

Results for announcement to the market		
Name of issuer	FREIGHTWAYS LIMITED	
Reporting Period	6 months to 31 December 2018	
Previous Reporting Period	6 months to 31 December 2017	
	Amount (000s)	Percentage change
Revenue from ordinary activities	\$314,769	8%
Profit (loss) from ordinary activities after tax attributable to security holder	\$33,402	6%
Net profit (loss) attributable to security holders	\$33,402	6%
Interim/Final Dividend		
Gross amount per Quoted Equity Security	\$0.208333	
Imputed amount per sec Quoted Equity Security	\$0.058333	
Record Date	15 March 2019	
Dividend Payment Date	1 April 2019	
Net tangible assets per Quoted Equity Security	31 December 2018 - (\$0.52)	31 December 2017 - (\$0.61)
A brief explanation of any of the figures above necessary to enable the figures to be understood	Refer to the section "Half Year Review" for commentary.	
Authority for this announcement		
Name of person authorised to make this announcement	Mark Royle	
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Date of release through MAP	25/02/2019	

Unaudited financial statements accompany this announcement.

HALF YEAR REVIEW

From the Chairman and Chief Executive Officer

The Directors are pleased to present the consolidated financial results of Freightways Limited (Freightways) for the six months ended 31 December 2018. This report discusses the results, reviews the operations of each division and provides an outlook for the year ahead.

Highlights of the half year include:

- Overall year-on-year revenue, earnings and dividend growth
- In the express package & business mail (EP&BM) division:
 - Strong revenue and volume growth;
 - Productivity gains through improving the number of items per courier delivered in residential areas, and
 - Development of IT capability to enable 'pricing for effort' initiatives to be implemented
- In the information management (IM) division:
 - Three further acquisitions;
 - Pleasing progress in improving utilisation in the Australian storage footprint;
 - A major data digitisation contract win at the end of the half year, and
 - Solid growth in both secure destruction and medical waste revenue in Australia.
- Sustained cash generation from both divisions, maintaining debt headroom to pursue further growth initiatives and acquisitions.

Operating performance

The below table presents the reported half year result compared to the pcip, both before and after the inclusion of non-recurring items that were reported in the pcip:

	Note	Dec-18 \$M	Dec-17 \$M	Increase %
Revenue		314.8	292.1	7.7%
EBITA, before non-recurring items	i.	50.7	49.2	3.0%
Non-recurring items		1.4	-	
EBITA	ii.	52.1	49.2	5.8%
NPAT, before non-recurring items	iii.	32.0	31.4	2.0%
Non-recurring items after tax		1.4	-	
NPAT	iv	33.4	31.4	6.3%
Basic EPS (cents), before non-recurring items		20.6	20.3	

Notes:

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

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

- 2018: Non-recurring benefit before tax totalling \$1.4 million (no tax applicable) in respect of the gain arising during the half year upon the progressive recording of the replacement of earthquake-related damaged racking funded by insurance proceeds. A gain on the racking replacement arises because the overall insurance proceeds for new racking will exceed the written down book value of the structurally-compromised racking written-off.

Dividend

The Directors have declared an interim dividend of 15 cents per share, fully imputed at a tax rate of 28%, being a 3% increase above the pcp interim dividend of 14.5 cents per share. This represents a payout of approximately \$23.3 million compared with \$22.5 million for the pcp. The dividend will be paid on 1 April 2019. The record date for determination of entitlements to the dividend is 15 March 2019.

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

REVIEW OF OPERATIONS

Divisional results for the half year ended 31 December 2018 are provided below for the EP&BM division and the IM division.

Express Package & Business Mail Division

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

Operating revenue of \$233.5 million was 7.8% higher than the pcp. EBITA of \$38.6 million was 6.1% higher than the pcp.

Strong revenue growth in the first half was driven by a combination of organic growth in volumes from existing customers, which largely tracked as it had done in the financial year ended 30 June 2018 (FY18), market share gains and improved pricing. The ParcelAir Limited joint venture, that provides Freightways' airfreight capacity, leased a 4th Boeing 737 and operated it as part of the network from November until the end of December to assist with peak volumes. This aircraft will become a permanent fixture in the network in FY20, but is not expected to result in any material increase in operating costs for Freightways. Labour costs stepped-up throughout the half year as a result of the tight labour market and planned increases to wage rates.

