**	**(221,694)**	**(516,080)**
Cashflow	3,341	32,594	58,870	94,805
Lease additions, modifications and terminations	-	(32,929)	-	(32,929)
Other non-cash movements	-	-	(861)	(861)
Exchange rate movement	(87)	(228)	(11)	(326)
Balance at 30 June 2021	**19,940**	**(311,635)**	**(163,696)**	**(455,391)**

Notes to the financial statements
For the year ended 30 June 2021

Note 22. 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	**2021 Ordinary shares**	2020 Ordinary shares	**2021 $000**	2020 $000
Balance at beginning of year	165,405,051	155,371,224	180,630	126,440
Share-based payment expenses	-	-	1,116	142
Shares issued during the year:				
- underwritten dividend reinvestment plan	-	4,368,075	-	23,461
- acquisition consideration	-	5,586,592	-	30,000
- employee share plan	125,000	80,000	830	579
(Increase) decrease in employee share plan unallocated shares	785	(840)	(5)	8
Balance at end of year	**165,530,836**	**165,405,051**	**182,571**	**180,630**

Contributed equity

(i) Fully paid ordinary shares

As at 30 June 2021 there were 165,538,104 shares issued and fully paid (2020: 165,413,104). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

(ii) Share rights

During the year, Freightways implemented a new executive Long Term Incentive (LTI) Scheme. This equity settled scheme replaces the previous senior executive performance share plan. The new LTI Scheme offers share rights to senior executives, with vesting determined at the end of a 3-year vesting period. Vesting is subject to the achievement of certain financial hurdles set by the Board and included in the annual offer of participation to executives. Each share right converts to one Freightways fully paid ordinary share upon vesting.

Share rights of 141,916 and 166,352 were issued on 31 July 2020 and 19 October 2020 respectively to senior executives under the Freightways LTI Scheme (2020: Nil). As at 30 June 2021, there were 308,268 share rights on issue (2020: Nil). Share rights do not carry a dividend entitlement and are non-transferable.

(iii) Partly-paid ordinary shares

Partly-paid shares were issued to senior executives in prior years under the rules of the Freightways Senior Executive Performance Share Plan (the 'Plan'). 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 23). During the year, 63,474 partly-paid shares were redeemed and cancelled (2020: 25,227). As at 30 June 2021 there were 200,342 partly-paid shares on issue, paid up to one cent per share (2020: 263,816). Partly-paid shares have no voting rights and no rights to dividends and surplus on winding up.

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

No partly-paid shares were fully paid-up during the year by Freightways senior executives under the Freightways Senior Executive Performance Share Plan (2020: Nil).

(v) Employee Share Plan

On 13 October 2020, the Company issued 125,000 fully paid ordinary shares at $6.64 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (October 2019: 80,000 fully paid ordinary shares at $7.24 each). In total, participating employees were provided with interest-free loans of $0.8 million to fund their purchase of the shares in the Share Plan (October 2019: $0.6 million). The loans are repayable over three years and repayment commenced in October 2020.

As at 30 June 2021, the Trustee held 631,958 (2020: 593,936) fully paid ordinary shares (representing 0.4% (2020: 0.4%) of all issued ordinary shares) of which 7,268 (2020: 8,053) 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 12(i).

(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 23. Share-based payments

The Group operates equity-settled, share-based compensation arrangements for senior executives, under which the Group receives services from employees as consideration for partly-paid ordinary shares and share rights in the Company. The fair value of the employee services received in exchange for the partly-paid ordinary shares and share rights is recognised as an expense. The total amount to be expensed is determined at grant date by reference to the fair value of the partly-paid ordinary shares and share rights 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, expected profit target against the capital employed 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 and share rights 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 and share rights 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. At each balance sheet date, the Group records tax obligation in relation to partly-paid shares that are expected to vest, with revisions to original estimates, if any, recognised in the income statement.

a) Description of share-based payment arrangements

At 30 June 2021, the Group had the following share-based payment arrangements.

(i) 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. The total contractual life of partly-paid shares is 5 years.

