AR

Moving forward

20

Freightways Limited and its subsidiaries
Annual Report Financial Year ended 30 June 2020

Freightways

We've never been afraid to be the first to do something – if it's the right thing to do.

This year we've successfully expanded into new areas because we saw opportunities to add value across several sectors. We invested in Big Chill because we knew there was growth potential in the food supply chain. We've revamped and strengthened courier businesses like NOW to continue delivering at the high service levels our customers expect. We introduced a trans-Tasman air freight service to help exporters deliver to their Australian markets. And we introduced Pricing For Effort (PFE) to ensure our drivers take home the earnings they deserve, and the business improved its margin on residential deliveries.

Of course the country's response to the threat of COVID-19 affected us, just like it did all New Zealand businesses. But it also brought out the best in our culture.

Right across our brands, people stepped in to help where help was needed. Good things happened. Every day.

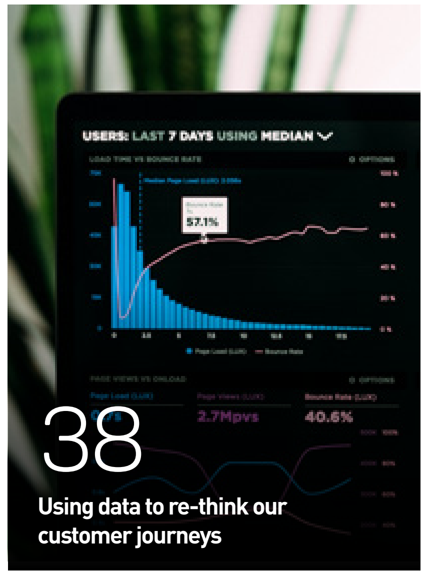
Like all businesses, we'll respond to the ebbs and flows of what has happened in ways that protect our business and respect the expectations of our investors. But entrepreneurship will remain our constant. We have always been, and will always be, a company that grows on the strengths of what we accomplish together.

Contents


BIG CHILL
DISTRIBUTION


Pass the Parcel


Parcelair
POST HASTE


USERS: LAST 7 DAYS USING MEDIAN
57.1%
2.7Mpvs
40.6%


KidsCan
EY GUARD THEIR
OATS LIKE


NOW
COURIERS
Across Auckland
Today & Tonight
nowcouriers.co.nz

Lockdown challenged us. But it also motivated us.

Thinking laterally, understanding our capability deeply and acting quickly gave us the ability to pivot in lockdown and take advantage of opportunities that emerged. In COVID-19 Alert Level 3 the unprecedented freight volumes that passed through the Express Package network - plus the commencement of our international scheduling for our 737 fleet - characterised lockdown for many of our people.

38 million mail items

Our Business Mail division continues to perform well despite current market and competitive dynamics. Nimbleness and a culture of customer care keeps brands DX Mail and Dataprint in a good position leading into 2021.

31.4 million kgs

Airfreight volumes increased this year (30 million kgs domestically and 1.4 million kgs internationally) with the lift-off of our daily trans-Tasman 737 freight service. Excited by the ability to use our aircraft assets around the clock, the service enabled exporters to get product to Australian markets at a time when passenger aircraft freight capacity had dropped dramatically.

Hosted 2.5TB of eDiscovery data every month

2.7million

Processed 2,700,000 kgs of non-paper destruction

Lost Time Injury Frequency Rate of 10 (LTIFR)

Improved pricing by $0.73 per item for residential addressed parcels

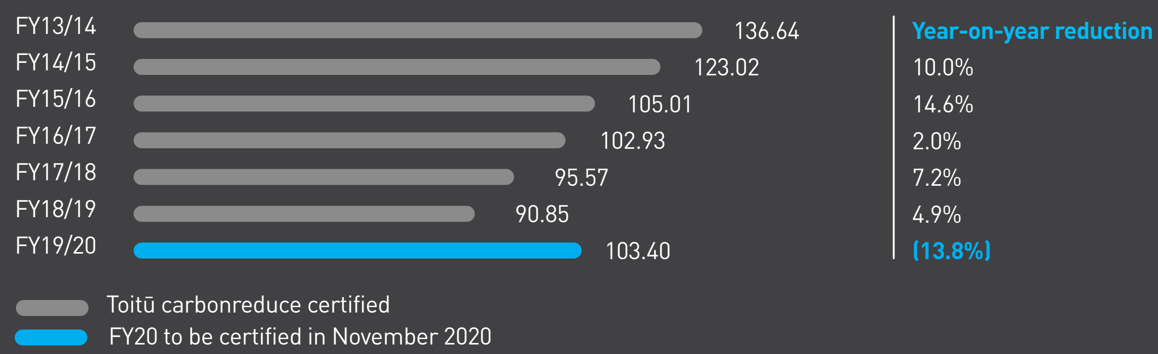
Provided 1.4 million kgs of international airfreight capacity

An increase of 50% in residential volumes during level 3 lockdown

Facilitated 200 staff through leadership development training and 250 leaders through Mental Health Awareness training

Delivered 87% of residential items within 1 day and 95% within 2 days during the level 3 online shopping boom

Total gross GHG emissions (tCO2e) per million dollars of revenue



FY19/20 emissions excludes Big Chill emissions which will be included from FY21 onwards.
FY19/20 total gross GHG emissions per million dollars of revenue increased due to international airfreight flown during the year (see page 28) and the impact of reduced revenue as a result of COVID-19 but with minimal reduction in network emissions to maintain the level of reach and service.

Freightways' market leading brands

Our business model is highly responsive

Our market leading brands combine density 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. That spirit shone through this year in the way our people came together to help each other out during lockdown.

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 most recently Big Chill Distribution. We also offer airfreight capability for our overnight Express Package delivery service through our joint venture airline, Parcelair.

Mail Delivery

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

Digital Mailhouse

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

The Information Management Group

The Information Management Group 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.

Secure Destruction

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

COVID 19

Business impact and actions

IMPACTS

By division

Information Management

Revenue comparison year-on-year

Express Package

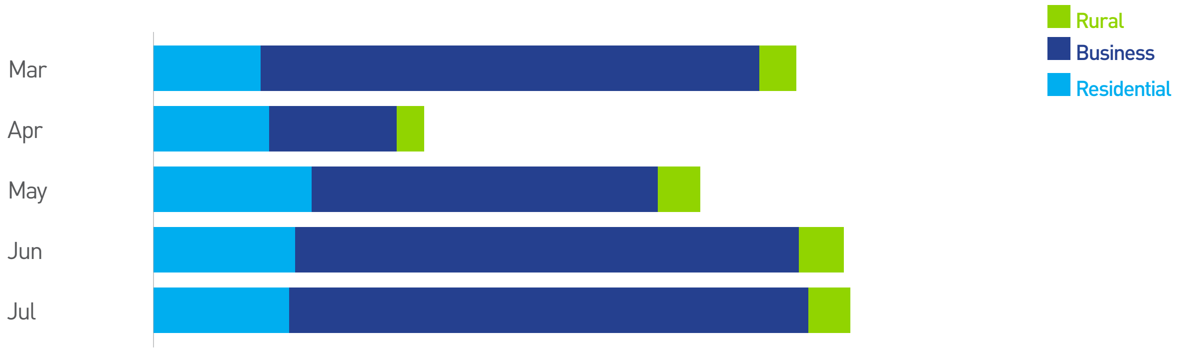
Revenue comparison year-on-year

Note: For like for like comparison, the Express Package graph excludes contribution from Big Chill

Network Courier Items by Delivery Point

B2B, B2C Mix (in 2020)

Note: For like for like comparison, the Express Package graph excludes contribution from Big Chill



ACTIONS

Led the industry with contactless deliveries

Range of onsite precautionary measures

$54 million

Of new equity through use of the Dividend Reinvestment Plan and partial payment of the Big Chill acquisition

Reduced hours worked through lockdown

Streamlined overtime and use of casual labour

Elimination of travel and discretionary spending

Reduced non-essential capital expenditure

Savings in salaries, wages and directors fees

Heightened focus on cash collection

1,000 staff worked from home

Range of health and safety measures

Extended and renegotiated lending facilities

Our people during lockdown

Leaning into lockdown

Leseia and Stacey's story

Leseia Fewtrell (National Business Development Manager) and Stacey Collis (Commercial Manager) normally work in the National Sales team at Post Haste Group head office.

During COVID-19 level 3, they swapped corporate attire for active wear, their cars became courier vehicles and their mobile phones transformed into scanners.

"Our primary focus was to deliver the Ministry of Education packs direct to the homes of school children. The first part of our morning was spent sorting the school packs into streets, then building our runs to ensure we got as much density as possible."

Some days were much better than others, they say, with average deliveries being around 80 items each, with a peak of around 160 items.

"We were presented with hundreds and hundreds of items every day... and just when we thought we had made progress another large load would arrive."

There were plenty of challenges, with homes they couldn't reach because of locked gates, residents not willing to open their doors and incorrect addresses. There were many hair-raising moments too, particularly with dogs that simply appeared out of nowhere. Both Stacey and Leseia had times when they had to jump into their cars to avoid potentially being bitten.

"We got to meet many lovely people," the women say. "The highlight was seeing the pure joy and excitement on the faces of the younger children when they received their school packs. The older children were perhaps not as enthusiastic. We felt the huge relief from the parents too."

Lorna and Jillian's stories

It all happened so quickly, says Lorna Fisher (National Sales Manager - Business Development for New Zealand Couriers). "One minute we were working as normal and then overnight we were in COVID-19 level 4, faced with the technical challenges of enabling our teams to efficiently look after our customers while safely working away from the office."

There were upsides. Lorna said working from home meant she was able to do a 7km walk in the morning and still be at work by 7:30 am. That got her ready for the emotional challenges of the day ahead as customers tried to either get their freight on the essential service list, or had to change their business model completely and set up new systems and sales solutions.

"My core objective during COVID-19 was to intensify communication with our managers to empower them to effectively lead their teams," she says. "We also proactively sought out potential customers to see if they needed assistance. This approach proved to be really valuable for these customers - they commented that they could not believe how much we were going out of our way to accommodate their needs.

"We had record new business numbers in these months due to our team's tenacity and customer-centric attitude."

One of the most humbling solutions Lorna was involved with was for Auckland Council, who aligned themselves with Countdown, Spark Arena and New Zealand Couriers to send out essential care packages containing food and toiletries for families in need. Couriers picked up and delivered over 60,000 care packages over COVID-19.

The contractors also soon understood the impact they were having on these families from the feedback they were getting on delivery. They even managed to make a delivery to an address given as: "Man in the van in a parking lot".

"I have been with New Zealand Couriers for 13 years and I have never been more proud of the company that I work for or the people I am privileged to call colleagues and friends," says Lorna.

Jillian Hedgman is Regional Sales Manager for Auckland, overseeing sales for North Harbour, West Auckland, parts of Manukau, as well as Whangarei.

During lockdown, many customers shifted their focus from B2B (business to business) to B2C (business to consumer), she says. "Without any hesitation we all mucked in to make sure that we were able to deliver for New Zealand businesses, with a focus on recovering cost to ensure our couriers were getting paid for the effort they put in."

People stepped up in all sorts of ways. Team members who didn't need to look after dependants during lockdown were literally helping the operations team and courier drivers during the week days. Others who did need to stay at home to look after family members spent their weeks working with customers over email/phone and other online portals.

"On the weekends we were all doing deliveries and assisting our couriers where they needed us the most."

Jillian was one of many doing deliveries over the weekends and says the experience gave her an incredible insight into what couriers do each day.

"Part of being inducted into the business is to go out and do deliveries. Having been here 16 years, it was good to see this again and how the day in a courier van has changed. Our couriers worked so hard every day throughout lockdown."

Chairman and CEO's report

Full year review

In the last quarter of this financial year, every one of Freightways' business units was called upon to provide essential services during the COVID-19 lockdowns in New Zealand and Australia.

The challenges were many and varied: from the delivery of food and personal protective equipment (PPE), the retrieval of hospital files held in offsite storage and the establishment of new trans-Tasman airfreight services to keep export markets open, to the collection of medical waste from newly formed quarantine facilities. Freightways' brands helped to pick-up, process and deliver over 20 million essential items for our customers.

The response by our teams across all businesses was outstanding. We would like to acknowledge the extraordinary efforts of all of our staff and contractors in delivering for our customers during the year, and particularly in the challenging last few months - where COVID-19 has changed the shape of the environments in which we operate. There have been so many heart-warming stories of the efforts our people made to connect essential goods to their intended recipients, on time and in full.

Mark Verbiest
Freightways Chairman

Just days into level 4 lockdown in New Zealand the company also completed the acquisition of Big Chill Distribution Limited (Big Chill) after receiving approval from the Overseas Investment Office (OIO). The forced timing of the transaction along with the dramatic drop in volume in the initial week of level 4 lockdown trading, resulted in us renegotiating the terms of the deal to partly settle the transaction in shares, thus preserving cash.

The business has demonstrated strong resilience. Our financial results in FY20 are naturally affected by the lockdowns in both New Zealand and Australia. Pleasingly, following the initial drop in activity during lockdowns, our position has steadily improved through the lifting of restrictions, although the recovery in Australia has now been affected by the situation in Victoria and New Zealand has experienced another lockdown, albeit not to the extent of the level 4 lockdown which restricted our customer activity to only essential services.

The current environment remains highly uncertain, with a resurgence of COVID-19 across the globe increasing the risk of further trading and travel restrictions. The board feels the prudent course of action is to not declare a final dividend for FY20 given the uncertainty in both the NZ and Australian markets. While recent trading has been strong in NZ, there has been a recent return to level 3 lockdown in Auckland and level 2 nationally along with a continued severe lockdown in Victoria. The consensus is the full economic impact has yet to be felt in either country at this stage. Notwithstanding our current performance, this decision also better positions our balance sheet for an uncertain wider economic impact and preserves headroom for potential growth opportunities which may emerge from the current environment. It is also important to acknowledge that many of our team, including management and directors, took pay cuts through the quarter and that some of our businesses accessed the government wage subsidy to ensure that we kept our people in work. For all of these reasons we feel not declaring a final dividend for FY20 is a one-off decision and is the right thing to do. At this point, we do envisage a resumption of dividends in the current financial year (FY21), subject to a continuation of our current trading conditions.

Getting through the work

COVID-19 drove changes in consumer behaviour and, following the initial impact of lockdowns in NZ, the courier industry has seen a surge in the number of parcels. While some of our competitors struggled to cope with that flow, our people responded to the change in volumes and got on with making it work. The teamwork amongst the businesses was inspiring. Our people volunteered for roles as freight sorters and couriers to get the job done.

Freightways CEO, Mark Troughear

73c

An additional 73cents per item has been achieved through Pricing For Effort (PFE) for items delivered to residential addresses.

1.4m kgs

Of international trans-Tasman airfreight capacity as part of the International Air Freight Capacity Scheme.

We had to react quickly and decisively because level 4 lockdown had such a deep and immediate effect on us. Express Package volumes initially dropped by 65% while Information Management activity in New Zealand ground to a halt, leaving us with just storage revenue. In Australia, the decrease in Information Management activity was around 25% but while the impact has been shallower, it has also been more prolonged than in New Zealand and continues into FY21 particularly in Victoria and NSW.

We quickly adapted to this dramatic reduction in activity, cutting our discretionary costs, reducing our wage and salary costs by rostering for lower volumes, taking leave without pay and through most of our team working less hours to reduce our overall labour costs. In line with lower volumes, our businesses moved quickly to right size operations by removing linehaul runs, flights and other variable costs to minimise the impact on profitability.