Freightways' smaller postal businesses, DX Mail and Dataprint, grew combined revenue in the half. DX Mail lifted its EBITA by over 7% compared to the pcp while expanding its network, however Dataprint's earnings were down on the pcp as customers continued the shift from physical mail to digital communications.

The EP&BM division delivered a sound half year result, while positioning itself well to implement its B2C strategies.

Key Strategies in 2019

Residential Network Review: The programme of residential network intensification resulted in 28 fewer courier runs by December. Given higher volumes than the pcp and fewer courier runs, our productivity increased as a result. An exercise using advanced data analytics will take place in the second half of FY19 to assess further opportunities for improved delivery efficiency and increased contractor earnings. This initiative is expected to have a positive impact on a number of Freightways' environmental, social & governance (ESG) initiatives, including, ongoing strategies to improve courier earnings & service levels, as well as reducing carbon emissions.

Pricing for Effort: The strategy to appropriately price B2C express package (EP) services to ensure both the company and its contractors are motivated to facilitate profitable e-commerce revenue growth is being actively pursued. The EP brands have been testing the pricing approach with both new and existing business customers during the half year and are now rolling the programme out to all new business opportunities and it will form part of our 2019 uprates in July this year. It is expected e-commerce will continue to drive increased volumes to Freightways year on year and the group is committed to ensuring this growth is both profitable and sustainable and that the B2C services provided meet customers' expectations.

Visibility and Data Analytics: New scanning technology for the EP businesses was successfully piloted in November and December and will be rolled out for the wider courier fleets over the remainder of the financial year. The technology enables improved visibility for customers and their receivers. This will complement improved reporting capabilities which will allow the EP teams to better analyse every aspect of their operations so as to help deliver improved efficiency, profit margins and service standards.

Information Management Division

This division operates under the brands of The Information Management Group (TIMG), Shred-X and, following the recent acquisition of a business in the Medical Waste industry, Med-X.

Operating revenue of \$82.2 million was 7.6% higher than the pcp. EBITA of \$14.7 million was 0.5% higher than the pcp.

Compared to the pcp, revenue growth was achieved by all businesses within this division. A number of additional costs relating to acquisitions and an increase in sales, marketing and IT labour were incurred during the period. Utilisation of IM facilities across New Zealand and Australia continued to improve as storage volumes increased. Secure destruction revenues increased across the suite of paper grades sold, eDestruction and medical waste services. Approximately 10% of IM revenues are now generated by digital services, of which some are annuity services, and some are project-based. Growth in these digital services, while at an early stage of development, has been positive and in 2019 has been boosted by the winning of a large data collection & digital transformation project in Australia.

TIMG's Porirua document storage facility, that was damaged in the North Canterbury earthquake, has now had its racking fully replaced. This was a significant project completed by the business during December 2018 and was accomplished on time and with no disruption to customer service. Freightways carries comprehensive insurance for events such as this. The \$2 million write-off of the written down book value of the structurally-compromised racking in the division's FY18 result and its progressive replacement with new racking since have been funded by insurance proceeds received during the project, resulting in a non-recurring accounting gain of \$1 million in the FY18 result and a further \$1.4 million in this half year result. These gains have been disclosed as non-recurring items in the respective income statements.

Key Strategies in 2019:

Facility Utilisation: Utilisation of IM facilities in Australia has improved steadily throughout the half year and is on track for 70% by the end of the financial year, despite taking on a small additional warehouse in Queensland. This improvement has been achieved through an equal mix of market share gains and organic growth in the volume of records stored by existing customers.

Digital Services Growth: The increased investment in sales & marketing is beginning to pay off, with a number of new digital opportunities won toward the end of the period. Growing the division's existing digital services and exploring opportunities for adjacent digital offerings will continue to be a focus for the business in 2019.

Secure Destruction and Medical Waste: These markets present an opportunity to apply Shred-X's consistent and high-quality national service standards and sales methodologies to grow in a number of adjacent niche markets. The business has demonstrated particularly strong revenue growth in all lines of business during the half year. Growth has been generated from a number of smaller bolt-on acquisitions completed at the beginning of the half year, as well as through new business acquired in the 2nd quarter. Management will continue to focus on both the integration of these acquisitions, as well as closing additional opportunities in the pipeline.