Notes to the financial statements
For the year ended 30 June 2021

The partly-paid shares vest if the participant remains employed by the Group for the duration of the vesting period and the following performance hurdles are met over the assessment period. They vest in the following proportions:

- *Total Shareholder's Return (TSR) class of shares (50% of partly-paid shares)*
  This will vest over the assessment period on a progressive vesting scale based on the Group's TSR relative to the TSR of other constituents of the NZX50 Index.
- *Earnings per Share (EPS) class of shares (50% of partly-paid shares)*
  This will vest based on achievement of TSR hurdle or EPS growth hurdle (derived from the budgets in respect of the escrow period) over the assessment period.

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. The Group settles the tax obligation in relation to the vesting of partly-paid shares on the date the shares are fully paid-up.

(ii) Freightways Long-term Incentive Scheme (the 'Scheme')

In July 2020, the Board approved a new Scheme for the senior executives to replace the existing Plan. Under this Scheme, share rights were issued at 'Nil' consideration which entitles participants to receive ordinary shares in Freightways within three years of vesting period. The total contractual life of share rights is 3 years.

Share rights will vest if the participant remains employed by Freightways for the duration of the vesting period and the following performance hurdles are met over the assessment period. They will vest in the following proportions:

- *Total Shareholder's Return (TSR) class of rights (50% of share rights)*
  This will vest over the assessment period on a progressive vesting scale based on the Group's TSR relative to the TSR of other constituents of the NZX50 Index.
- *Cost of Capital class of rights (50% of share rights)*
  This will vest based on exceeding a cost of capital hurdle (determined by the Board) over the assessment period.

On vesting date, subject to meeting service and performance conditions, each share right can be exercised to receive one ordinary share. The senior executives are liable for tax on the shares received at this point.

b) Reconciliation of outstanding partly-paid shares and share rights

	Number of partly-paid shares		Number of share rights	
	2021	2020	**2021**	2020
Balance at beginning of year	263,816	289,043	-	-
Issued during the year	-	-	308,268	-
Cancelled during the year	(63,474)	(25,227)	-	-
Fully paid-up or exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Balance at end of year	**200,342**	**263,816**	**308,268**	**-**
Exercisable at end of the year	200,342	-	-	-

c) Effect of share-based payment arrangements on profit or loss, financial position and equity

	2021 $000	2020 $000
Total amount expensed during the year	806	438
Liability recognised at year end for estimated income tax applicable to bonuses payable to facilitate the paying-up of vested partly-paid shares	607	911

d) Fair value measurement of share-based payment arrangements

The fair value of partly-paid shares has been measured using both the binomial option pricing model and Monte Carlo simulation. The fair value of share rights has been measured using Monte Carlo simulation. The fair value measurement also considers the terms and conditions upon which partly-paid shares and share rights were issued. Service and non-market performance conditions attached to the arrangements were not considered in measuring fair value.

The inputs used in the measurement of fair values at grant date of partly-paid shares and share rights were as follows:

	Partly-paid shares			Share rights	
Grant date:	12 Sept 2016	13 Sept 2017	26 Sept 2018	31 July 2020	19 Oct 2020
Fair value at grant date	$1.69 – TSR class of shares $3.78 – EPS class of shares (EPS option) $0.80 – EPS class of shares (TSR option)	$1.73 – TSR class of shares $4.48 – EPS class of shares (EPS option) $0.69 – EPS class of shares (TSR option)	$1.79 – TSR class of shares $4.28 – EPS class of shares (EPS option) $0.93 – EPS class of shares (TSR option)	$1.56 – TSR class of rights $6.52 – NOPAT class of rights	$4.14 – TSR class of rights $7.43 – NOPAT class of rights
Exercise price	$0.01	$0.01	$0.01	Nil	Nil
Share price at grant date	$6.82	$7.83	$7.56	$7.01	$8.29
Expected dividends	5.3%	4.2%	4.6%	4%	4%
Expected volatility	18%	14%	15%	24.6%	24.9%
Expected life	0.2 years	0.2 years	0.2 years	1.9 years	2.7 years
Risk free interest rate (based on government bonds)	2%	2.3%	1.9%	0.35%	0.10%

Expected volatility has been based on an evaluation of the historical volatility of the Freightways' share price, particularly over the historical period commensurate with the expected term. The expected term of partly-paid shares and share rights have been based on historical experience and general option holder behaviour.