In addition, Directors and senior executives took a 20% cut in fees and fixed salaries in the quarter.

We applied for the New Zealand Government Wage Subsidy for those businesses that incurred a greater-than-30% decline in revenue. This enabled us to continue to retain our staff in those businesses. A number of our businesses did not meet this threshold and either did not apply or promptly returned the subsidy when that became clear.

Our unfaltering entrepreneurial spirit

During this period of time, we managed to do three things that perfectly capture the entrepreneurial spirit that makes Freightways successful.

We commenced new services and quickly grew existing ones, such as trans-Tasman airfreight charters through our aviation joint venture with Airwork, rapidly expanded medical waste collections through Med-X in Australia in response to the need to dispose of PPE, and a new premium same-day guaranteed delivery service across Auckland with NOW Couriers.

Secondly, we maintained our service levels through the spikes in B2C (home delivery) volumes which occurred during level 3 lockdown.

Finally, while we were in lockdown (4 days in, in fact) we completed the acquisition of Big Chill, settling the transaction with a combination of cash and shares.

"Our financial results in FY20 are naturally affected by the lockdowns in both New Zealand and Australia. Pleasingly, following the initial drop in activity during lockdowns, our position has steadily improved through the lifting of restrictions"

Business Unit performance

Each line of business experienced a range of impacts through the year. The highlights are listed below along with our strategic direction in the near term.

Express Package

- Steady increases in organic volume up until March 25th (when level 4 lockdown began in New Zealand) had generated encouraging revenue and margin gains in that month;
- As New Zealand moved through lockdown levels 4 to 2, we experienced growth in the proportion of B2C freight from the combination of supporting our customers who were changing their models to enable B2C for their essential items as well as increasing charitable deliveries (performed at cost). By June, this B2C proportion had moderated from around half of all deliveries back to 24%, still 4% higher than pre- COVID-19;
- This has accelerated a trend that was already expected before the epidemic, and for which we had been preparing through our Pricing For Effort (PFE) programme. B2C deliveries attract lower margins than B2B, but this situation is improving and we expect to continue to make progress in this area over the coming years;
- Pricing for Effort (PFE) of 73c per item has thus helped considerably through the heightened B2C volumes our brands have experienced since level 3 lockdown;
- Residential productivity through the lockdown period increased by 17%, assisted by less congested roads and a greater proportion of first-time deliveries because receivers were home to accept items;
- Courier pay was impacted by the COVID-19 lockdown period, being 2% behind last year's average of $103k p.a. per contractor. Self-employed contractors were able to draw on the government wage subsidy if their income dropped by 30% in a given month;

- Volumes in June, July and August to date have been stronger than expected, which we attribute to market share gains and also higher levels of organic trade from many customers;

"Express Package will continue to focus on building our market positions through providing superior levels of service and pricing our services appropriately."

- We remain wary as volumes are still sensitive to overall economic conditions. At this stage, they seem to be driven by a combination of pent up demand, stronger than expected retail sales and sustained B2C volumes;
- Big Chill initially suffered a 22% decline in revenue through level 4 and 15% through nationwide level 3. Despite this, the business was able to adjust quickly and reduce costs in response to lower demand. Business conditions had improved by June, with the last month of the year delivering revenue growth of 15% on the pcp;
- Through Q4 we provided 1.4m kgs of international trans-Tasman airfreight capacity as part of the Government's International Airfreight Capacity Scheme. The profitability of this service depends heavily on the degree of utilisation. This has varied, as the Australian States transition through various phases of lockdown but is overall a positive contributor to performance. The agreement has been extended through until the end of August when it will again be reviewed by the Government.

The year ahead

Express Package will continue to focus on building our market positions through providing superior levels of service and pricing our services appropriately.

This focus will include introducing a further phase of our PFE strategy for B2C deliveries. It is critical that our contractors are remunerated through item revenue (rather than company subsidies) for the effort required for residential deliveries. We will implement additional customer-facing IT systems to make it even easier for customers to deal with us and provide them and their receivers with greater visibility. We will also continue to exploit our multi-brand strategy through positioning our brands to meet the needs of different customer segments. Our latest initiative sees us position NOW Couriers as our guaranteed same-day Auckland service provider, giving customers peace of mind and surety.

Big Chill's expansion into 3PL in Auckland will be a focus as well as taking advantage of a larger temperature-controlled Wellington hub. Customers will be able to benefit from a fully outsourced storage, picking & labelling service that links seamlessly into Big Chill's national delivery network. There are a number of new market opportunities for Big Chill, some of which will leverage the ability to provide a last-mile express delivery service to customers as well as improving their customer experience by leveraging our suite of express package technology.

Business Mail

- The volume trajectory for Business Mail followed a similar trend to that of Express Package. By the end of June, volumes had recovered to be marginally higher than the previous year. This was particularly pleasing, although we received slightly lower revenue per item as a result of direct price-based competition for mail being delivered to those areas that DX Mail services;
- Through lockdown, DX demonstrated the ability to flex its cost base to a greater degree than larger fixed cost operators. It was satisfying to see the co-operation between businesses to lend support as volumes ramped up in the Express Package division. DX employees offered to assist the courier brands, helping us to maintain very high standard of on-time delivery.
- Despite a 30% reduction in mail volumes during the months of April and May overall, DX Mail volumes for the full year grew by 4%. This growth was achieved through market share gains obtained on the basis of better and more frequent mail delivery services.

The year ahead

DX will expand its delivery network in response to customer demand. We expect demand to remain strong although with a lower margin than in previous years due to the ongoing impact of our competitor's zonal pricing programme. Our experience is that many customers request and reward high levels of service and we will continue to focus on providing a high delivery standard to those customers who require it.

Information Management

- Storage revenue was solid through the year and particularly resilient to the impacts of COVID-19. However, the number of new archives coming into facilities virtually halted as lockdowns occurred in New Zealand and Australia;
- Collection and retrieval of archives and media tapes reduced by 90% in New Zealand and by about 25% in Australia in the last quarter of the year;
- Our litigation support services – in particular print and copy services were also heavily impacted as lawyers vacated their offices as a result of COVID-19 and have remained working from home, in many cases reducing the demand by up to 50% for printed material.
- There have been positive signs of recovery in New Zealand, but Australia will take longer to recover because staff in many organisations continue to work from home. CBD areas in particular are still devoid of many of their office staff;
- The digitalisation project that TIMG had geared up for late last year did eventually commence, but at lower levels of activity than expected because physical data was difficult to collect during COVID restrictions. This project is expected to be broken into stages and will take longer to process than initially anticipated. The combination of these various negative trends has led to our decision to partially impair our litigation support business in Australia.

The year ahead

With a lower level of storage facility utilisation than we would have liked, we will assess a number of alternate opportunities to generate revenue from our warehousing footprint. There is an encouraging pipeline of digitalisation opportunities in Australia, which our team will look to capitalise on to provide on-going revenue in FY21.

We will also continue to review our range of services. In FY20, we created a Product Development team to look at ways we can grow our existing services as well as

"There is an encouraging pipeline of digitalisation opportunities in Australia, which our team will look to capitalise on to provide on-going revenue in FY21."

look to systematically develop new revenue opportunities. The team has assessed 12 concepts to date with 3 progressing to prototypes and early stage customer acquisition.

Secure Destruction

- In New Zealand, document destruction came to a complete standstill in April but has recovered well since level 2 lockdown came into effect. In Australia, there was a 15% reduction in activity from March and, despite pockets of recovery, the recent lockdown in Victoria has meant that it is likely to take longer to return to pre-COVID-19 levels. However, volumes of paper collected by both businesses have been encouraging and paper pricing is stable;
- The collection of medical waste experienced two opposing impacts with many hospitals and clinics seeing fewer patients, but newly established quarantine facilities requiring brand new services;
- Revenue from high-value recyclables (eWaste, coffee cups, packaging waste) had been growing well off a very small base but also took a hit during the close down of Quick Service Restaurants in Australia. However, it remains an area of focus for the business as we develop our networks and capabilities.

The year ahead

Growing non-paper sources of waste that can be diverted from landfill, or treated to add value, will be a key strategy for Shred-X in FY21 as will taking advantage of newly acquired medical waste processing capability in New South Wales.

Balance sheet strength

Freightways has always been particularly disciplined around capital management, and capital expenditure and management of cash will remain a clear focus. While the initial 65% drop in activity, which occurred the same week that OIO granted approval for the completion of the Big Chill transaction, did present an interesting challenge, the company has managed its position well and is well placed for the opportunities ahead.

Capital expenditure for FY20 was $23m. In FY21 capital expenditure will be carefully managed and targeted toward projects that realise the greatest returns. Despite the addition of Big Chill to the group, capital expenditure is expected to be managed to a range of $20-22m in FY21 and spent on a range of IT development projects, replacement of vehicles and freight handling equipment.

Outlook

We are encouraged by strong early trading results consistently achieved in the last few months, however the economic backdrop to FY21 can best be described as uncertain for all business units in Australia and New Zealand.

In Express Package, the current higher level of volume, which includes a slightly higher proportion of lower-margin B2C deliveries, will likely eventually track the level of macro-economic activity and of business and consumer confidence. In Information Management, whilst storage revenues are reasonably resilient, the activity-based revenue streams will be driven by the number of people returning to office environments and, in some cases, this will be lower than pre-COVID-19.

In both divisions, we will react quickly to any reduction or growth in volumes to ensure we are providing services as efficiently as possible whilst maintaining the service standards our customers expect. Using what we learnt during the period of COVID-19 lockdowns, we will adjust our cost base to protect our margins. We will also assess the portfolio of services we provide and make decisions on the best strategies to deliver value to shareholders over the long term.

We expect that COVID-19 will also continue to provide opportunities that our teams can capitalise on, either for new services, market share opportunities from customers valuing our reliability or the potential for accretive acquisitions.

While Freightways is not alone in being cautious around the outlook for FY21 in a macro-economic sense, our stakeholders can be assured that our response to movements in volume will be swift but will not compromise on service to customers and the safety of our people.

The Freightways directors would again like to acknowledge the efforts of every one of our team across Australasia during these exceptional times.
We also thank you, our shareholders, for your continuing support.

Mark Verbiest
Chairman

Mark Troughear
CEO

The Freightways family

A warm welcome to Big Chill

Acquiring Big Chill will enable us to further expand our Express Package delivery services into the fast-growing chilled and frozen goods sector as well as further diversifying Group earnings.

Mike Roberts
General Manager Big Chill Distribution

200+

The company operates a fleet of over 200 temperature-controlled trucks and trailers.

2m

Last year delivered more than 2 million shipments through its nationwide network.

Big Chill is a New Zealand market leader in temperature-controlled transport, specialising in fast moving consumer goods and time-critical parcel freight, both chilled and frozen. The company operates a fleet of over 200 temperature-controlled trucks and trailers and last year delivered more than 2 million shipments through its nationwide network.

The Big Chill team are experienced and dedicated, with a culture that fits very well with Freightways.

The acquisition offers both companies opportunities to explore how they can provide customers with the best in technology, service quality, national reach and range of service options. We will be able to adapt our business intelligence tools to provide data on consignments and margins, and share sales and marketing efforts across a wider customer base.

For example, Big Chill customers will be able to use our market-leading track and trace systems to have end-to-end visibility of journeys and delivery confirmation. We will also be able to explore opportunities for express courier delivery off the back of Big Chill linehaul for the last mile (residential delivery), and make the most of the new temperature-controlled 3PL offering.

Temperature-controlled express delivery is a logical extension to the suite of express services that we currently offer. This has been a smart buy for us, and we are excited by the growth prospects the business has in front of it.

The true cost to serve

Pricing For Effort

Pricing For Effort is another example of how Freightways is assuming leadership in the market.

Historically, our customer pricing structures have been calculated on a business to business (B2B) cost model. That's because for many years B2B accounted for the majority of our deliveries. More recently, the mix of business versus residential deliveries has started to change as more and more clients adopt an e-commerce channel. Many new customers want a significant proportion of their freight delivered to residential addresses.

That has important implications for how we cost what we do. We calculate our delivery prices based on a concept called "cost to serve". This approach considers all the elements that add cost and potential value to a delivery: from the number of items that pay for the "stop" to any special requirements for signatures, site access and potential rework.

Not all deliveries are the same

The cost to serve a business address is generally lower than for a residential address. This is because there are more items handled (pick-up or delivered) per stop at a business address than there are for a residential address. 99% of business deliveries are completed on the first attempt so there is less need to return to the same address twice and there is a much lower level of customer inquiry. That means key factors that add cost to a delivery - including redirections and collections from depots are limited for business deliveries.

By contrast, the cost to serve a residential address is generally higher because couriers are typically delivering only one item per stop, and delivery points can be far less densely located.

That means courier routes also change day to day, depending on delivery addresses, with 12-18 items delivered/picked up per hour.

It can also be challenging to reach people. For signature services, receivers are often not at home on the first attempt, so the driver cannot get a signature. A significant proportion of first attempt deliveries are unsuccessful. This results in the courier having to leave a card, which means increased manual handling by freight office personnel at local branches. This increases labour costs associated with delivery and the cost to deliver, as two delivery attempts are required for one item. Issues surrounding delivery can also be more complex. This results in customer support being more time consuming.

Correcting a market weakness

Differentiating the price of a business delivery from a residential delivery is important to avoid introducing cross subsidies and to ensure courier income fairly represents the effort required to deliver an item. So this year we introduced a new pricing strategy to recover these extra costs called Pricing For Effort. It's meant that since July 2019 we've been charging appropriately for what it takes us to deliver a package to residential addresses. We were the first business in the industry to do this - it's simply the right thing to do - and it enables us to provide long term sustainable services.

Pricing For Effort is the first step in our pricing strategy to generate sustainable margins for residential deliveries and improve earnings for our residential fleet of courier contractors. It's been good to see our customers being so supportive of our approach. They have been genuine in their understanding of the problem and our B2C market share has actually increased this year. We lost very few clients and achieved both our financial objectives for Freightways and for courier income. Pricing for Effort is about offering a transparent cost to serve.

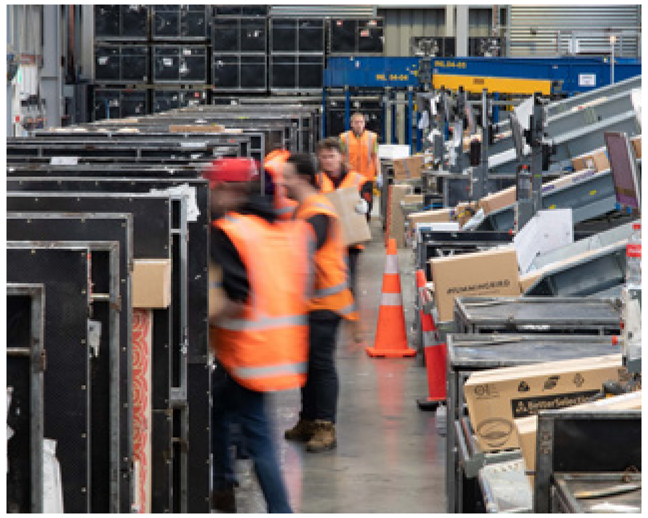
The economics require seeing past the traditional view of treating all freight deliveries the same - and paying contractors the right amount per stop. Unless residential deliveries are priced for their true cost, companies are subsiding their deliveries elsewhere, which effectively means B2B customers are helping pay for B2C deliveries.