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

Freightways is pleased to announce the recent acquisition of a number of small businesses in Australia that operate in the IM and Medical Waste industries. Three businesses were acquired early in the half year for a total of \$10.3 million. These businesses are expected to be contributing annualised EBITDA of \$1.6 million by the end of the financial year, as the businesses become fully integrated. Related capital expenditure will be approximately \$0.5 million. These acquisitions will be immediately EPS positive.

Corporate

Corporate costs increased by \$0.8 million compared to the pcp, primarily due to the reclassification of certain managers from the divisions into newly-created corporate roles, in addition to an uplift in consulting costs relating to internal audit, external reporting and ESG initiatives.

Net debt increased by approximately \$9 million to \$163 million during the year. While cash flows from operations remained strong and adequately covered all planned expenditures, an additional \$10 million was invested in three small acquisitions. Freightways continues to have excellent support from its lenders and sufficient headroom in facilities and gearing levels to continue actively pursuing its solid pipeline of acquisition opportunities.

OUTLOOK

The markets in which Freightways operates in both New Zealand and Australia continue to remain positive, albeit the company will continue to closely monitor indicators for any adverse changes in economic activity in New Zealand, in particular. Growth opportunities leveraging the current customer base and through acquisitions exist in both New Zealand and Australia and will be actively pursued. Subject to factors beyond its control, Freightways is once again targeting year-on-year earnings growth for the full year.

Within the EP&BM division, the company expects that its strategies to better align price and efficiency will gain further traction, particularly in the faster-growing B2C market. The inflationary cost of operating in a tight labour market, along with a generally higher cost of doing business, is expected to be offset by increased pricing, including pricing related to higher fuel costs. Freightways will continue to monitor employment law reform.


Within the IM division, increased utilisation of existing capacity will continue to be a key focus. Freightways is encouraged by recent digital services wins and will continue to invest in this capability. The group's entry into the Medical Waste industry has tracked to expectation, with a presence now in both New South Wales and Victoria.

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

CONCLUSION

Freightways has continued to invest in the future of both divisions, while returning a sound result for the first half of the 2019 financial year. The key EP&BM strategies are critical to generating both growth and improved returns from the growing B2C sector. In Information Management, the group will continue to grow scale in existing revenue lines and will be alert to new opportunities which can leverage the group's existing customer relationships and core competencies. Freightways' agility and entrepreneurial outlook should see it continue to adapt to changing markets and conditions and continue to be resilient in the face of external factors. Freightways is committed to improving the long-term sustainability of its business for the benefit of its teams of people, its customers, its shareholders and the environments in which it operates.

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



Mark Verbiest
Chairman



Mark Troghear
Chief Executive Officer

25 February 2019

FREIGHTWAYS LIMITED CONSOLIDATED INCOME STATEMENT for the half year ended 31 December 2018 (unaudited)

	6 mths ended 31 Dec 2018 \$000	6 mths ended 31 Dec 2017 \$000	Variance %
Operating revenue	314,769	292,133	8%
Other income	1,194	2,913	(59%)
Transport and logistics expenses	(125,990)	(115,158)	9%
Employee benefits expenses	(83,982)	(79,233)	6%
Occupancy expenses	(14,403)	(13,124)	10%
General and administrative expenses	(32,174)	(28,490)	13%
Other expenses	(1,194)	(2,913)	(59%)
Non-recurring items	1,373	-	-
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles	59,593	56,128	6%
Depreciation and software amortisation	(7,492)	(6,895)	9%
Operating profit before interest, income tax and amortisation of intangibles	52,101	49,233	6%
Amortisation of intangibles	(1,004)	(979)	3%
Operating profit before interest and income tax	51,097	48,254	6%
Net interest and finance costs	(5,009)	(5,127)	(2%)
Profit before income tax	46,088	43,127	7%
Income tax	(12,686)	(11,718)	8%
Profit for the period attributable to shareholders	33,402	31,409	6%

FREIGHTWAYS LIMITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the half year ended 31 December 2018 (unaudited)
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	6 mths ended 31 Dec 2018 \$000	6 mths ended 31 Dec 2017 \$000
Profit for the period	33,402	31,409
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(2,373)	2,274
Cash flow hedges taken directly to equity, net of tax	324	1,006
Total other comprehensive income after income tax	(2,049)	3,280
Total comprehensive income for the period attributable to the shareholders	31,353	34,689