Note 24. Reconciliation of profit for the year with cash flows from operating activities

	Note	Group 2021 $000	Group 2020 $000
Profit for the year		49,633	47,375
Add non-cash items:			
Depreciation and amortisation	5	64,687	50,353
Movement in provision for doubtful debts		329	1,024
Movement in deferred income tax		(4,726)	(4,149)
Net loss on disposal of property, plant and equipment		367	951
Net foreign exchange (gain) loss		(2,366)	5
Change in fair value of contingent consideration – Big Chill Distribution Limited		23,046	-
Other income and expenses		-	5,271
Impairment of non-current assets		-	608
Write-off of software		1,565	3,115
Share of profits of associates		(1,318)	(873)
Movement in working capital, net of effects of acquisitions of businesses:			
Decrease (increase) in trade and other receivables		(5,099)	(11,741)
Decrease (increase) in inventories		(1,414)	(1,010)
Increase (decrease) in trade and other payables		17,236	24,226
Increase (decrease) in income taxes payable		(6,927)	12,010
Net cash inflows from operating activities		**135,013**	**127,165**

Note 25. Capital commitments and contingent liabilities

The Group had made capital commitments to purchase or construct buildings and equipment for $8.4 million at 30 June 2021 (2020: $2.9 million), principally relating to the completion of operating facilities and purchase of replacement equipment throughout the Group.

As at 30 June 2021, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $5.2 million (2020: $5 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 26. 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 2021	Group 2020
Profit for the year attributable to shareholders ($000)	49,633	47,332
Weighted average number of ordinary shares ('000)	165,502	157,952
Basic earnings per share (cents)	**30.0**	**30.0**

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	
	2021	2020
Profit for the year attributable to shareholders ($000)	49,633	47,332
Weighted average number of ordinary shares ('000)	165,502	157,952
Effect of dilution ('000)	509	264
Diluted weighted average number of ordinary shares ('000)	166,011	158,216
Diluted earnings per share (cents)	**29.9**	**29.9**

* Basic and diluted earnings per share calculated on the profit for the year attributable to shareholders, excluding change in fair value of contingent consideration (Big Chill Distribution Limited) and other income and expenses, net of tax (refer Note 5), are 43.9 and 43.8 cents, respectively (2020: 35.5 and 35.4 cents, respectively).

Note 27. Net tangible assets per security

Net tangible assets (liabilities) per security at 30 June 2021 was ($0.83) (2020: ($1.01)).

Note 28. Transactions with related parties

Trading with related parties

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

Payments to joint venture

During the year, the Group paid Parcelair Limited $14.3 million (2020: $13.1 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	
	2021 $000	2020 $000
Short term employee benefits	7,508	6,218
Share-based payments (Note 23)	806	438

Note 29. Financial risk management

29.1 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.

Whilst the COVID-19 pandemic and its economic impact could potentially make access to funding more difficult than previously, Freightways maintains strong relationship with lenders and has access to a range of funding sources that would mitigate that risk.

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 lease liabilities and 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
2021						
Bank borrowings	3,674	3,835	8,702	129,026	54,387	199,624
Trade and other payables	82,482	27,818	51,251	-	101	161,652
Lease liabilities	15,721	15,357	28,770	75,083	176,704	311,635
Derivative financial instruments – interest rate swaps	856	696	359	-	-	1,911
2020						
Bank borrowings	3,395	8,777	7,456	192,938	43,768	256,334
Trade and other payables	71,994	29,393	193	27,193	-	128,773
Lease liabilities	15,713	14,928	26,884	65,787	187,760	311,072
Derivative financial instruments – interest rate swaps	1,217	1,045	1,636	696	-	4,594

Lease liabilities have been measured at the present value of the remaining lease payments, discounted using a discount rate derived from the incremental borrowing rate (IBR) when the interest rate implicit in the lease was not readily available. The amounts expected to be payable in relation to the interest rate swaps have been estimated using forward interest rates applicable at the reporting date.