Up until the start of the COVID-19 lockdown, we were extremely happy with the growth in contractor earnings which were ahead of the previous year at that point. Inevitably, lockdown did slow growth, with overall contractor pays at the end of the financial year being 1.8% behind the previous year. Nevertheless, in the past year, we've paid our couriers over $3 million in PFE payments.

A long-term strategy

In the year ahead, we plan to further extend our residential delivery charge. From August 3 2020, residential charges will increase by a further 50c per delivery and this will bring us closer to fully recognising the costs of a residential service. We are also exploring other areas of our business where our current pricing model does not reflect the level of effort it takes to deliver. We will be prioritising the review of these areas in the next financial year and implementing strategies that improve our margins responsibly.

Pricing For Effort is a long-term strategy to recognise the true handling and delivery costs involved for a range of item types and to ensure that our pricing properly reflects the effort required to deliver on-time, every time. We will continue to focus on improving the incomes of our contractors through increased remuneration, and a continued focus on achieving greater efficiency by improving volume/delivery density.



250

leaders attended Mental Health Awareness training in FY20.

200

of our team went through leadership development training with a 50:50 gender mix.

LTIFR

Lost Time Injury Frequency Rate of 10

Our culture proved itself this year

Diversity and commitment

Freightways is made up of a range of businesses operating across many sectors. But that diversity is balanced by a strong commitment to each other and to the overall cultural and financial health of the Group. We have a clear purpose and strong values.
Our expectation of everyone here is that they will treat others with respect and kindness, and that they will step up as needed to make things happen.

That certainly happened during lockdown. As the stories in this Report attest, people from across the organisation put up their hands to help wherever it was needed.
As a result, after the initial shock of a huge drop in business, Freightways rallied and we all worked together to ensure essential services were delivered on time and to the very best of our abilities.

Putting people first has always served this company well – and this year, we made good headway tackling a range of issues that affect our workforce.

Access to opportunities

One of the key concerns to emerge from our Diversity & Inclusion Survey was that 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.

To help make that clearer, we've taken steps to publicise the training and learning and development that we have available; so that people can decide where they want to go in their time with us, and more easily gain access to the skills and training they need to make that happen.

We also progressed a further 200 of our team through leadership training which comprised; Freightways Fundamentals, Management Concepts and the Freightways LEAD programme.

Managing mental health and wellbeing

Another issue to emerge from the survey was that people were dealing with a full range of pressures both inside and outside work. Respondents told us they wanted support with dealing with the things that were affecting them. Our response started from the premise that the best people to offer immediate support and empathy were leaders. With that in mind, we put 250 leaders from across the business through a course to help them understand and recognise signs of risk to mental health and wellbeing. Our goal is to ensure that everyone receives the assistance they need, in the form they need it, within a caring and compassionate work environment – and that they receive that assistance in a timely manner.

Keeping our people safe throughout their working day

Across the Group, our people work in a range of dynamic environments.

Those in our Information Management businesses are often working at height; a business like Big Chill has dockways and coolstores where serious accidents can occur if procedures are not followed; and our DX Mail teams are subject to the dangers of riding motorbikes through busy streets. Our couriers are subject to similar road risks and being around forklifts in the depot. Add in the heavy machinery at our Shred-X plants and the ground handling risks of loading our planes, it's clear that our risks are many and varied, requiring monitoring in different ways.

This year, we reported an LTIFR rate of 10 (triggered where injuries were serious enough for people to be off work for a day). Our numbers are lower than many in the transport, postal and logistics sector; but based on our commitment to safety we are constantly striving to improve and in FY21 will introduce a number of new initiatives to help ensure our people go home safely each day.

Every individual Freightways site has its own Health and Safety committee which report to an over-arching Freightways committee represented by the businesses within our group. The Freightways committee, in turn, considers and implements initiatives through all group companies and provides reporting through the CEO to the Board.

To ensure we continue to improve, we recently appointed a new Head of Safety who will be responsible for creating and implementing a new vision for health and safety across the Group.

International airfreight service

Keeping the freight moving

Freightways new international airfreight service has enabled us to use our assets around the clock to help New Zealand businesses and open up new opportunities for Freightways. The new service has enabled us to make use of an existing resource, expertise and assets during the day to operate the Tasman, while continuing to service our overnight domestic express airfreight network.

The call went out

When the Ministry of Transport issued an RFP for aviation businesses to provide solutions to deliver international airfreight capacity, we responded. Our solution leveraged our specialised airfreight domestic network, our team of experienced and dedicated pilots, our knowledgeable sales professionals and our many customer relationships. In fact, Freightways stepping up and providing a solution was essential for NZ Inc as it leveraged higher capacity specialist freighter aircraft on critical routes.

Our project team called on all their experience to pull together numerous Freightways brands and partners including Fieldair, Parceline, New Zealand Couriers, DX Mail, Parcelair and Airwork. We signed our contract with the Ministry on May 1 and a week later Freightways were operating services on the Tasman.

> **"When borders closed and commercial flights dwindled, it wasn't just passengers who were affected. International freight capacity also reduced to a trickle, and that dramatic fall-off presented challenges for importers and New Zealand exporters looking to get their goods to market."**

A lot can happen in one week

Setting up this new service in one week was a staggering achievement given that we had to build this international service from scratch. We secured the aircraft we needed through a collaboration with Airwork, our joint venture partner and Parcelair, then developed trans-Tasman services and customer-focused schedules using existing crew and resources. Ground handling processes and agreements with partners were confirmed on both sides of the Tasman, unit load devices procured, specialist personnel developed, and operational processes finalised. Our finance team implemented systems and processes in both countries to support our customers and meet the Ministry's requirements.

Meanwhile, our sales teams in Australia and New Zealand canvassed potential customers, including existing Freightways customers, to understand pain points and identify key routes where exporters were struggling to find capacity. Our involvement ensured exporters could access more competitive international freight prices. The essential trans-Tasman link has also strengthened our existing relationships with many of our domestic customers who are also exporters.

Maximising what we already had

What made the trans-Tasman services both possible and profitable for us was that we have been able to leverage the experience of operating our existing domestic fleet which fly between Auckland, Palmerston North and Christchurch during the night. Trans-Tasman flights operate during the day using the same aircraft type, enabling the existing assets to be used more productively.

Freightways is now being recognised as a leading Australasian supply chain specialist. Not only is our cost per kg more competitive because we use freighter aircraft, but we have also been able to operate on any trans-Tasman route to meet the needs of New Zealand exporters. We've been able to provide vital services to perishable exporters from the South Island, and Christchurch, in particular.

Looking ahead

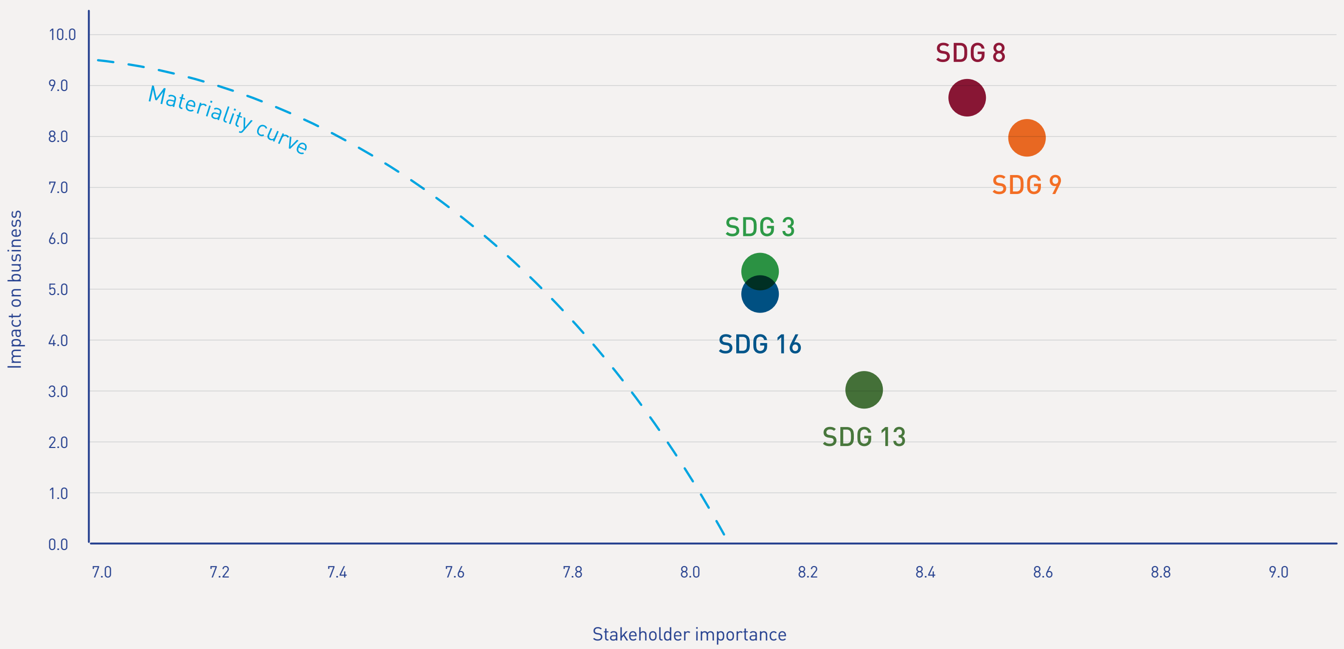
We're keen to work with key exporters and freight forwarders to continue developing our trans-Tasman service. Our goal is to ensure New Zealand exporters can position their products in the Australian market in ways that suit their customers, and at a competitive price.

Building on our goals

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.

Two years ago we conducted an assessment to determine the issues most material to our business and public reporting.

Materiality matrix



- SDG 3 Good health and well-being
- Health and Safety in Employment – injury reduction
- Non-GHG emissions (e.g. particulate, NOx)
- Road safety
- wEmployee wellness programme

SDG 8 Decent work and economic growth

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

SDG 13 Climate action

- GHG emissions

SDG 9 Industry, innovation and infrastructure

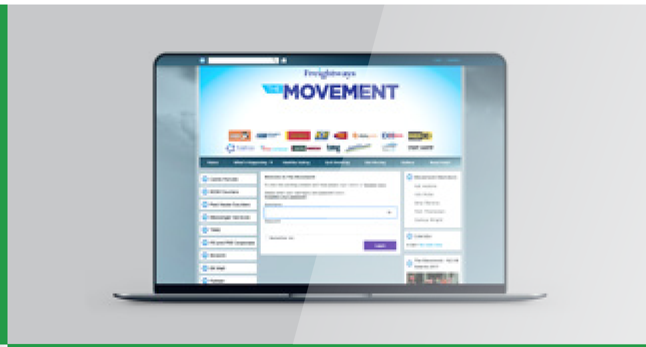
- Product and process innovation
- Customer experience
- Data security
- New business opportunities (e.g. medical waste management)

SDG 16 Peace, justice and strong institutions

- Ethics, bribery and corruption (integrity)
- Transparency

Two countries

Four business activities
15 brands
One wellness platform



1000+ people

Engaged with The Movement
in the first 12 months

Looking after our people is integral to our SDG3 efforts:

Good health and well-being

The well-being of our people is critical to the success of our culture and our business. It is something we are strongly committed to, and an area where we seek continual improvement.

We take a holistic approach, recognising our people and their contributions individually at the same time as we promote a strong and deep team culture. That's where The Movement comes in.

The Movement is our employee wellness programme. It was established after we ran a survey that helped us understand the wider challenges our people were facing in their lives and lifestyles. The feedback showed that people were affected by a whole range of factors, both in and outside of work, that influenced how they felt about themselves and their relationships with others.

They told us they were looking for a programme that would help them improve their lives by providing advice and motivation on a range of fronts – from how to handle family pressures through to losing weight or changing bad lifestyle habits.

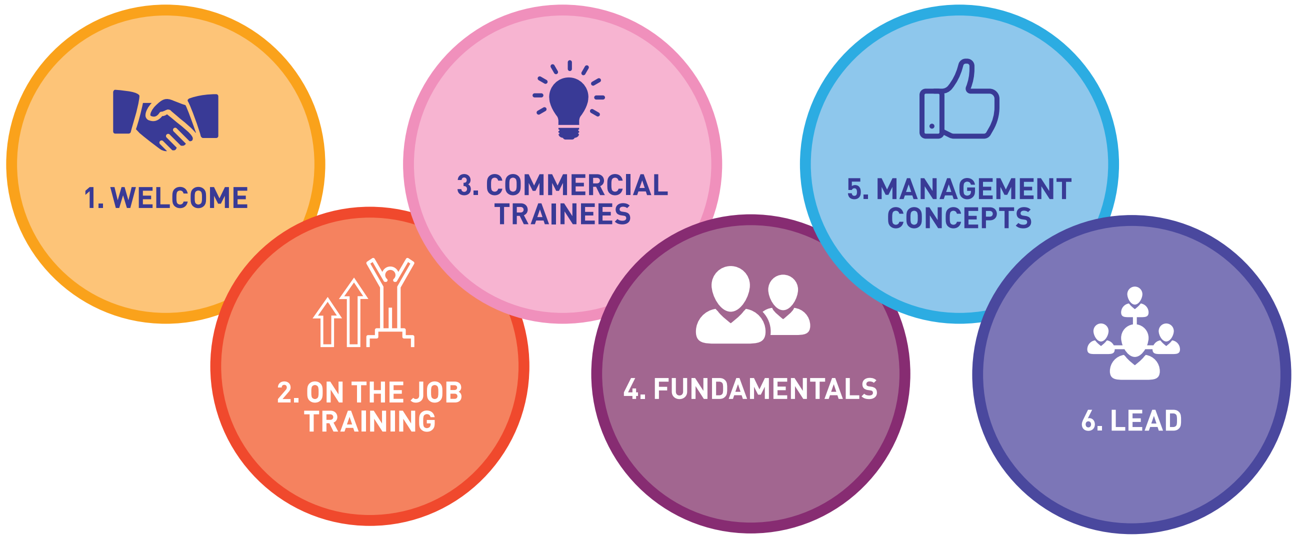
In order to make it as easy as possible for everyone in the business to access the assistance they needed, we established The Movement online portal. It's where our people can find everything from gym memberships, to information on ear and eye tests, to advice on well-being and mindfulness.

The Movement works in different ways across the business, with each company in the Group having its own version that caters to the needs of its teams. That means The Movement takes many forms, depending on demographics, teams and geographies. Our IT team, for example might focus on different initiatives than those of our staff in Post Haste and our other courier companies, because their day to day work is desk-focused, whereas our couriers are out and about.

The individual interpretations of The Movement mean that each business on both sides of the Tasman can also tailor its campaigns and offers. In New Zealand, during Mental Health Week, for example, our businesses offer activities and ideas that align with what the Mental Health Foundation suggests. In Australia, they will tag their programme to fit what's going on there.

Some common themes have emerged over the range of activities that are offered. We're finding, for example, that The Movement works very well for team-based activities such as walking challenges where people enjoy a combination of team support, peer pressure and competitiveness.

In the first 12 months, 1000 of our people have engaged with The Movement. That's a high percentage already, but our goal is to double that participation in the year ahead.



A strong organisational culture is a key part of our commitment to SDG8:

Decent work and economic growth

It's part of our entrepreneurial mindset to encourage our people to progress their careers with us. We want them to earn more by moving up through the roles and developing their leadership skills. Our Freightways Development Programme is key to that.