FREIGHTWAYS LIMITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the half year ended 31 December 2018 (unaudited)

	6 mths ended 31 Dec 2018 \$000	6 mths ended 31 Dec 2017 \$000
Equity at the beginning of the period	258,223	236,568
Profit for the period	33,402	31,409
Exchange differences on translation of foreign operations	(2,373)	2,274
Cash flow hedges taken directly to equity, net of tax	324	1,006
Total comprehensive income for the period	31,353	34,689
Dividends paid	(23,695)	(22,880)
Issue of ordinary shares, net of costs	1,180	680
Attributable to non-controlling interests	109	-
Equity at the end of the period	267,170	249,057

FREIGHTWAYS LIMITED
CONSOLIDATED BALANCE SHEET
as at 31 December 2018 (unaudited)

	As at 31 Dec 2018 \$000	As at 31 Dec 2017 \$000	As at 30 Jun 2018 \$000
ASSETS			
<u>Current assets</u>			
Cash and cash equivalents	3,441	10,450	7,410
Trade and other receivables	95,199	89,234	82,150
Inventories	5,327	4,848	4,804
Income tax receivable	-	657	-
Total current assets	103,967	105,189	94,364
<u>Non-current assets</u>			
Trade receivables and other non-current assets	3,390	2,158	4,803
Property, plant and equipment	106,531	103,002	103,102
Intangible assets	363,532	357,817	358,419
Total non-current assets	473,453	462,977	466,324
Total assets	577,420	568,166	560,688
LIABILITIES			
<u>Current liabilities</u>			
Trade and other payables	72,718	71,878	66,887
Finance lease liabilities	119	118	126
Income tax payable	3,687	1,791	5,525
Provisions	745	795	710
Derivative financial instruments	617	1,343	451
Unearned income	15,548	15,633	15,864
Total current liabilities	93,434	91,558	89,563
<u>Non-current liabilities</u>			
Trade and other payables	3,201	4,887	3,446
Borrowings (secured)	166,487	175,778	161,800
Deferred tax liability	37,394	36,168	37,506
Provisions	4,720	4,268	4,465
Finance lease liabilities	208	142	286
Derivative financial instruments	4,806	6,308	5,399
Total non-current liabilities	216,816	227,551	212,902
Total liabilities	310,250	319,109	302,465
NET ASSETS	267,170	249,057	258,223
EQUITY			
Contributed equity	126,440	125,110	125,260
Retained earnings	150,568	132,601	140,861
Cash flow hedge reserve	(3,905)	(5,484)	(4,229)
Foreign currency translation reserve	(6,042)	(3,170)	(3,669)
	267,061	249,057	258,223
Non-controlling interests	109	-	-
TOTAL EQUITY	267,170	249,057	258,223
Net tangible assets (liabilities) per security	(\$0.52)	(\$0.61)	(\$0.55)

FREIGHTWAYS LIMITED CONSOLIDATED STATEMENT OF CASH FLOWS for the half year ended 31 December 2018 (unaudited)
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	6 mths ended 31 Dec 2018 \$000	6 mths ended 31 Dec 2017 \$000
	Inflows (Outflows)	Inflows (Outflows)
<u>Cash flows from operating activities</u>		
Receipts from customers	304,469	284,333
Payments to suppliers and employees	(252,636)	(230,720)
Cash generated from operations	51,833	53,613
Interest received	51	41
Interest and other costs of finance paid	(4,610)	(5,002)
Income taxes paid	(14,925)	(13,831)
Net cash inflows from operating activities	32,349	34,821
 <u>Cash flows from investing activities</u>		
Payments for property, plant & equipment	(10,199)	(7,402)
Payments for software	(1,972)	(2,953)
Proceeds from disposal of property, plant & equipment	507	33
Payments for businesses acquired (net of cash acquired)	(10,516)	(5,374)
Receipts from associate	1,709	-
Payments for other investing activities	(204)	(203)
Net cash outflows from investing activities	(20,675)	(15,899)
 <u>Cash flows from financing activities</u>		
Dividends paid	(23,695)	(22,880)
Increase in bank borrowings	8,193	5,594
Proceeds from issue of ordinary shares	390	330
Finance lease liabilities repaid	(68)	(93)
Net cash outflows from financing activities	(15,180)	(17,049)
 Net increase in cash and cash equivalents	 (3,506)	 1,873
Cash and cash equivalents at the beginning of the period	7,410	8,423
Exchange rate adjustments	(463)	154
Cash and cash equivalents at the end of the period	3,441	10,450

Earnings per Security (EPS)

Calculation of basic and fully diluted EPS in accordance with NZ IAS 33: Earnings Per Share:

	Current half year (cents per share)	Previous corresponding half year (cents per share)
Basic EPS	21.5	20.3
Diluted EPS	21.5	20.2

Basic and diluted earnings per share calculated on the profit for the year attributable to shareholders, excluding non-recurring items, net of tax, are both 20.6 cents.