(b) Credit risk

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

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

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/A – is required to qualify as an approved counterparty, with the exception that a maximum of 1% of total debt exposure may be with counterparty with BBB credit rating. 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	2021 $000	2020 $000
Cash and cash equivalents	19,940	16,686
Trade and other receivables	92,730	92,942
	112,670	**109,628**

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:

	2021			2020		
Group	Gross carrying amount $000	Expected loss rate %	Loss allowance $000	Gross carrying amount $000	Expected loss rate %	Loss allowance $000
Current	78,898	1%	870	71,426	0.5%	357
31-60 days over standard terms	7,759	6%	466	12,715	5%	636
60-90 days over standard terms	1,487	26%	387	1,497	25%	374
91+ days over standard terms	2,567	50%	1,291	3,285	47%	1,542
	90,711		3,014	88,923		2,909

The Group has $8.8 million (2020: $14.6 million) of financial assets that are overdue and not impaired.

(c) Market risk

Foreign exchange risk

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

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

As disclosed in Note 21, at 30 June 2021 the Group had Australian dollar denominated bank borrowings of AUD85,500,000 (2020: AUD99,923,000). Of these borrowings, AUD14,200,000 (2020: 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.

Sensitivity analysis:

	Interest rate movement					NZD/AUD movement
	Impact on profit			Impact on other components of equity		Impact on liabilities & equity
	Carrying amounts $000	+100 basis points $000	-100 basis points $000	+100 basis points $000	-100 basis points $000	+ or – 10% in value of NZD $000
2021						
Financial assets						
Cash and cash equivalents	19,940	144	(144)	144	(144)	-
Trade and other receivables	98,507	-	-	-	-	-
Financial liabilities						
Borrowings	163,032	(1,174)	1,174	(1,174)	1,174	1,387/(1,695)
Derivative financial instruments	1,659	410	(410)	983	(998)	-
2020						
Financial assets						
Cash and cash equivalents	16,686	120	(120)	120	(120)	-
Trade and other receivables	100,025	-	-	-	-	-
Financial liabilities						
Borrowings	221,694	(1,596)	1,596	(1,596)	1,596	1,382/(1,689)
Derivative financial instruments	2,882	527	(527)	1,545	(1,584)	-

(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 and US Private Placement (USPP)) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the fair value of an instrument is included in Level 2.

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

Specific valuation techniques used to value financial instruments include:

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

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

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

The amounts below are for the derivative financial instruments, USPP 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
2021				
Liabilities				
Derivative financial instruments	-	1,659	-	1,659
USPP	-	82,130	-	82,130
Contingent consideration in a business combination	-	-	51,305	51,305
Total liabilities	**-**	**83,789**	**51,305**	**135,094**
2020				
Liabilities				
Derivative financial instruments	-	2,882	-	2,882
USPP	-	49,469	-	49,469
Contingent consideration in a business combination	-	-	27,386	27,386
Total liabilities	**-**	**52,351**	**27,386**	**79,737**

The following table shows the valuation technique used in measuring Level 3 contingent consideration in a business combination and estimated purchase price adjustments:

Description	Fair value as at 30 June 2021	Fair value as at 30 June 2020	Unobservable Input	Range of inputs 2021	Range of inputs 2020	Relationship of unobservable inputs to fair value (sensitivity)
Contingent Consideration	51,305	27,386	Achievement of Annual Budget	92.5% – 107.5%	95% – 110%	A change in the achievement of the FY22 budget by 250 bps would increase/ decrease the FV of the consideration by $1.3m
			Probability weighted average of achieving FY22 Budget	99%	n/a	A change in the achievement of the FY22 budget by 250 bps would increase/ decrease the FV of the consideration by $1.3m
			Discount Rate	2.6%	2.6%	A change in the discount rate by 100 bps would increase/ decrease the FV of the consideration by $0.5m

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	
	2021 $000	2020 $000
Opening balance	27,386	1,464
Acquisition of businesses	-	27,381
Settlement	(139)	-
Purchase price adjustment	-	(1,505)
Change in fair value of contingent consideration	23,046	-
Unwinding of discount on contingent consideration	1,012	-
Exchange rate adjustments	-	46
Closing balance	**51,305**	**27,386**
Total losses for the year included in the income statement for liabilities held at the end of the reporting period, under:		
• Change in fair value of contingent consideration – Big Chill Distribution Limited	23,046	(1,505)
• Net interest and finance costs	1,012	-
	24,058	**(1,505)**

Contingent consideration in a business combination relates to an increase in the estimated future final payment for the acquisition of Big Chill Distribution Limited (BCD) (2020: relates to acquisition of BCD). Refer Note 31 for details of the BCD acquisition.