At Freightways, we look for a few things in particular from our potential leaders; people who treat others with respect, live our values and act with integrity; and people who perform well in their current role, take ownership and demonstrate the capability to take on more responsibility.

There are three programmes available to develop leadership capability. Those entering our Fundamentals programme, a training programme designed for those new to supervisory and management positions, are normally nominated for the programme by their manager. The programme itself covers a wide range of topics, including leadership, coaching and development, performance management and financials. Our Management Concepts is designed for people who are prepared to move into senior leadership roles covering negotiation, commercial acumen, acquisition and business strategy.
Our Freightways LEAD programme is a customised leadership course to grow emerging management talent that takes place over three modules and three months.

This year 200 people attended our various Freightways Development programmes. Our focus on diversity and inclusion is also reflected in the mix of those who completed the programmes. For example, the mix of male/female graduates through these programmes was 50:50.

One of the key reasons our leadership programmes are so successful is because they are largely run by our own people. Our leaders are trained by other Freightways leaders, meaning each person is trained by those who've walked the walk. That not only makes the programmes very relatable, it also means that those in our programmes can easily access and talk to the people running the programmes.

As we continue to adapt to doing business in a COVID-19 world, we've recognised that leadership is fundamental to our ability to prepare for change. COVID-19 has accelerated change at an extraordinary rate. We calculate that we have seen the equivalent of three years change in almost every one of our businesses in a matter of weeks. From consumer deliveries to the decline in print/copy in Australia, things have changed suddenly – and our leaders need the skills and mindsets to make things happen decisively and effectively. In a people-focused business like ours, we need leaders who will step in, get involved and guide and give vision to our teams. Our Freightways Development Programme gives them the skills, confidence and tools to do exactly that.

We pursue product and process innovation to help us meet the goals of SDG9:

Industry, innovation and infrastructure

Starting in the document destruction and paper recycling industry in Queensland 20 years ago, Shred-X continues to expand its landfill diversion - processing almost 50,000 tonnes of paper per year for recycling. It also repurposes and recycles an array of products including used coffee cups, QSR waste, electronics (e-waste) and textiles.

Shred-X has Secure Destruction facilities and operations in every state and territory of Australia. These incorporate the latest and most environmentally-sustainable shredding technologies which have achieved the highest industry certifications. Through the company's partnership with Australian recyclers, Shred-X recovers 98.5% of the material collected and processed through its facilities.

Continuing to pioneer

Shred-X pioneered IT asset management, destruction and recycling solutions when Australian businesses were beginning to become paperless. Today, it's a leader in removing the information stored on electronic and IT assets such as hard disc and solid-state drives, mobile phones and digital media. By partnering with selected and certified ethical electronic recyclers, we ensure the recycling of all electronic components of e-waste, including precious metals, glass and plastic, as well as repurposing assets once confidential information has been removed.

One of the reasons the company has been able to expand so successfully is that Shred-X continues to explore further opportunities with e-waste, textile and fibre recycling and repurposing partners, promoting product stewardship and a true circular economy. Recognised for its collection and processing capabilities and national infrastructure, the brand has been approached by various organisations to partner with on their disposable coffee cup, Quick Service Restaurant (QSR) and food packaging sustainability programmes.

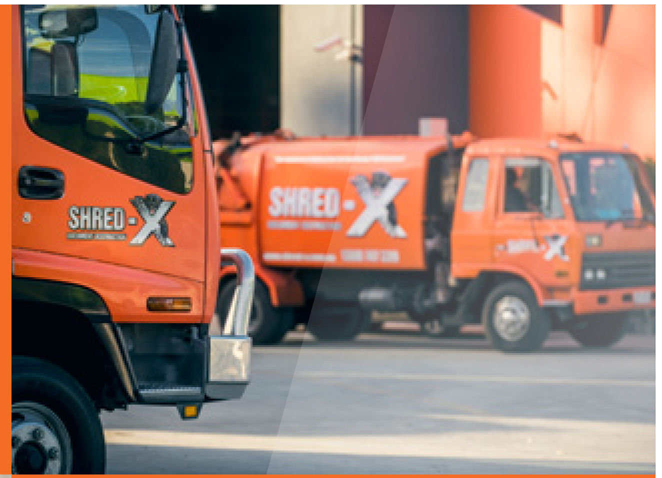
One of these programmes is Detpak RecycleMe™ which has been endorsed by Planet Ark. Shred-X collect and process RecycleMe™ 100% recyclable coffee cups from cafes and restaurants throughout Australia. Once processed, these cups can be recycled in the same manner as office paper. Shred-X has also invested in new ways of processing millions of 'non-recyclable' coffee cups, partnering with Closed Loop Environmental Solutions and the Simply Cups programme to find innovative solutions for recycling and repurposing used coffee cups and spent coffee grounds.

Shred-X has also introduced a range of innovative Secure Destruction solutions for textiles and uniforms, high-end garments and accessories, seized goods, recalled items and liquids to ensure ethical disposal and landfill diversion wherever possible. These disposal solutions include waste to energy and recycling with various new technologies currently being explored.

To support this strategy, we've partnered with an Australian sustainability company to participate in QSR waste trials set to commence in late 2020.

50,000 tonnes

of paper diverted from landfill each year



28% projected

reduction in landfill volumes for medical waste

Helping Australia hit its packaging targets

By 2025, Australia has committed to National Packaging Targets ensuring 100% of packaging is either reused, recycled or repurposed. This is in line with the National Food Waste Strategy, that is committing to halving Australia's food waste by 2030.

Blunting the impact of medical sharps

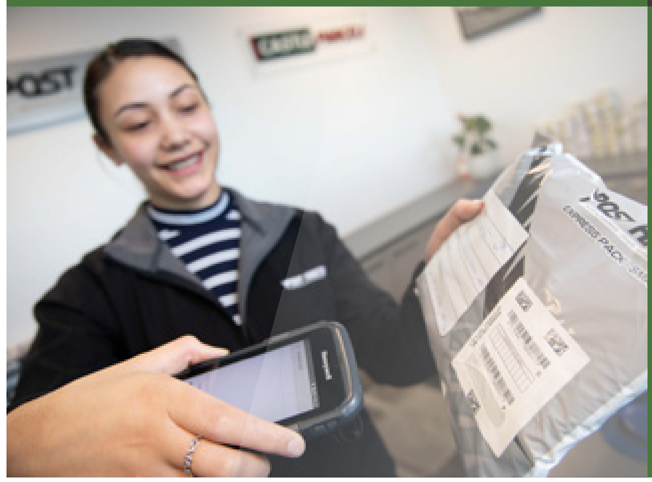
The company has applied the same foundational goals of sustainability and innovation to the medical waste industry through its Med-X Healthcare Solutions brand. Shred-X and Med-X have continued to invest in technology and innovation that support the reduction of landfill and promote recycling, even during the peak of the COVID-19 pandemic.

In fact, Med-X operations ramped up during the pandemic, spotlighting the company's goal to invest in robotic technology to encourage human contactless waste disposal and recovery. Traditionally clinical and sharps waste has been problematic with landfill; however Med-X is now investigating the recovery of small single-use containers by separating them at source and using automated mechanical separation at its medical waste facilities. Single-use containers will be milled following treatment and sent to local plastic moulding companies for reuse.

This should mean the clinical waste segment represented by single-use sharps would be almost fully recoverable and diverted from landfill. It is expected that this recovery system would reduce landfill volumes for medical waste by over 28%.

80%

of the plastic used is coming from packaging previously sent to landfill



30%

We have reduced the amount of plastic required to make our courier satchels by more than 30%

13 CLIMATE ACTION

Reducing the impact of single-use plastics is part of how we approach SDG13: Climate Action

The majority of 'single-use plastics' that are either used or passed onto customers by Freightways' New Zealand businesses fall into 2 key categories: i. Express Packs (courier satchels) – that are sold to customers to carry and protect products and documents for NZC, DX Mail, Castle Parcel, Post Haste and MSL customers; ii. 'Mother Bags' (freight consolidation bags) – these are clear plastic bags that are used to group satchels together for line haul freight movement. Currently, Freightways New Zealand uses or passes on around 135,000 kgs of single-use plastic – approximately 50,000 kgs of which are 'mother bags'.

Right now we have no choice but to use plastic substrates. Our packaging needs to be tough enough to not puncture or fall apart in use or in transit. Most existing bio/compostable plastics either don't have the performance we need or represent risks in terms of contamination of the 'soft-plastics recycling process'. At the same time, we are highly aware of the environmental impacts of single-use plastics. Reducing the amount of plastic we use offers three big business wins: we reduce the amount of plastic taken to landfill; we reduce our overall emissions, and we reduce fossil fuel use.

Eliminating single-use plastics completely is a long-haul ambition, but we are making significant progress. We have reduced the amount of plastic required to make our courier satchels by more than 30% over recent years, and we offer a wide range of packaging choices so our customers can select the right size to avoid waste.

We have a Greenpac™ range made from recycled paper and card. We are also partnering with Soft Plastic Recycling to increase recycling of soft plastics in New Zealand. That scheme currently ensures that over 60% of Kiwis have access to soft plastic recycling within 20km of their home.

Looking forward, we are working to four principles:

- Eliminate the plastics we don't need;
- Reduce the amount of virgin plastic we use and ensuring any plastics we do use are reusable, recyclable or compostable by 2025;
- Circulate the plastic produced as much as possible, by significantly increasing the amounts of plastics we reuse or recycle and have made into new packaging or products; and

- Increase the recycled content in our plastic packaging.

Getting more recycled material into the substrate and getting more use from the substrate we do use, are our priorities. Recycled material comes from industry waste more than domestic waste. So we want to make sure that where we do use single-use plastics, the plastics themselves are made from recycled materials rather than virgin, fossil-fuel-based materials.

Over the past 12 months we have been working hard to deliver on our four commitments with a range of projects across the Group:

1. **Recycled Content Satchels** – we are progressively introducing locally made satchels where 80% of the plastic used is coming from packaging previously sent to landfill. We are currently developing and field-testing the new material to ensure our satchels are tough enough to cope with the wide range of products our customers ship.
2. **Reusable Packaging** - we are converting our freight consolidation bags (mother bags) to a recyclable, reusable bag design. During our sorting process, we consolidate satchels going to the same town or city to make shipping more efficient. The freight consolidation bags are central to this process. These new bags that we are trialling, will be able to be used again and again, avoiding a significant amount of waste.
3. **Bio-Based Plastic Packaging** – we have identified opportunities for bio-based plastic materials made from natural resources such as sugar cane. We are now investigating using two different forms of bio-based plastics: one is compostable at home or in industrial facilities, and the other can be recycled along with standard plastics. The technology doesn't yet make these materials suitable for all our customers, however, we are working to commercialise the new packaging.

Right now we have various trials underway within the NZC network. Once we have proven viability, these products will then be rolled out across the Freightways Group. Our goals are to replace all our single-use plastics with recyclable, reusable and compostable plastics by 2025 and to continue to reduce the amount of virgin material we consume relative to revenue. We intend to have measures in place to report on our progress within two years.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Transparency and integrity underpin our commitment to SDG16:

Peace, justice and strong institutions

Increasingly, companies are under pressure to reveal more of their internal workings than ever before. Consumers want to feel they are buying products and services from companies that behave well. That same expectation is also present in business-to-business interactions as organisations look to work with other businesses that reflect their sustainability stances and values.

At Freightways, we've always prided ourselves on being straight up, leading by example and doing the right thing. Our history is one of standing up for the things we believe in, and making calls where we believe they need making. Our Pricing for Effort is an example of how we chose to make a stand for our contractors.

In recent years, we've evolved our Annual Reports to offer a higher level of disclosure as part of our 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.

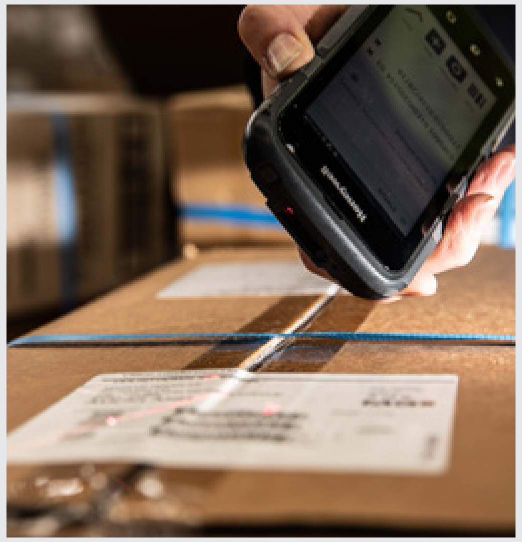
Looking ahead, we plan to introduce concrete measures around things like our ESG initiatives so that everyone can see how our actions align with our intentions. Quantifying our progress in areas such as waste reduction, plastics and of course carbon not only aligns with where we think disclosure is heading 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.

> **"Accurate item data, combined with information on cube/ weight and revenue per item, enables us to understand our margins by customer, route, service type and brand."**

Using data for customers

Using data to re-think our customer journeys

Every footprint or scan on a package is a data point we can use to understand a parcel's journey, and ultimately deliver better service to our customers.



Our Express Package Business Intelligence team combines data-crunchers and graphic designers. They work to understand the flow of data we collect, and how to effectively communicate insights with simple, interactive dashboards and infographics.

Leveraging our investment data lakes and the Microsoft PowerBI platform is all about delivering actionable insights to our sales and operations teams to improve business productivity and customer journeys. This investment in data has given us the ability to completely re-think the way we measure and improve our business for the future.

Accurate item data, combined with information on cube/weight and revenue per item, enables us to understand our margins by customer, route, service type and brand. This data also gives valuable insights into our changing business mix and provides predictive analytics to help our teams forecast demand on a monthly, weekly or daily basis.

Standing with 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 Shoes for Kids
Duffy Books in Schools
New Zealand Breast Cancer Foundation
Rotary St Johns

Supporting young Kiwis to hear

This year marks 15 years of partnership between New Zealand Couriers (NZC) and The Hearing House. The Hearing House's amazing team of medical specialists and committed volunteers are dedicated to teaching children with hearing loss to listen and speak. Through cochlear implant and hearing technologies, along with appropriate support and therapy, thousands of Kiwis have been able to live independent lives and reach their full potential, in ways that were simply impossible for other generations.

The team at NZC contributes to helping young Kiwis hear and talk in a whole range of ways: from hands-on support moving fundraising items nationwide during Loud Shirt Day, to hosting youngsters at our workplaces and encouraging our branch staff to bring out their 'Loudest Shirts'.

To learn more, go to
www.hearinghouse.co.nz

Helping those affected by the bushfires

The Australian Bushfires in late 2019 raged on for over 200 days into the early months of 2020. The crisis made international headlines with over 18 million hectares of land destroyed – more than the size of some small countries – and more than 2000 homes lost. The human cost included more than 30 fatalities. More than a billion animals are also thought to have perished.

$20k

raised by Shred X for the bushfire initiative via a share of national sales over a period of one month

WILDLIFE VICTORIA

WIRES

13

Companywide Freightways supports 13 key community initiatives, across New Zealand and Australia.

Australian and global support of the disaster was immense. From international celebrities, corporate philanthropists, listed companies and small businesses, to individual members of the public, $500 million was raised in support of the 'Firies', the Australian Red Cross and Wildlife groups affected by the bushfire crisis.