Dividends Paid

	Date Paid	Cents per share (fully imputed)
Final Dividend for the year ending 30 June 2018	2 October 2018	15.25
		15.25

Post Balance Date Events

Dividend declared

On 25 February 2019, the Directors declared a fully imputed interim dividend of 15 cents per share (approximately \$23.3 million) in respect of the year ended 30 June 2019. The dividend will be paid on 1 April 2019. The record date for determination of entitlements to the dividend is 15 March 2019. A supplementary dividend of 2.65 cents per share will be paid to overseas shareholders when the interim dividend is paid. The Freightways Dividend Reinvestment Plan will not operate for this dividend.

Non-recurring Items, Other Income and Other Expenses

Included in non-recurring items is a non-recurring benefit before tax totalling \$1.4 million (no tax applicable) in respect of the gain arising during the half year upon the progressive recording of the replacement of earthquake-related damaged racking funded by insurance proceeds. A gain on the racking replacement arises because the overall insurance proceeds for new racking will exceed the written down book value of the structurally-compromised racking written-off.

Included in other expenses is an amount of \$1.2 million in additional costs of operations resulting from the above-mentioned earthquake, which are also recoverable from insurance, and compensation of \$1.2 million received from the Group's insurers for these additional costs of operations has been included in other income.

Segment Reporting

The Group is organised into the following reportable operating segments which categorise the business into its primary markets and reflect the structure and internal reporting used by the Chief Executive Officer, as the chief operating decision maker, and the Board to assist strategic decision-making and allocation of resources:

Express package & business mail

Comprises network courier, point-to-point courier and postal services.

Information management

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

Corporate and other

Comprises corporate, financing and property management services.

The Group has no individual customer that represents more than 3% of external sales revenue.

	Express package & business mail \$000	Information management \$000	Corporate & other \$000	Inter- segment elimination \$000	Consolidated operations \$000
<u>Half year ended</u>					
<u>31 December 2018</u>					
Sales to external customers	232,613	82,156	-	-	314,769
Inter-segment sales	866	-	2,414	(3,280)	-
Total revenue	<u>233,479</u>	<u>82,156</u>	<u>2,414</u>	<u>(3,280)</u>	<u>314,769</u>
Operating profit (loss) before non-recurring items, interest, income tax, depreciation and software amortisation and amortisation of intangibles	42,401	17,609	(1,790)	-	58,220
Non-recurring items	-	1,373	-	-	1,373
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	<u>42,401</u>	<u>18,982</u>	<u>(1,790)</u>	<u>-</u>	<u>59,593</u>
Depreciation and software amortisation	(3,773)	(2,947)	(772)	-	(7,492)
Operating profit (loss) before interest, income tax and amortisation of intangibles	<u>38,628</u>	<u>16,035</u>	<u>(2,562)</u>	<u>-</u>	<u>52,101</u>
Amortisation of intangibles, excluding software amortisation	(25)	(979)	-	-	(1,004)
Operating profit (loss) before interest and income tax	<u>38,603</u>	<u>15,056</u>	<u>(2,562)</u>	<u>-</u>	<u>51,097</u>
Net interest and finance costs	(6)	(99)	(4,904)	-	(5,009)
Profit (loss) before income tax	<u>38,597</u>	<u>14,957</u>	<u>(7,466)</u>	<u>-</u>	<u>46,088</u>
Income tax	(10,689)	(4,147)	2,150	-	(12,686)
Profit (loss) for the period attributable to the shareholders	<u>27,908</u>	<u>10,810</u>	<u>(5,316)</u>	<u>-</u>	<u>33,402</u>

Segment Reporting (continued)