29.2 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 half-yearly 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.

Note 30. Financial instruments by category

(a) Assets, as per balance sheet

	Financial assets at amortised cost		Derivatives used for hedging		Total	
	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000
Group						
Trade and other receivables (excluding prepayments)	98,507	100,025	-	-	98,507	100,025
Cash and cash equivalents	19,940	16,686	-	-	19,940	16,686
Total	**118,447**	**116,711**	**-**	**-**	**118,447**	**116,711**

(b) Liabilities, as per balance sheet

	Derivatives used for hedging		Other financial liabilities at amortised cost		Other financial liabilities held at fair value		Total	
	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000	2021 $000	2020 $000
Group								
Borrowings (excluding lease liabilities)	-	-	163,696	221,694	-	-	163,696	221,694
Lease liabilities	-	-	311,636	311,072	-	-	311,636	311,072
Derivative financial instruments	1,659	2,882	-	-	-	-	1,659	2,882
Trade and other payables	-	-	66,802	60,096	51,305	27,386	118,107	87,482
Total	**1,659**	**2,882**	**542,134**	**592,862**	**51,305**	**27,386**	**595,098**	**623,130**

Note 31. Business combinations

Big Chill Distribution Limited ("BCD")

Effective 1 April 2020, the Group acquired 100% of BCD, a company operating in the New Zealand temperature-controlled transport and facilities market, for an initial consideration of approximately $114.6 million and a future earn-out representing 20% of BCD Enterprise Value as at 30 June 2022. This acquired subsidiary operates within the Group's express package & business mail division.

Given the size of the transaction and proximity to the end of financial year, the Group had not yet finalised the fair value assessment of the assets acquired, liabilities assumed and goodwill as at 30 June 2020. The Group finalised its assessment during the year ended 30 June 2021 and revised the fair value of the assets acquired and liabilities assumed.

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

	1 Apr 2020 & 30 June 2020 Preliminary $000	Adjustments $000	31 Dec 2020 Revised $000
Purchase consideration:			
Cash paid during the period	84,553	-	84,553
Issue of Freightways shares	30,000	-	30,000
Fair value of future earn-out payment	27,193	-	27,193
Total purchase consideration	**141,746**	**-**	**141,746**
Fair value of assets and liabilities arising from the acquisition:			
Cash and cash equivalents	5,715	-	5,715
Trade and other receivables	11,706	-	11,706
Plant and equipment	24,256	-	24,256
Right-of-use assets	91,292	-	91,292
Net investment in sublease	4,506	-	4,506
Brand name	5,500	8,500	14,000
Customer relationships	40,900	-	40,900
Non-compete agreement	1,900	-	1,900
Goodwill	83,755	(6,120)	77,635
Trade and other payables	(12,802)	-	(12,802)
Borrowings	(6,023)	-	(6,023)
Deferred tax liability	(12,724)	(2,380)	(15,104)
Lease liabilities	(96,235)	-	(96,235)
	141,746	**-**	**141,746**

The fair value of the trade and other receivables acquired as part of the business combination amounted to $11.7 million. The gross contractual amount is $12.1 million, with a loss allowance of $0.4 million recognised on acquisition.

The goodwill of $77.6 million arising upon this acquisition is attributable to the business know how and premium paid for strategic reasons, including acquiring an entry point into the temperature-controlled transport and facilities industry. None of the goodwill recognised is deductible for income tax purposes.

Notes to the financial statements
For the year ended 30 June 2021

(a) Big Chill brand name

The fair value for the Big Chill brand name was provisional as at 30 June 2020, which has since been finalised during the year ended 30 June 2021.