Shred-X began planning our bushfire fundraising campaigns at the start of 2020. After some research, we chose to align our company fundraising efforts with two wildlife organisations in the areas that were most fire-affected - one in Victoria (Wildlife Victoria) and the other in NSW (WIRES). We ran a marketing campaign as well as an internal/ staff fundraising initiative for wildlife requiring immediate veterinary care and ongoing support as a direct result of their injuries.

The marketing sponsorship campaign focused on donating a percentage of our national Shred-X sales over a period of one month, while a concurrent staff fundraising initiative included the opportunity for Med-X and Shred-X employees to make a personal contribution to the wildlife funds.

We are proud to have raised over $20,000 for the bushfire initiative, making a donation which was shared equally between WIRES and Wildlife Victoria.

In addition to the work around the bushfires, Shred-X have supported a variety of community initiatives over FY19/20, often through a combination of company sponsorship and seeking support from our employees through their own fundraising activities and time. Our team is genuinely invested in supporting worthy and charitable causes and it is heartwarming to be part of this generous giving company culture. Other fundraising and community initiatives we supported this year included:

- NBCF (National Breast Cancer Foundation)
- Jeans for Genes
- Movember
- Convoy For Kids
- Special Children's Christmas Party

Encouraging the potential of young Aboriginal men

At TIMG Australia, we celebrate the rich cultural diversity of our workforce. By partnering with the Clontarf Foundation, we look to make our business even more inclusive and representative of the communities that we work and live in.

The Clontarf Foundation exists to improve the education, discipline, self-esteem, life skills and employment prospects of young Aboriginal men and to equip them to participate more meaningfully in society. As a corporate partner of the Foundation, we look to invest in the "capacity building" of young Aboriginal men, empowering them to develop as individuals who will in turn, bring their positive energies and skills to their communities.

The current health pandemic has temporarily slowed efforts to implement our mentorship programme at TIMG, but we continue to communicate with Clontarf on ways and means to articulate our mutual commitment.

Last November, TIMG was invited to the Fox Sports Oz Tag Carnival in Sydney as a corporate partner. There we joined the likes of Qantas Airways, Fox Sports Australia, National Rugby League (NRL) and QBE, meeting and spending time with Clontarf students on and off the field. Sport and communication were the overriding themes for this highly successful event and TIMG will definitely be attending the next Carnival.

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

KidsCan partnership

Can do for KidsCan

www.kidscan.org.nz

Freightways is the lead partner for the KidsCan 'Shoes for Kids' programme. This programme is designed to help disadvantaged Kiwi kids get to and through the school gates safely.

Shoes are not only considered a required part of the school uniform but without them many children are unable to participate fully in school activities and excursions. The 'Shoes for Kids' programme breaks down these barriers and enables children to become more engaged in their learning.

The partnership also provides Freightways the opportunity to give back to communities in a variety of ways.

A week prior to level 4 lockdown, we again sponsored the Rotary of St Johns annual Charity Golf Day. A great turnout saw us raise much-needed funds for KidsCan. Thanks to all our customers and suppliers for their support in making the day a success.

When lockdown hit, children who would usually have received a guaranteed meal through their school were no longer getting this vital meal every day. KidsCan identified the need to reach these families, and the Freightways team was on board to help. We mobilised sales team members to pack food parcels and utilised our network to deliver the food parcels to homes across the North Island.

With schools coming fully back to normal for term 3, our team at North Harbour provided KidsCan with warehousing space to store the required food supplies in preparation for delivery out to schools nationwide.

Our assistance also extends through to one of our key customers. Countdown is a partner for the KidsCan Early Childhood Programme, which is designed to help New Zealand's most vulnerable kids get a great start to their education. Each week, our contractors deliver Early Childhood Centres (ECE) a menu and ingredients for five fresh meals.

"The partnership also provides Freightways the opportunity to give back to communities in a variety of ways."

NOW Couriers

NOW changes the rules

NOW knows Auckland better than anyone. This year we revamped the brand to reflect its modern, responsive character and to position NOW as an innovator offering fast, local services without point-to-point prices.

NOW is Freightways' 'sand-box brand'. It has a key role to play in introducing and testing customer innovations before they are more broadly adopted by the wider business. This reliable, urban delivery service is redefining customer expectations in a busy, dispersed and time-sensitive market.

NOW's commercial advantage lies in their ability to combine a guaranteed, same-day service across much of Auckland at a highly competitive price point. In fact, the NOW offer bridges the gap between two traditional offerings: the more economical hub-and-spoke arrangement, and the customised point-to-point service.

"The NOW Same Day solution really kicked into gear during COVID-19 level 3 as a valuable option for customers who needed to get perishable and urgent items across Auckland."

To achieve our Guaranteed Auckland Same Day service, we partnered with CoreLogic, New Zealand's leading address verification service provider. Geo-coding our network is enabling us to set predetermined pickup times for deliveries within set Auckland geographical boundaries, so that collections can be completed by a predetermined time.

The NOW Same Day solution really kicked into gear during COVID-19 level 3. It was a valuable option for customers who needed to get perishable and urgent items across Auckland from suppliers who were only able to trade online because their physical stores were shut.

The new NOW website will link to a Parcel Management Portal for both senders and receivers, giving customers at both ends of a transaction access to key functionality. The new website will mean customers have access to a simplified tracking experience and the option to use simple tracking IDs. We have every confidence it will transform our quoting and sales enquiry process.

More importantly, the new site will support web integration across all the Express Package brands at Freightways; because once it has been developed, the new technology will be fully reusable by everyone. It's another example of how innovation hub NOW is leading Freightways' wider moves to achieve superior digital customer experiences.

Our Board

Mark Verbiest
Chairman LLB, CF Inst D

Mark Rushworth
BE (Hons), MEM

Kim Ellis
BE (Hons), BCA (Hons)

Peter Kean
PMD Harvard

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

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

Malcolm Grimmond joined the Board as a non-executive director in September 2020.
Andrea Staines has announced that she will retire from the Board on 29 October 2020 at the conclusion of the Annual Shareholders Meeting.

Our leadership team

Mark Troughear
Chief Executive Officer
BMS, Waikato University

Mark Royle
Company Secretary and Chief Financial Officer to 20 April, 2020
B.BUS (Acc), CA

Matthew Cocker
Chief Information Officer
PhD, Georgetown University

Stephen Deschamps
Company Secretary and Chief Financial from 20 April, 2020. 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

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 2020 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 seven 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 Willis Bond Capital Partners Ltd (retiring from that Board on 30 September 2020), a director of ANZ Bank New Zealand Limited and a member of the Advisory Board of NZ Treasury.

Kim Ellis B.CA, B.ENG

Kim was appointed a Director in August 2009. He spent 28 years in chief executive roles in a number of sectors, including 13 years as Managing Director of Waste Management NZ Limited until its sale in 2006 to Transpacific Industries Pty Limited, and has developed businesses in both New Zealand and Australia. Kim is now a professional director working with both private and listed companies. Kim is currently a director and the Chairman of NZ Social Infrastructure Fund Limited, Metlifecare Limited and 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.

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 12 years' governance experience, with qualifications in both law and accounting. Abby has experience in a range of senior management, finance and legal roles, with a focus on corporate finance and commercial transactions. Abby is currently the Chair of Z Energy Limited and a director of TVNZ and Sanford Limited.

Peter Kean PMD Harvard

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

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

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

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

The Board has determined for the purposes of the NZX Listing Rules that, as at 30 June 2020, Mark Verbiest, Kim Ellis, Abby Foote, Peter Kean, Mark Rushworth and Andrea Staines are independent Directors.

Board skill matrix

The Board focuses on governance, strategy and the oversight of the performance of the different Freightways businesses and brands. The six Directors bring both proven experience in governance and a strong background in business to their decision making. Together, they provide the wide-ranging skills needed to ensure the Board has the expertise to set and approve strategic direction, make senior management appointments, monitor performance, manage risk and oversee our many stakeholder relationships. 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	Kim Ellis	Abby Foote	Peter Kean	Mark Rushworth	Andrea Staines
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 2020 were the operation of express package & business mail services and information management services.

Consolidated result for the year

	2020 $000	2019 $000
Operating revenue	**630,940**	**615,692**
Operating profit before interest, income tax and amortisation of intangibles	88,197	99,133
Amortisation of intangibles	(3,477)	(2,071)
Profit before interest and income tax	84,720	97,062
Net interest and finance costs	(18,420)	(9,566)
Profit before income tax	66,300	87,496
Income tax	(18,925)	(24,119)
Profit for the year attributable to the shareholders	**47,375**	**63,377**

Directors' report

Directors holding office during the year were:

Parent:

Mark Verbiest (Chairman)
Kim Ellis
Abby Foote
Peter Kean
Mark Rushworth
Andrea Staines

Subsidiaries:

Mark Troughear (all Freightways subsidiaries)
Mark Royle (all Freightways subsidiaries)
Stephan Deschamps (Parcelair Limited only since 25 May 2020)
Colin Neal (Big Chill Distribution Limited only)
Mark Shapland (Big Chill Distribution Limited only)

Mark Royle handed the CFO role over to Stephan Deschamps, effective 20 April 2020, but remained a Director of all Freightways Limited subsidiaries until 30 June 2020.

Approved remuneration of directors (effective 1 November)

			Group Fees (per annum)	
	Position	Note	**2020 $**	2019 $
Board of Directors	Chair	(1)	165,000	160,000
	Member - NZ		93,000	85,000
	Member - NZ		93,000	85,000
	Member - AU	(2)	98,900	93,400
Audit & Risk Committee	Chair	(1)	104,000	100,000
People & Remuneration Committee	Chair	(1)	100,000	92,500
Committee work pool (if required)			42,145	47,000
Total annual fee pool limit		(3)	696,045	662,900

Notes:
(1) Inclusive of Board member fee
(2) Based on A$93,000 (2019: A$85,000)
(3) Approved by shareholders at Annual Shareholders Meeting in October

Directors' report

Remuneration received by directors

	2020 $	2019 $
Directors of Freightways (Parent company)		
Mark Verbiest	155,083	140,000
Kim Ellis	92,500	92,500
Abby Foote	97,467	95,139
Peter Kean	85,683	85,000
Mark Rushworth	85,683	85,000
Sue Sheldon (resigned 25 October 2018)	-	50,753
Andrea Staines	90,568	77,735
Total non-executive Directors	606,984	626,127
Directors of Group subsidiaries only		
Mark Troughear - Freightways Chief Executive Officer (CEO)	843,483	872,912
Mark Royle - Freightways Chief Financial Officer (CFO)*	550,673	582,585
Colin Neal**	-	-
Mark Shapland**	-	-
Total Directors of Group subsidiaries	1,394,156	1,455,497
Total Group	2,001,140	2,081,624

* Mark Royle handed the CFO role over to Stephan Deschamps, effective 20 April 2020, but remained a Director of all Freightways Limited subsidiaries until 30 June 2020.
** Non-executive Director of Big Chill Distribution Limited only

The remuneration of the CEO and CFO includes the incentive payments made during the year ended 30 June 2020 in respect of the two previous six-month performance periods (1 January to 30 June 2019 and 1 July to 31 December 2019). No amount is included above in respect of incentive payments for the period 1 January to 30 June 2020, as these were paid in August 2020. Remuneration of the CEO and CFO comprises a fixed remuneration package representing 70% and 78% of their total remuneration, respectively, and an 'at risk' portion representing 30% and 22%, respectively, payable on achievement of short-term financial objectives. They also participate in the Freightways Senior Executive Performance Share Plans described in Note 25 of the Financial Statements by way of an annual allocation of performance share rights (PSRs) equivalent to 32% and 25%, respectively of their 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 25. The Company's Remuneration Policy can be found at:
https://www.freightways.co.nz/about/corporate-governance/.

Remuneration of other officers

Fixed remuneration of other officers, not being directors, representing a range from 76% to 78% of their total remuneration, is benchmarked to market and consists of base salary and matched Kiwisaver contributions up to a maximum of 3%. The officers participate in an at-risk short-term incentive (STI) scheme, representing a range from 22% to 24% of their total remuneration, that reflects the achievement of predetermined company profit levels and individual performance objectives aligned to business strategy and goals. The officers also participate in the Freightways Senior Executive Performance Share Plan (the 'Plan') described in Note 25 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 25. 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	
	2020	2019
$100,000 – $109,999	44	45
$110,000 – $119,999	53	46
$120,000 – $129,999	31	29
$130,000 – $139,999	24	29
$140,000 – $149,999	17	10
$150,000 – $159,999	10	18
$160,000 – $169,999	13	13
$170,000 – $179,999	13	10
$180,000 – $189,999	9	12
$190,000 – $199,999	6	7
$200,000 – $209,999	12	6
$210,000 – $219,999	2	4
$220,000 – $229,999	6	4
$230,000 – $239,999	4	8
$240,000 – $249,999	3	2
$250,000 – $259,999	4	2
$260,000 – $269,999	2	3
$270,000 – $279,999	1	1
$280,000 – $289,999	-	1
$290,000 – $299,999	1	1
$300,000 – $309,999	4	2
$310,000 – $319,999	-	1
$320,000 – $329,999	1	2
$330,000 – $339,999	1	-
$340,000 – $349,999	-	1
$350,000 – $359,999	1	-
$370,000 – $379,999	1	3
$420,000 – $429,999	2	-
$440,000 – $449,999	-	1
$450,000 – $459,999	-	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	-
Kim Ellis	-	50,000
Abby Foote	-	14,363
Peter Kean	51,500	-
Mark Rushworth	-	18,000
Andrea Staines	-	-

Directors' report

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 2020:

	Note	Number Acquired (Disposed)	$000 Cost (Sale)
Mark Rushworth			
Non-beneficial ownership in ordinary shares acquired on 6 March 2020		10,000	75
Abby Foote			
Non-beneficial ownership in ordinary shares acquired on 1 April 2020	(i)	363	2

Notes:
(i) Allocation of ordinary fully-paid shares under the Freightways Dividend Reinvestment Plan.

The following table shows transactions recorded in respect of securities acquired or disposed of by Directors of Big Chill Distribution Limited during the year ended 30 June 2020:

	Note	Number Acquired (Disposed)	$000 Cost (Sale)
Colin Neal			
Ordinary shares in Big Chill Distribution Limited held as trustee of the Colin Neal Family Trust sold to Freightways Express Limited on 1 April 2020	(ii)	(95,000)	See note
Mark Shapland			
Beneficial ownership of ordinary shares in Big Chill Distribution Limited sold to Freightways Express Limited on 1 April 2020	(ii)	(1,900)	See note
Ordinary shares in Big Chill Distribution Limited held as trustee of the Shapland Family Trust sold to Freightways Express Limited on 1 April 2020	(ii)	(93,100)	See note

Notes:
(ii) On 1 April 2020, Freightways Express Limited acquired all 198,000 ordinary shares in Big Chill Distribution Limited from the various shareholders in that company under a sale and purchase agreement dated 30 October 2019, for an aggregate consideration of $114,553,000 plus a deferred amount based on performance of Big Chill Distribution Limited. In respect of the initial amount of $114,553,000, 2,793,296 ordinary shares in Freightways Limited were issued to Colin Ashley Neal and Burley Attwood Trustees (No. 11) Limited and 2,793,296 ordinary shares in Freightways Limited were issued to Mark Shapland and YRW Trustees 2011 Limited, in each case at an issue price of $5.37 per share for an aggregate consideration of $29,999,999. The aggregate balance of $84,553,000 was paid to the vendors in cash.

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 24th day of August 2020.