	Express package & business mail \$000	Information management \$000	Corporate & other \$000	Inter- segment elimination \$000	Consolidated operations \$000
<u>Half year ended</u>					
<u>31 December 2017</u>					
Sales to external customers	215,815	76,318	-	-	292,133
Inter-segment sales	864	-	2,281	(3,145)	-
Total revenue	216,679	76,318	2,281	(3,145)	292,133
Operating profit (loss) before interest, income tax, depreciation and software amortisation and amortisation of intangibles	39,776	17,345	(993)	-	56,128
Depreciation and software amortisation	(3,380)	(2,749)	(766)	-	(6,895)
Operating profit (loss) before interest, income tax and amortisation of intangibles	36,396	14,596	(1,759)	-	49,233
Amortisation of intangibles, excluding software amortisation	(25)	(954)	-	-	(979)
Operating profit (loss) before interest and income tax	36,371	13,642	(1,759)	-	48,254
Net interest and finance costs	(12)	(240)	(4,875)	-	(5,127)
Profit (loss) before income tax	36,359	13,402	(6,634)	-	43,127
Income tax	(10,072)	(3,997)	2,351	-	(11,718)
Profit (loss) for the period attributable to the shareholders	26,287	9,405	(4,283)	-	31,409

Business Combinations

During the half year ended 31 December 2018, the Group acquired three small information management businesses in Australia for an aggregate purchase consideration totalling approximately \$10.5 million. These businesses have been integrated into the Australian businesses of the Group's information management division. The acquisitions were:

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

The contribution of these businesses to the Group results for the half year ended 31 December 2018 was revenue of \$1.6 million and operating profit before interest, income tax and amortisation of intangibles of \$0.2 million.

If these acquisitions had all occurred at the beginning of the period, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the half year is estimated at \$1.7 million and \$0.3 million, respectively.

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

Purchase consideration	\$000
Initial acquisition payments	10,488
Less Cash consideration payable as at the end of the period	(545)
Cash consideration paid during the period	9,943
Cash consideration payable as at the end of the period	545
Total purchase consideration	10,488
Fair value of assets and liabilities arising from the acquisition	
Cash	526
Trade and other receivables	120
Inventories	223
Plant and equipment	679
Customer relationships	1,706
Goodwill	8,385
Trade and other creditors	(278)
Provisions	(361)
Deferred tax liability	(403)
Non-controlling interest	(109)
	10,488

The goodwill of \$8.4 million arising upon these acquisitions is attributable to the intellectual property obtained and economies of scale expected to be enhanced by integrating these businesses into the operations of the Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

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

Prior period acquisitions:

LexData

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

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

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.

An estimated discounted future earn-out payment of \$1.7 million may be payable in September 2021, but is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2019, 2020 and 2021. The potential undiscounted amount of the future earn-out payment that the Group expects could be required to be made in respect of this acquisition is between nil and \$4.5 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

Changes in Accounting Policies

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

The Group adopted the following new standards for which application was mandatory for the first time in the financial year beginning 1 July 2018 and there has been no material impact on the financial statements:

- **NZ IFRS 9: Financial Instruments** addresses the classification, measurement and recognition of financial assets and liabilities and introduced new rules for hedge accounting and a new impairment model for financial assets.
- **NZ IFRS 15: Revenue for contracts with customers** deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It replaced the previous revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts and related interpretations. The new standard is based on the principle that revenue is recognised when a customer obtains control of a good or service and therefore has the ability to direct the use and obtain the benefits from the good or service.

Standards, Amendments and Interpretations to Existing Standards That Are Not Yet Effective

From time to time, certain new standards, amendments and interpretations of existing standards are published by the International Accounting Standards Board (IASB) and the External Reporting Board (XRB) that become mandatory for future periods and which the Group will adopt when they become mandatory. As at 31 December 2018, the following new standard is applicable to the Group include:

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

This standard replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use' (ROU) asset for virtually all lease contracts. Included is an optional exemption for lessees in respect of certain short-term leases and leases of low value assets.

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

This standard will change the accounting for the Group's operating leases. As at the reporting date, the Group had non-cancellable operating lease commitments of \$126 million. Upon adoption, NZ IFRS 16 will have a material impact on a number of elements of the Group's balance sheet and income statement, but no impact on the Group's statement of cash flows.

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

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

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

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

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

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

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

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

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

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

There are no other new standards, amendments or interpretations that are not yet effective that would be expected to have a material impact on the Group.