(b) Fair value of future final payment – 30 June 2020

The estimated discounted future final payment of $27.2 million payable in August 2022 was accrued for in the financial statements but was contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2021 and 2022. The potential undiscounted amount of the future final payment that the Group expected was between nil and $30 million. The Group forecasted several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

(c) Fair value of future final payment – 30 June 2021

As at 30 June 2021 the estimated discounted future final payment was increased to $51.3 million ($52.6m undiscounted), representing an increase of $23 million (net of impact of unwinding of discount on acquisition earn-out liability of $1 million) which has been recognised in the income statement. The Group has forecast several scenarios and probability-weighted each to determine an updated fair value for this contingent payment arrangement. The liability is presented within trade and other payables in the balance sheet.

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 2021, based on the actual performance of the acquired business, management has confirmed that no future earn-out payment will be due in September 2021 (2020: no accrual for this earn-out).

Note 32. Significant events after balance date

Dividend declared

On 23 August 2021, the Directors declared a fully imputed final dividend of 18 cents per share (approximately $29.8 million) in respect of the year ended 30 June 2021. The dividend will be paid on 1 October 2021. The record date for determination of entitlements to the dividend is 17 September 2021.

COVID-19

Post year end, parts of Australia have seen increased restrictions because of a resumption of COVID-19 cases. To date this has not had a material impact on the Group's business activities.

On 18 August 2021, New Zealand entered an alert level 4 lockdown. Freightways is deemed to provide essential services in New Zealand and have well established protocols to ensure that all staff and contractors can operate safely under all alert levels; however, under alert level 4, activity levels are significantly impacted across all the New Zealand businesses. Experience from the previous move from alert level 4 to alert level 3 showed that the express package businesses should recover quickly and tend to experience a significant increase in volumes stronger than expected under level 3.

Should the level 4 lockdown continue for an extended period we will continue to evaluate our cost base and whether there is a need to apply for the government wage subsidy.

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

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 2021

	Number of holders	Number of shares held	% of issued capital
Size of shareholding			
1 to 1,999	3,823	3,554,404	2.15
2,000 to 4,999	2,593	7,803,024	4.71
5,000 to 9,999	1,200	7,888,408	4.77
10,000 to 49,999	773	13,059,201	7.89
50,000 to 99,999	37	2,266,577	1.37
100,000 to 499,999	28	5,080,428	3.07
500,000 to 999,999	10	7,240,488	4.37
1,000,000 and over	24	118,645,574	71.67
Total shareholders	**8,488**	**165,538,104**	**100.00**
Geographic distribution			
New Zealand	8,313	148,859,239	89.92
Australia	109	16,402,930	9.91
Other	66	275,935	0.17
	8,488	165,538,104	100.00

Substantial product holders as at 31 July 2021

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	%
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	6.07

The total number of issued voting securities of the Company as at 31 July 2021 was 165,538,104.

Shareholder Information

Top twenty registered shareholders of listed shares as at 31 July 2021

	Number of Shares held	% of issued capital
Custodial Services Limited <A/C 4>	22,409,505	13.54
Citibank Nominees (New Zealand) Limited <CNOM90> *	11,258,890	6.80
FNZ Custodians Limited	10,213,616	6.17
HSBC Nominees (New Zealand) Limited <HKBN45> *	6,807,254	4.11
Forsyth Barr Custodians Limited <1-Custody>	6,801,727	4.11
Accident Compensation Corporation <ACCI40> *	6,470,160	3.91
ANZ Custodial Services New Zealand Limited <PBNK90> *	6,113,025	3.69
HSBC Nominees (New Zealand) Limited <HKBN90> *	6,024,598	3.64
TEA Custodians Limited <TEAC40> *	5,562,478	3.36
JPMorgan Chase Bank <CHAM24> *	5,261,681	3.18
BNP Paribas Nominees (NZ) Limited <BPSS40> *	4,147,241	2.51
National Nominees Limited <NNLZ90> *	3,701,878	2.24
JBWere (NZ) Nominees Limited <NZ Resident A/C>	3,210,896	1.94
PTJR Pty Limited	3,054,054	1.84
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited <SUPR40> *	2,894,673	1.75
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	2,756,778	1.67
ANZ Wholesale Australasian Share Fund <PNAS90> *	2,728,264	1.65
Dean John Bracewell & Phillipa Anne Bracewell & Bracewell Trustee Company Limited <Bracewell Family A/C>	1,753,733	1.06
BNP Paribas Nominees (NZ) Limited <COGN40>*	1,647,439	1.00
FNZ Custodians Limited <DTA Non Resident A/C>	1,319,295	0.80
	114,137,185	**68.97**

*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, appointment and performance

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 (excluding Fiona Oliver who was appointed on 5 July 2021): the non-executive Chairman and five non-executive directors. All Freightways' Directors are independent. Key executives attend board meetings by invitation.