Mark Verbiest
Chairman

Abigail Foote
Director and Chair of the Audit & Risk Committee

Financial statements

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Independent auditor's report
To the shareholders of Freightways Limited

Independent auditor's report
To the shareholders of Freightways Limited

We have audited the financial statements which comprise:

- the balance sheet as at 30 June 2020;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion
In our opinion, the accompanying financial statements of Freightways Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

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

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 International *Code of Ethics for Assurance Practitioners (including International Independence Standard) (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)* issues 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 the poll for the shareholder resolutions at the Annual General Meeting and Executives' remuneration benchmarking. The provision of these other services has not impaired our independence as auditor of the Group.

PricewaterhouseCoopers, 15 Customs Street West, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

Independent auditor's report
To the shareholders of Freightways Limited

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

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and indefinite lived brands, including the impact of COVID-19 The Group has goodwill of $301.3 million and brands of $118.3 million as disclosed in Note 17. The Group is required to perform an annual impairment assessment of both goodwill and brands, which are accounted for as indefinite life intangible assets. This is an area of focus for our audit due to the value of these assets on the balance sheet and the inherent judgement in assessing these assets for impairment. Management prepared an impairment assessment for the Group based on the latest forecasts for each Cash Generating Unit (CGU) which included considerations relating to the impact of COVID-19. The recoverable amount of each CGU has been determined based on the greater of its value-in-use and its fair value less costs of disposal. The key assumptions used by management in the impairment assessment are included in Note 17 of the financial statements. As detailed in Note 17, as a result of the impairment assessments the Directors have recognised a total impairment expense of $5.2 million in goodwill and $1.6 million in brands.	Our audit procedures included aspects of the following depending on the level of headroom and sensitivity to impairment of each CGU: • Considered the appropriate determination of each CGU • Obtained an understanding of the current and forecast outlook for the business, including consideration of, and adjustments made for, the potential impact of COVID-19 and management's basis for determining the key assumptions in preparing the forecast cash flows • In conjunction with our auditor's valuation expert, assessed the appropriateness of key assumptions by performing the following: – assessed the reliability of management's budgeting process by understanding the differences between the historical and budgeted performance in previous years; – benchmarked key assumptions, to historic performance and market data where relevant and available. • Tested the mathematical accuracy of the models • Considered whether disclosures, including the completeness of key assumptions and the impact of reasonably possible changes in key assumptions that may result in a CGUs carrying amount exceeding its recoverable amount, are appropriate.

PwC

Independent auditor's report
To the shareholders of Freightways Limited

Key audit matter	How our audit addressed the key audit matter
Accounting for Big Chill Distribution acquisition The Group acquired Big Chill Distribution on the 1 April 2020 as disclosed in Note 33. We consider this acquisition to be a key audit matter due to the significance of the acquisition to the Group and the significance of the judgements involved. Management applied judgement in determining the fair value of the future earn-out payment which makes up $27.2 million of the total purchase consideration. Management has also applied significant judgement in completing a provisional assessment of the fair value of the assets and liabilities acquired, including recognising the following separately identifiable intangible assets: • Brand of $5.5 million • Non-compete agreement with the founders/directors of $1.9 million • Customer relationships of $40.9 million.	We audited the accounting treatment of the acquisition by: • Reviewing the Sale and Purchase Agreement to understand the key terms and conditions • Testing the value assigned to the Freightways shares that were issued as part of the total consideration by comparing it to the market value of Freightways shares at the transaction date • Gaining an understanding of the valuation approach and methodology undertaken by management to identify separately identifiable intangible assets and value the assets and liabilities acquired • Considering whether identification and recognition of intangible assets was consistent with the requirements of the accounting standards • Engaging our auditor's valuation expert to: a) evaluate management's assumptions regarding the calculation of the deferred payment b) assess the valuation approach and methodology undertaken by management in relation to the brand, customer relationships, non-compete agreement and the calculation of the deferred payment c) evaluate management's assumptions regarding the valuation of the brand, customer relationships and non-compete agreement. • Considering whether the relevant disclosures were appropriately made.

Independent auditor's report
To the shareholders of Freightways Limited

Our audit approach

Overview

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

Overall Group materiality: $4.15 million, which represents an average of approximately 5% of profit before tax over the past three years.

We chose an average of profit before tax over the last three years as the benchmark because, in our view, profit before tax 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 use an average of the last three years because of lower sales in the second half of the year ended 30 June 2020 related to the COVID-19 pandemic and the impact of this on the Group's results.

As indicated above, we have determined that there are two key audit matters:

- Impairment assessment of goodwill and brands, including the impact of COVID-19
- Accounting for Big Chill Distribution acquisition

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

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

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

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

We conducted full scope audit work at four divisions which make up 68% of external revenue and 86% of profit before tax in New Zealand and Australia. The remaining divisions in the Group were not considered individually significant and depending on our risk assessment were subject to other audit procedures such as analytical review, enquiry, testing key balances or reconciliations.

Independent auditor's report
To the shareholders of Freightways Limited

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

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

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

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

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

PwC

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 Leopino (Leo) Foliaki.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
24 August 2020

Auckland

PwC

Income statement
For the year ended 30 June 2020

	Note	Group 2020 $000	Group 2019 $000
Operating revenue	3 & 4	**630,940**	**615,692**
Other income	7	-	1,252
Transport and logistics expenses		(253,443)	(241,907)
Employee benefits expenses		(168,017)	(174,537)
Occupancy expenses		(5,143)	(28,912)
General and administration expenses		(59,668)	(58,119)
Other expenses	7	-	(1,252)
Non-recurring items	5 & 7	(9,598)	2,354
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles		**135,071**	**114,571**
Depreciation and software amortisation	5	(46,874)	(15,438)
Operating profit before interest, income tax and amortisation of intangibles		**88,197**	**99,133**
Amortisation of intangibles	5	(3,477)	(2,071)
Profit before interest and income tax		**84,720**	**97,062**
Net interest and finance costs	5	(18,420)	(9,566)
Profit before income tax		**66,300**	**87,496**
Income tax:			
Tax applicable to profit before income tax		(20,355)	(24,119)
Tax benefits a result of tax law change		1,430	-
Total income tax	6	(18,925)	(24,119)
Profit for the year		**47,375**	**63,377**
Profit for the year is attributable to:			
Owners of the parent		47,332	63,367
Non-controlling interests		43	10
		47,375	**63,377**
Earnings per share	28		
Basic earnings per share (cents)		30.0	40.8
Diluted earnings per share (cents)		29.9	40.7

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 2020

	Note	Group 2020 $000	Group 2019 $000
Profit for the year (NPAT)		**47,375**	**63,377**
Other comprehensive income Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	24	1,475	(2,210)
Cash flow hedges taken directly to equity, net of tax	24	1,826	328
Total other comprehensive income after income tax		**3,301**	**(1,882)**
Total comprehensive income for the year		**50,676**	**61,495**
Total comprehensive income for the year is attributable to:			
Owners of the parent		50,633	61,485
Non-controlling interests		43	10
		50,676	**61,495**

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 24th day of August 2020.

Mark Verbiest
Chairman

Abigail Foote
Director

Statement of changes in equity
For the year ended 30 June 2020

Group	Contributed equity	Retained earnings	Cash flow hedge reserve	Foreign currency translation reserve	Non-controlling interests	Total equity
	$000	$000	$000	$000	$000	$000
Balance at 1 July 2019	**125,260**	**140,861**	**(4,229)**	**(3,669)**	**-**	**258,223**
Profit for the year	-	63,367	-	-	10	63,377
Exchange differences on translation of foreign operations	-	-	-	(2,210)	-	(2,210)
Cash flow hedges taken directly to equity, net of tax	-	-	328	-	-	328
Total Comprehensive Income	**-**	**63,367**	**328**	**(2,210)**	**10**	**61,495**
Dividend payments	-	(47,002)	-	-	-	(47,002)
Acquisition of non-controlling interests	-	-	-	-	114	114
Shares issued	1,180	-	-	-	-	1,180
Balance at 30 June 2019	**126,440**	**157,226**	**(3,901)**	**(5,879)**	**124**	**274,010**
Impact of adoption of NZ IFRS 16 (Note 2)	-	(14,409)	-	(231)	-	(14,640)
Restated 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	-	(47,403)	-	-	(53)	(47,456)
Shares issued	54,190	-	-	-	-	54,190
Balance at 30 June 2020	**180,630**	**142,746**	**(2,075)**	**(4,635)**	**114**	**316,780**

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

Balance sheet
As at 30 June 2020

	Note	Group 2020 $000	Group 2019 $000
Current assets			
Cash and cash equivalents	10	16,686	15,986
Trade and other receivables	11	100,381	87,805
Income tax receivable		384	-
Inventories	12	6,019	5,009
Total current assets		**123,470**	**108,800**
Non-current assets			
Trade receivables and other non-current assets	11	7,348	3,984
Property, plant and equipment	15	134,649	106,710
Right-of-use assets	16	278,142	-
Intangible assets	17	498,966	365,152
Investment in associates	34	7,842	-
Total non-current assets		**926,947**	**475,846**
Total assets		**1,050,417**	**584,646**
Current liabilities			
Trade and other payables	19	87,656	68,967
Borrowings (secured)	23	5,210	-
Lease liabilities	16	30,641	127
Income tax payable		18,824	6,429
Provisions	21	1,225	860
Derivative financial instruments	13	750	880
Contract liability	22	15,142	15,664
Total current liabilities		**159,448**	**92,927**
Non-current liabilities			
Trade and other payables	19	27,386	3,137
Borrowings (secured)	23	216,484	167,394
Deferred tax liability	18	41,425	37,762
Provisions	21	6,331	4,750
Lease liabilities	16	280,431	129
Derivative financial instruments	13	2,132	4,537
Total non-current liabilities		**574,189**	**217,709**
Total liabilities		**733,637**	**310,636**
Net assets		**316,780**	**274,010**
Equity			
Contributed equity		180,630	126,440
Retained earnings		142,746	157,226
Cash flow hedge reserve	13	(2,075)	(3,901)
Foreign currency translation reserve		(4,635)	(5,879)
	24	316,666	273,886
Non-controlling interests		114	124
Total equity		**316,780**	**274,010**

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

Statement of cash flows
For the year ended 30 June 2020

	Note	Group 2020 $000 Inflows (Outflows)	2019 $000 Inflows (Outflows)
Cash flows from operating activities			
Receipts from customers		634,749	609,744
Payments to suppliers and employees		(474,653)	(501,203)
Cash generated from operations		**160,096**	**108,541**
Interest received		48	137
Interest and other costs of finance paid		(19,380)	(9,379)
Income taxes paid		(13,599)	(23,292)
Net cash inflows from operating activities	26	**127,165**	**76,007**
Cash flows from investing activities			
Payments for property, plant and equipment		(18,318)	(16,844)
Payments for software		(5,313)	(6,429)
Proceeds from disposal of property, plant and equipment		849	2,450
Payments for businesses acquired (net of cash acquired)	33	(94,973)	(11,111)
Payments for investment in associates		(7,468)	-
Receipts from joint venture		1,202	2,478
Cash flows from other investing activities		(226)	(470)
Net cash outflows from investing activities		**(124,247)**	**(29,926)**
Cash flows from financing activities			
Dividends paid		(47,456)	(47,002)
Increase in bank borrowings		45,802	9,512
Proceeds from issue of ordinary shares		24,126	748
Principal elements of lease payments (2019 – Principal elements of finance lease payments)		(24,954)	(91)
Net cash outflows from financing activities		**(2,482)**	**(36,833)**
Net increase in cash and cash equivalents		436	9,248
Cash and cash equivalents at beginning of year		15,986	7,410
Exchange rate adjustments		264	(672)
Cash and cash equivalents at end of year	10	**16,686**	**15,986**

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

Notes to the financial statements
For the year ended 30 June 2020

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).

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

Critical accounting estimates and 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 judgment in the process of applying the Group's accounting policies. There are no judgments made that are considered to have a significant risk of causing a material adjustment to the carrying value of assets or liabilities. Specific areas of critical accounting estimates and assumptions used are as follows:

(i) Carrying value of indefinite life intangible assets

Impairment reviews are performed by management, 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 17.

(ii) Accounting for contract liability

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

(iii) Fair value of derivatives

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgment 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 is based on the post-acquisition performance of the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired business and judgment on time value of money. Acquisition earn-out amounts payable shall be remeasured at their fair value resulting from events or factors that emerge after the acquisition date, with any resulting gain or loss recognised in the income statement. Judgment 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. Judgment 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 33.

(vi) Purchase price allocation for acquisitions

During the year, the Group acquired 100% of the shares in Big Chill Distribution Limited, along with a number of small information management businesses (refer Note 33). All identifiable assets and liabilities including intangible assets have been measured at fair value at acquisition date. In deriving a fair value for identifiable intangibles, the Group has 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.

Notes to the financial statements
For the year ended 30 June 2020

(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 are 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.

Notes to the financial statements
For the year ended 30 June 2020

(d) Impairment of non-financial assets

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

(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 Group adopted NZ IFRS 16 Leases for which application became mandatory for the Group for the financial year beginning 1 July 2019. The impact of adopting NZ IFRS 16 is detailed in Note 2.

Except for the adoption of NZ IFRS 16 Leases, the accounting policies and methods of computation are consistent with those used in the year ended 30 June 2019.

Amendments to NZ IFRS 3: Business Combinations, mandatory from 1 July 2020, further clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition (refer Note 36 for further details). Other than this, 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.

Notes to the financial statements
For the year ended 30 June 2020

Note 2. Adoption of NZ IFRS 16 leases

The Group adopted NZ IFRS 16 Leases, effective from 1 July 2019. This standard replaces the guidance in NZ IAS 17. 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.

From the effective date of adoption, the income statement is 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 has changed the accounting for the Group's operating leases. As at the effective date, the Group had non-cancellable operating lease commitments of $127 million. Upon adoption, NZ IFRS 16 had a material impact on a number of elements of, and disclosures within, the Group's balance sheet, income statement and statement of cash flows. The Group's actual overall cash flows are unaffected by the adoption of this standard.

In calculating the financial impact, management was required to make various key judgments, including:

- the incremental borrowing rate (IBR) used to discount the ROU assets and the future lease payment obligations (lease liabilities);
- lease terms, including any rights of renewal expected to be exercised; and
- foreign exchange conversion rates.

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the ROU asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

When adopting the standard, management applied IBR's of between 2.45% to 4.23%, with a weighted average rate of 3.61%, to discount the ROU assets and the future lease payment obligations, depending on the nature of the relevant leases. Some of the factors taken into consideration when calculating the IBR for each asset category included observable market rates, economic conditions and lease tenure.

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

Management's process identified that the financial impact on the balance sheet as at 1 July 2019 was as follows:

- recognition of ROU assets of $200 million;
- recognition of lease liabilities of $223 million;
- a decrease in trade and other payables of $2 million;
- recognition of a deferred tax asset of $6 million; and
- a decrease in opening retained earnings of $15 million.

The financial impact on the income statement for the year ended 30 June 2020 was a reduction in net profit after tax of $2.5 million. This was made up of the following changes:

- a $33.7 million decrease in operating lease rental expenses (removed);
- a $28.4 million increase in depreciation (relating to ROU assets);
- an $8.8 million increase in interest expense (relating to lease liabilities); and
- a $1 million decrease in tax expense.

Notes to the financial statements
For the year ended 30 June 2020

A summary of the financial impact on the income statement for the year ended 30 June 2020 is:

	Before NZ IFRS 16 $000	IFRS 16 Adjustment $000	After NZ IFRS 16 $000
Operating profit before interest, income tax, depreciation and software amortisation and amortisation of intangibles	101,366	33,705	135,071
Depreciation and software amortisation	(18,465)	(28,409)	(46,874)
Operating profit before interest, income tax and amortisation of intangibles	82,901	5,296	88,197
Amortisation of intangibles	(3,477)	-	(3,477)
Profit before interest and income tax	79,424	5,296	84,720
Net interest and finance costs	(9,668)	(8,752)	(18,420)
Profit before income tax	69,756	(3,456)	66,300
Income tax	(19,920)	995	(18,925)
Profit for the year attributable to the shareholders	**49,836**	**(2,461)**	**47,375**

Prior to the adoption of NZ IFRS 16, operating lease payments were included in payments to suppliers within operating activities in the statement of cash flows. Following the adoption of NZ IFRS 16, the interest component is allocated to operating cash flows and the repayment of the principal elements of leases is classified within financing activities.

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.

Notes to the financial statements
For the year ended 30 June 2020

As at and for the year ended 30 June 2020:

	Express Package & Business Mail	Information Management	Corporate	Inter-segment Elimination	Consolidated Operations
	$000	$000	$000	$000	$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 non-recurring items, interest, income tax, depreciation and software amortisation and amortisation of intangibles	101,690	47,055	(4,076)	-	144,669
Non-recurring items	(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	(5,057)	-	135,071
Depreciation and software amortisation	(23,929)	(21,215)	(1,730)	-	(46,874)
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

Notes to the financial statements
For the year ended 30 June 2020

As at and for the year ended 30 June 2019

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

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

For the year ended 30 June 2020, external revenue from customers in the Group's New Zealand and Australian operations was $513.6 million and $117.3 million, respectively (2019: $496.0 million and $119.7 million, respectively). As at 30 June 2020, non-current assets in respect of the New Zealand and Australian operations (excluding deferred tax assets and financial assets) were $468.5 million and $173.0 million, respectively (2019: $310.6 million and $161.2 million, respectively).

Notes to the financial statements
For the year ended 30 June 2020

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 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 deliver 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.

(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.

Notes to the financial statements
For the year ended 30 June 2020

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:

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**

2019	Express Package & Refrigerated Transport $000	Postal $000	Storage & Handling $000	Destruction Activities $000	Other $000	Total $000
Revenue from external customers	397,220	54,041	62,567	59,707	42,157	615,692
Timing of revenue recognition:						
At a point in time	-	3,480	-	20,083	8,848	32,411
Over time	397,220	50,561	62,567	39,624	33,309	583,281
	397,220	**54,041**	**62,567**	**59,707**	**42,157**	**615,692**

Notes to the financial statements
For the year ended 30 June 2020

Note 5. Income and expenses

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

	Note	Group 2020 $000	Group 2019 $000
Income			
Interest income		47	81
Operating expenses			
Net loss (gain) on disposal of property, plant and equipment		951	67
Depreciation of property, plant and equipment	15	14,762	12,516
Depreciation of right-of-use assets	16	28,409	-
Amortisation of intangible assets	17	3,477	2,071
Amortisation of software	17	3,705	2,922
Operating lease expenses		-	27,709
Auditor's fees			
Audit of annual financial statements and review of interim financial statements		541	487
Annual Shareholders Meeting – agreed upon procedures		9	8
Executives' remuneration benchmarking		30	-
Directors' fees benchmarking		-	23
Costs of offering credit			
Impairment loss (gain) on trade receivables		1,024	(129)
Interest and finance costs			
Interest on bank borrowings		9,715	9,601
Interest on leases		8,752	24
Derivative fair value movement		-	22
Other			
Directors' fees		607	633
Donations		296	345
Non-recurring items	7		
Impairment of intangible assets:	17		
- Impairment of goodwill		5,194	-
- Impairment of brand names		1,581	-
- Impairment of intangible assets - software		608	-
- Write-off of obsolete software		2,739	-
Acquisition advisory fee		981	-
Insurance proceeds for replacement racking		-	(1,893)
Reversal of accrued earn-out payables		(1,505)	(461)

Notes to the financial statements
For the year ended 30 June 2020

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 2020 $000	Group 2019 $000
Current tax		
Current tax on profit for the year	22,964	24,109
Deferred tax (Note 18)		
Reversal of temporary differences	(2,609)	10
Reversal arising from change in tax law	(1,430)	-
Total deferred tax	(4,039)	10
Income tax expense	**18,925**	**24,119**

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:

	2020	2019
Profit before income tax	66,300	87,496
Income tax calculated at domestic tax rates applicable to the accounting profits in the respective countries	18,525	24,724
Tax-effect of amounts which are treated differently when calculating taxable income:		
- Additional amounts deductible	1,275	(868)
- Adjustment for change in tax law - deferred tax on re-introduction of deductibility of building depreciation	(1,430)	-
- Other	555	263
Income tax expense	**18,925**	**24,119**

The re-introduction of depreciation allowances for commercial buildings by the New Zealand Government following COVID-19 has led to the need to adjust deferred tax balances.

The Group has no tax losses (2019: Nil) and no unrecognised temporary differences (2019: Nil).

Notes to the financial statements
For the year ended 30 June 2020

	Group	
	2020 $000	2019 $000
Imputation credits account		
Imputation credits available for use in subsequent reporting periods	**35,196**	**33,348**

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:

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)	

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

Notes to the financial statements
For the year ended 30 June 2020

Note 7. Non-recurring items

Non-recurring items in the income statement comprise the following gains and losses:

	Note	Group	
		2020 $000	2019 $000
Non-recurring (gains) losses:			
Impairment of goodwill	(i)	5,194	-
Impairment of brand names	(i)	1,581	-
Impairment of intangible assets - software	(ii)	608	-
Write-off of obsolete software	(ii)	2,739	-
Acquisition advisory fee	(iii)	981	-
Reversal of earn-out payables	(iv)	(1,505)	(461)
Insurance proceeds for replacement racking	(v)	-	(1,893)

(i) 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 payables for SWS reversed in 2020, refer (iv) below.

(ii) 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.

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

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

(v) Insurance proceeds received (no tax applicable) from the Group's insurers to reinstate racking in Wellington damaged by the North Canterbury earthquake. NB. In 2019, the income statement included as other expenses an amount of $1.3 million in additional costs of operations resulting from this earthquake, while the compensation of $1.3 million received from the Group's insurers for these additional costs of operations was included in other income.

Note 8. Impact of COVID-19

In March 2020, the World Health Organisation declared COVID-19 a global pandemic. COVID-19 has brought disruptions and uncertainties to businesses and economies globally. These disruptions impacted on the Freightways operations in both New Zealand and Australia.

Freightways is deemed to provide essential services in both New Zealand and Australia. The Level 4 lockdown in New Zealand initially decreased express package volume by 65% while information management activities in New Zealand ground to a halt, leaving the Group with only storage revenue. In Australia, information management activities decreased by around 25% initially.

As the lockdown eased, express package volumes recovered and by June 2020, volumes were stronger than expected. The information management segment in New Zealand is showing positive signs of recovery but Australia will take longer to recover.

Express package volumes have remained strong as Auckland entered a second Level 3 lockdown in August 2020. However, the resurgence of COVID-19 cases in many countries, and the decisions to impose increased restrictions in the Australian State of Victoria, and in Auckland, create a heightened level of uncertainty and could further impact economic activity.

Notes to the financial statements
For the year ended 30 June 2020

An assessment of the impact of COVID-19 on the Freightways financial statements is set out in the following table.

Item	COVID-19 assessment	Note
Reduced remuneration	Directors' fees, as well as Management's fixed remuneration, were reduced by 20% in the last quarter of the financial year in response to the COVID-19 pandemic. While some of our lowest-paid employees were paid a premium during lockdown, many other employees worked reduced hours or agreed to pay reductions during this period.	
Employee entitlements	The New Zealand and Australian governments introduced wage subsidy and JobKeeper subsidy, respectively. Employee entitlements in the income statement are net of wage subsidies of $15.1 million and JobKeeper subsidy of $0.8 million. Some of Freightways' businesses did not apply for the wage subsidy.	
Trade receivables	Freightways has increased the expected credit loss allowance in trade receivables to $2.9 million (2019: $1.5 million) given the increased risk of the macro-economic environment.	11
Software	COVID-19 has resulted in the accelerated development and deployment of various new IT initiatives and strategies, resulting in the need to write-off certain previously capitalised software that is now considered obsolete.	17
Right-of-use assets	The Group has engaged with landlords for rent relief. There is no significant impact on the financial statements from the rent relief.	
Goodwill and indefinite-lived intangible assets	The disruptions of COVID-19 to activity levels have contributed to the carrying value of certain goodwill and brand names within the cash-generating unit of The Information Management Group (Australia) exceeding their recoverable amounts. An impairment loss of $5.8 million has been recognised with respect to this CGU.	17
Borrowings	Due to the uncertainty that COVID-19 presented, Freightways increased its syndicated bank facilities and negotiated the extension of maturity dates for a number of facilities within the banking arrangements. The Bank Facility increase is for a period of 12 to 18 months from inception and there is no expectation that they will be maintained beyond this point.	23
Income tax & deferred tax	Re-introduction of depreciation allowances for commercial buildings by the New Zealand Government has led to the need to adjust deferred tax balances.	6

Notes to the financial statements
For the year ended 30 June 2020

Note 9. Dividends

	Group	
	2020 $000	2019 $000
Recognised amounts		
Fully imputed dividends declared and paid during the year:		
Final dividend for 2019 at 15.5 cents per share (2018: 15.25 cents)	24,084	23,695
Interim dividend for 2020 at 15.0 cents per share (2019: 15.0 cents)	23,319	23,307
	47,403	**47,002**
Unrecognised amounts		
No final dividend to be paid for 2020 (2019: 15.5 cents)	**-**	**24,107**

Note 10. 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	
	2020 $000	2019 $000
Comprises		
Cash at bank	16,578	15,882
Overnight deposits	108	104
Cash and cash equivalents in statement of cash flows	**16,686**	**15,986**

Notes to the financial statements
For the year ended 30 June 2020

Note 11. 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	
	2020 $000	2019 $000
Current		
Trade receivables	88,923	73,312
Provision for doubtful receivables	(2,909)	(1,500)
	86,014	71,812
Accrued revenue	4,841	4,298
Other debtors and prepayments	8,994	11,171
Share plan loans receivable from employee	532	524
	100,381	**87,805**
Non-current		
Share plan loans receivable from employees	325	443
Other non-current assets	7,023	3,541
	7,348	**3,984**

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	
	2020 $000	2019 $000
Opening balance	1,500	1,629
Provision for doubtful receivables	1,152	(7)
Receivables written off during the year as uncollectible	(106)	(101)
Provisions added from acquired businesses	350	-
Exchange rate movement	13	(21)
Closing balance (Note 31.1(b))	**2,909**	**1,500**

Freightways has increased the expected credit loss allowance in trade receivables to $2.9 million (2019: $1.5 million) given the increased risk of the macro-economic environment from COVID-19.

Notes to the financial statements
For the year ended 30 June 2020

Note 12. 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 $10.7 million (2019: $11.8 million).

	Group	
	2020 $000	2019 $000
Finished goods	2,576	2,036
Ticket stocks, uniforms and consumables	3,443	2,973
	6,019	**5,009**

Note 13. Derivative financial instruments

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

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

(i) Cash flow hedges

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

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

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

(ii) Derivatives that do not qualify for hedge accounting

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

Notes to the financial statements
For the year ended 30 June 2020

	Group 2020 $000 Asset (Liability)	Group 2019 $000 Asset (Liability)
Current		
Interest rate swaps – cash flow hedge	(742)	(668)
Foreign currency options – cash flow hedge	(8)	(206)
Forward foreign exchange contracts – cash flow hedge	-	(6)
	(750)	**(880)**
Non-current		
Interest rate swaps – cash flow hedge	(3,783)	(5,015)
Foreign currency options – cash flow hedge	-	(165)
Forward foreign exchange contracts – cash flow hedge	1,651	643
	(2,132)	**(4,537)**

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

	Cash flow hedge reserve			
	Intrinsic value of options $000	**Spot component of currency forwards $000**	**Interest rate swaps $000**	**Total hedge reserve $000**
Balance at 1 July 2018	(518)	195	(3,906)	(4,229)
Change in fair value of hedging instrument recognised in Other Comprehensive Income (OCI)	348	366	(258)	456
Less: Deferred tax	(97)	(103)	72	(128)
Balance at 30 June 2019	**(267)**	**458**	**(4,092)**	**(3,901)**
Change in fair value of hedging instrument recognised in 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)**

Notes to the financial statements
For the year ended 30 June 2020

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

	NZD 2020 $000	NZD 2019 $000	AUD 2020 $000	AUD 2019 $000
Interest rate swaps:				
Notional amount	54,000	53,000	36,500	46,500
Maturity date	09/20 – 05/25	09/19 – 02/24	09/20 – 07/23	07/19 – 07/23
Hedge ratio	1:1	1:1	1:1	1:1
Change in fair value of outstanding hedging instrument	522	(46)	637	(212)
Change in value of hedge item used to determine hedge effectiveness	(522)	46	(637)	212
Weighted average strike rate for the year	4.5%	4.7%	3.9%	4.0%
Foreign currency options:				
Notional amount	5,834	12,985	-	-
Maturity date	07/20 – 05/21	07/19 – 05/21	-	-
Hedge ratio	1:1	1:1	-	-
Change in fair value of outstanding hedging instrument	362	348	-	-
Change in value of hedge item used to determine hedge effectiveness	(362)	(348)	-	-
Weighted average strike rate for the year	USD0.66: NZD1	USD0.67: NZD1	-	-
Forward foreign exchange contracts:				
Notional amount	18,381	18,381	-	-
Maturity date	07/19 – 06/24	07/19 – 06/24	-	-
Hedge ratio	1:1	1:1	-	-
Change in fair value of outstanding hedging instrument	1,014	366	-	-
Change in value of hedge item used to determine hedge effectiveness	(1,014)	(366)	-	-
Weighted average strike rate for the year	-	-	-	-

There was no derivative movement recognised in the income statement during the year (2019: expense of $0.1 million).

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Hedge effectiveness

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

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

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

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

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

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

Notes to the financial statements
For the year ended 30 June 2020

Note 14. 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, except Big Chill Distribution Limited. The recently acquired Big Chill Distribution Limited has a 31 March balance date and is in the process of being changed to 30 June to align with the Group's balance date.

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

Other than the acquisition of Big Chill Distribution Limited, there has been no change in investments in subsidiaries during the year.

Notes to the financial statements
For the year ended 30 June 2020

Note 15. 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	Buildings $000	Leasehold Alterations $000	Motor Vehicles $000	Equipment $000	Total $000
2020						
Opening net book value	13,745	20,250	3,773	10,804	58,138	106,710
Additions	2,120	344	1,875	4,823	9,167	18,329
Acquisitions through business combinations (Note 33)	-	-	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	**15,901**	**19,004**	**12,093**	**29,327**	**58,324**	**134,649**
As at end of year						
Cost	15,901	39,827	19,233	42,167	134,799	251,927
Accumulated depreciation	-	(20,823)	(7,140)	(12,840)	(76,475)	(117,278)
Net book value	**15,901**	**19,004**	**12,093**	**29,327**	**58,324**	**134,649**

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

The cost of equipment in respect of assets under construction for which depreciation has not commenced as at 30 June 2020 is $0.5 million (2019: $0.3 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 31.1(d).