Each director must enter into a written agreement with the Company on appointment that outlines the terms of the director's appointment.

The directors all undertake appropriate training to remain current on how to best perform their duties as directors of the Company.

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 2021, the Board was comprised of 5 male and 1 female directors (2020: 4 male and 2 female directors), and all 5 officers of the Company, who are not directors of the Company, were male (2020: all 5 officers of the Company, who were not directors of the Company, were male).

The Company has committed to promoting diversity and inclusion in the workplace through the development and advancement of under-represented groups in the Group with career opportunities, professional development courses and training. The Executive team of the businesses in the Group currently consists of 26% female with no measure of ethnic mix. The Company has set an objective of having 40% of the Executive, Leadership Teams and Freightways Board to be composed of representatives of currently under-represented groups (women, ethnic groups and employees under 43 years-old) by 2030.

Board meetings

The following table outlines the number of board meetings attended by Directors during the course of the 2021 financial year:

Director	Meetings Held	Meetings Attended
Mark Verbiest	11	11
Mark Cairns (Appointed 1 April 2021)	2	2
Kim Ellis	11	10
Abby Foote	11	11
Peter Kean	11	11
Mark Rushworth	11	11
Andrea Staines (Resigned 29 October 2020)	4	3
	4	3

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 (Chair), 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	8	8
Mark Rushworth	8	8
Mark Verbiest	8	8

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 and the Company's Remuneration Policy can be found at https://www.freightways.co.nz/about/corporate-governance/.

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

Director	Meetings Held	Meetings Attended
Kim Ellis	6	6
Mark Cairns (Appointed 24 June 2021)	1	1
Peter Kean	6	6
Andrea Staines (Resigned 29 October 2020)	2	2
Mark Verbiest	6	6

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 (Chair), Mark Cairns, Kim Ellis, Abby Foote, Peter Kean and Mark Rushworth. Meetings were held and attended, as follows:

Director	Meetings Held	Meetings Attended
Mark Verbiest	1	1
Mark Cairns (Appointed 1 April 2021)	-	-
Kim Ellis	1	1
Abby Foote	1	1
Peter Kean	1	1
Mark Rushworth	1	1
Andrea Staines (Resigned 29 October 2020)	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.

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 managers 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.

Ernst & Young performs internal audit on areas assessed to be highest risk for the business and are reviewed on a regular basis, including IT project management, payroll processing and managing business continuity.

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.

Takeover response plan

The Board has adopted a Takeover Response Plan to assist the directors and management with the response to unexpected takeover activity. The Plan summarises key aspects of takeover preparation, and sets out, governance, conflict and communications protocols for takeover response. This Plan provides that in the event of a takeover offer, the Board would establish an Independent Takeover Response committee to manage its takeover response obligations.

Directory
Freightways Limited and its subsidiaries

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

NOW Couriers Limited

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

New Zealand Document Exchange Limited

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

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

Big Chill Distribution Limited

28 Pukekiwiriki Place
Highbrook
Auckland
Telephone: 09 272 7440
www.bigchill.co.nz

The Information Management Group Pty Limited

PO Box 21
Enfield
New South Wales 2136
Australia
Telephone: +61 29 882 0600
www.timg.com
www.filesaver.com.au
www.litsupport.com.au

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

Company Particulars

Mark Verbiest (Chairman)
Mark Cairns
Kim Ellis
Abby Foote
Peter Kean
Fiona Oliver
Mark Rushworth

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

PricewaterhouseCoopers
15 Customs Street West
Auckland CBD
Auckland 1010

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

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

Freightways

Freightways Limited
freightways.co.nz