Note 16. 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 contain 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 2.45% to 4.23%, with a weighted average rate of 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.

Notes to the financial statements
For the year ended 30 June 2020

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

	$000
Right-of-use assets	
Opening net book value as at 1 July 2019	-
Recognised on transition	200,068
Lease additions, modifications and terminations	104,550
Depreciation for the year	(28,409)
Exchange rate movement	1,933
Closing net book value as at 30 June 2020	**278,142**
Cost	367,280
Accumulated depreciation	(89,138)
Closing net book value as at 30 June 2020	**278,142**

	2020 $000	2019 $000
Right-of-use assets		
Buildings	259,023	-
Equipment	6,823	-
Motor vehicles	12,296	-
	278,142	-

The balance sheet shows the following amounts relating to leases:

	$000
Lease liabilities	
Operating lease commitments disclosed as at 30 June 2019	127,293
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 recognised as at 1 July 2019	**223,313**
Lease additions, modifications and terminations	109,787
Interest for the year	8,752
Lease repayments	(33,706)
Other lease liabilities	668
Exchange rate movement	2,258
Closing lease liabilities as at 30 June 2020	**311,072**

Notes to the financial statements
For the year ended 30 June 2020

	2020 $000	2019 $000
Lease liabilities		
Current	30,641	127
Non-current	280,431	129
	311,072	**256**

Lease liabilities maturity analysis:

	Minimum lease payments $000	Interest $000	Present value $000
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:

	2020 $000	2019 $000
Depreciation charge for right-of-use assets		
Buildings	22,099	-
Motor vehicles	3,432	-
Equipment	2,878	-
	28,409	**-**
Interest on leases	8,752	-

Total cash outflow in relation to leases is $33.7 million (2019: Nil).

Notes to the financial statements
For the year ended 30 June 2020

Note 17. Intangible assets

i) Goodwill

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

(ii) Brand names

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

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

An independent valuation of the brand names was conducted by Deloitte in July 2020. This independent report assessed the fair market value of the brand names as at 30 June 2020 to be between $335 million and $369 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 31.1(d).

(iii) Computer software

External software costs, together with payroll and related costs for employees directly associated with the development of software, are capitalised. Costs associated with upgrades and enhancements are capitalised to the extent they result in additional functionality. Amortisation is charged on a straight-line basis over the estimated useful life of the software which ranges between 3 and 10 years. Included in the cost of software is work in progress of $2.8 million (2019: $4.3 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.

Notes to the financial statements
For the year ended 30 June 2020

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 (Note 33)	91,475	5,500	37	44,009	1,900	142,921
Amortisation expense	-	-	(3,705)	(3,069)	(408)	(7,182)
Impairment loss (Note 7)	(5,194)	(1,581)	(608)	-	-	(7,383)
Written-off (Note 7)	-	-	(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**

COVID-19 has resulted in the accelerated development and deployment of various new IT initiatives and strategies, resulting in 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
2019						
Opening net book value	208,179	114,775	14,359	18,086	3,020	358,419
Additions	-	-	6,429	-	470	6,899
Acquisition through business combinations	8,426	-	-	1,722	-	10,148
Amortisation expense	-	-	(2,922)	(1,887)	(184)	(4,993)
Exchange rate movement	(3,868)	(843)	(69)	(444)	(97)	(5,321)
Closing net book value	**212,737**	**113,932**	**17,797**	**17,477**	**3,209**	**365,152**
As at end of year						
Cost	231,399	113,932	33,838	26,030	4,878	410,077
Accumulated amortisation	(18,662)	-	(16,041)	(8,553)	(1,669)	(44,925)
Net book value	**212,737**	**113,932**	**17,797**	**17,477**	**3,209**	**365,152**

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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	
	2020 $000	2019 $000	**2020 $000**	2019 $000
Big Chill	83,755	-	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	**182,524**	**98,769**	**94,705**	**89,205**
The Information Management Group (New Zealand)	17,577	17,577	4,400	4,400
The Information Management Group (Australia)	56,615	59,510	15,894	17,095
Shred-X	44,567	36,881	3,308	3,232
Total Information Management	**118,759**	**113,968**	**23,602**	**24,727**
Total	**301,283**	**212,737**	**118,307**	**113,932**

(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 2021, taking into account each CGU's historical performance against budget. Cash flows beyond June 2021 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 for businesses where the book value was close to the value-in-use: a number of scenarios were considered and weighted by an estimation of their likelihood. In addition, the sensitivity of the main financial variables was tested and considered in the final estimation.

A 1% (2019: 1%) revenue growth rate, a consistent EBITDA margin assuming costs increase in line with revenue and 1% (2019: 1%) terminal growth rate have been applied to the Express Package & Business Mail businesses in the value-in-use calculation.

A 2% (2019: 3%) revenue growth rate, a consistent EBITDA margin assuming costs increase in line with revenue and 2% (2019: 2.5%) 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 – impairment loss section below.

A post-tax discount rate of 7.5%, equating to a pre-tax discount rate of 10% (2019: 10% pre-tax discount rate) has been applied to all CGUs, reflecting the current environment in financial markets.

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(ii) Significant estimate – impairment loss

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.

(iii) Significant estimate - sensitivity to changes in assumptions

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 $10.2m.

If the post-tax discount rate used increased from 7.5% to 8.5%, the impairment loss recognised against intangibles would have been $19.4m. 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 $13.5m.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).

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Note 18. 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
2020							
Balance at beginning of year	(9,429)	4,148	3,050	1,516	(37,047)	-	(37,762)
Adjustment on adoption of IFRS 16 (Note 2)	-	-	(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 (Note 6)	1,430	-	-	-	-	-	1,430
• other	(26)	(75)	899	-	1,719	611	3,128
Amounts relating to business combinations (Note 33)	-	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)**

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

Note 19. 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 2020 $000	Group 2019 $000
Current		
Trade creditors	44,556	34,168
Employee entitlements	21,138	17,174
Other creditors and accruals	21,962	17,625
	87,656	**68,967**
Non-current		
Acquisition earn-out payables	27,386	1,464
Other non-current payables	-	1,673
	27,386	**3,137**

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Note 20. Operating leases

Operating lease commitments (non-cancellable)

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

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

	2020 $000	2019 $000
Within one year	-	27,178
After one year but not more than five years	-	66,248
After five years	-	33,867
	-	**127,293**

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

Note 21. 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**
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**

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

	2020 $000	2019 $000
Analysis of total provisions		
Current	1,225	860
Non-current	6,331	4,750
Total	**7,556**	**5,610**

Note 22. Contract liability

A contract liability of $15.1 million (2019: $15.7 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 $14.3 million (2019: $15.7 million).

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

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

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Note 23. 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	
	2020 $000	2019 $000
Bank borrowings		
Current	5,210	-
Non-current	216,484	167,394
	221,694	**167,394**

(a) Security for borrowings

The bank borrowings are secured by a charge over the assets of the majority of the Company's New Zealand subsidiaries in favour of its primary lenders and guarantees from the Company's primary Australian subsidiaries. As at 30 June 2020, the carrying amount of the assets pledged as security is $254 million (2019: $223 million).

(b) Finance facilities

The following finance facilities existed at the reporting date:

	Facilities denominated in New Zealand Dollars		Facilities denominated in Australian Dollars	
	2020 $000	2019 $000	**2020 $000**	2019 $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	229,500	103,500	120,423	100,423
Maturing 1 September 2020	-	26,000	-	2,000
Maturing 30 April 2021	6,000	-	-	-
Maturing 1 September 2021	-	30,500	-	27,250
Maturing 14 November 2021	20,000	-	-	-
Maturing 14 May 2022	30,000	-	-	-
Maturing 1 September 2022	37,000	37,000	21,173	21,173
Maturing 1 September 2023	56,500	-	49,250	20,000
Maturing 23 December 2023	70,000	-	-	-
Maturing 23 December 2024	-	-	20,000	-
Maturing 11 July 2025	-	-	20,000	20,000
Maturing 15 December 2026	10,000	10,000	10,000	10,000
Amount of loan facilities used	114,710	73,000	99,923	90,250
Amount of loan facilities unused	114,790	30,500	20,500	10,173
Effective interest rate at 30 June as amended for interest rate hedges	5.44%	6.19%	4.55%	5.20%

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

In December 2019, the Group negotiated increases of NZ$70 million and A$20 million to its existing syndicated bank facilities with 4-year and 5-year maturity, respectively. The increased facilities were effective from 23 December 2019 and are at similar pricing to existing facilities.

In May 2020, the Group negotiated a two-year extension of its syndicated bank facilities that were maturing on 1 September 2021. In addition, the facilities were increased by NZ$50 million as a buffer against the uncertain impact COVID-19 might have on cash flows and debt headroom. The additional facilities mature in November 2021 and May 2022, as detailed in the maturity table above. The extended and increased facilities became effective from 14 May 2020.

In December 2016, a US$125 million uncommitted finance facility was established with a US-based lender on the same terms as those that are in place with the existing banking syndicate. Of this facility, the US dollar equivalent of NZ$10 million and A$30 million was drawn as at 30 June 2020. The drawn amounts mature in 2025 and 2026, as detailed in the maturity table above.

(c) Big Chill Distribution Limited CreditPlus Facility

An existing fleet financing facility with a $6 million limit operated by Big Chill Distribution Limited has been retained following Freightways' acquisition of this subsidiary in April 2020. As at 30 June 2020, the facility had a balance of $5.2 million and is scheduled to be repaid progressively by April 2021 and will then be cancelled. It is not intended that any new advances will be drawn against this facility.

The Group was in compliance with all of its banking covenants throughout the year ended 30 June 2020. 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 takes into account a weaker first half in the 2021 financial year due to COVID-19 and 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:

		Liabilities from financing activities		
	Cash	**Leases**	**Bank borrowings**	**Total**
Group	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2018	**7,410**	**(412)**	**(161,800)**	**(154,802)**
Cashflow	9,248	91	(9,512)	(173)
Exchange rate movement	(672)	-	3,918	3,246
Other non-cash movements	-	65	-	65
Balance at 30 June 2019	**15,986**	**(256)**	**(167,394)**	**(151,664)**
Recognised on adoption of NZ IFRS 16	-	(223,313)	-	(223,313)
	15,986	**(223,569)**	**(167,394)**	**(374,977)**
Cashflow	436	24,954	(45,802)	(20,412)
Acquisition – leases	-	(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)**

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Note 24. 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			
	2020 Ordinary shares	2019 Ordinary shares	**2020 $000**	2019 $000
Balance at beginning of year	155,371,224	155,111,888	126,440	125,260
Partly-paid ordinary shares issued	-	-	-	1
Partly-paid shares, fully paid up to ordinary shares	-	107,491	-	103
Share-based payment expenses	-	-	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	80,000	155,000	579	1,054
(Increase) decrease in employee share plan unallocated shares	(840)	(3,155)	8	22
Balance at end of year	**165,405,051**	**155,371,224**	**180,630**	**126,440**

Contributed equity

(i) Fully paid ordinary shares

As at 30 June 2020 there were 165,413,104 shares issued and fully paid (2019: 155,378,437). All fully paid ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

(ii) Partly-paid ordinary shares

No partly-paid shares were issued during the year to senior executives under the rules of the Freightways Senior Executive Performance Share Plan (the 'Plan') (2019: 90,970). The issue price per share for the 2019 issue was $7.56 and the shares have been paid up by the relevant participants to one cent per share. The balance of the issue price per share may only be paid up upon the participants meeting agreed performance hurdles and upon the expiry of the applicable three-year escrow period in accordance with the Plan rules (refer Note 25). During the year, 25,227 partly-paid shares were redeemed and cancelled (2019: 13,949). As at 30 June 2020 there were 263,816 partly-paid shares on issue, paid up to one cent per share (2019: 289,043). Partly-paid shares have no voting rights and no rights to dividends and surplus on winding up.

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

No partly-paid shares were fully paid-up during the year by Freightways senior executives under the Freightways Senior Executive Performance Share Plan. In 2019, 107,491 were fully paid-up by the past Managing Director as part of his resignation arrangements, as allowed by the Plan rules, at an average issue price per share fully paid-up of $5.07.

(iv) Employee Share Plan

On 9 October 2019, the Company issued 80,000 fully paid ordinary shares at $7.24 each to Freightways Trustee Company Limited, as Trustee for the Freightways Employee Share Plan (September 2018: 155,000 fully paid ordinary shares at $6.80 each). In total, participating employees were provided with interest-free loans of $0.6 million to fund their purchase of the shares in the Share Plan (September 2018: $1.1 million). The loans are repayable over three years and repayment commenced in October 2019.

As at 30 June 2020 the Trustee held 593,936 (2019: 563,787) fully paid ordinary shares (representing 0.4% (2019: 0.4%) of all issued ordinary shares) of which 8,053 (2019: 7,213) 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.

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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 13(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 25. Share-based payments

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

In July 2020, the Freightways Board of Directors approved a new Executive Long-term Incentive Scheme for the Freightways senior leadership team to replace the existing Freightways Senior Executive Share Performance Plan (described in Note 35).

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

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

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

Allocations were made annually in September each year until 2018. No further issues under this Plan have been made since, as the Board approved a replacement scheme in July 2020, and made an initial issue with a 3-year vesting period, effective from 1 July 2019 (refer Note 35). The terms for allocations, including the relevant performance hurdles, were determined by the Board of Directors.

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Details of outstanding allocations are as follows:

Share allocation date:	11 Sep 2013	10 Sep 2014	14 Sep 2015	12 Sep 2016	13 Sep 2017	26 Sep 2018
Partly-paid shares allocated	148,386	124,221	121,691	103,682	96,018	90,970
Market price per share at date of allocation	$4.12	$5.11	$5.39	$6.82	$7.83	$7.56
Amount paid up per share upon allocation	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Total amount paid-up upon allocation	$1,484	$1,242	$1,217	$1,037	$960	$910
Escrow periods ended 30 June:	2016 (100%)	2016 (6.5%) 2017 (93.5%)	2018 (100%)	2017 (2.1%) 2018 (2.1%) 2019 (95.8%)	2018 (3.5%) 2019 (3.5%) 2020 (93%)	2019 (1.4%) 2020 (4.1%) 2021 (94.5%)
Total amount paid-up upon vesting:						
• Year ended 30 June 2017	$483,225	$38,005	-	-	-	-
• Year ended 30 June 2018	$30,213	$475,193	-	$12,898	-	-
• Year ended 30 June 2019	$3,354	$21,604	$203,681	$231,819	$238,815	-
• year ended 30 June 2020	-	-	-	-	-	-
Partly-paid shares outstanding	-	-	63,474	55,296	58,026	87,020

Total number of partly-paid shares on issue:	**2020**	2019
Balance at beginning of the year	289,043	319,513
Issued during the year	-	90,970
Cancelled during the year	(25,227)	(13,949)
Fully paid-up during the year	-	(107,491)
Balance at end of the year	263,816	289,043
Partly-paid shares eligible to be paid up at end of year	-	-

	2020 $000	2019 $000
Total amount expensed during the year for the senior executive performance share plan	438	354
Liability recognised at year end for estimated income tax applicable to bonuses payable to facilitate the paying-up of vested partly-paid shares	911	624

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

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Note 26. Reconciliation of profit for the year with cash flows from operating activities

	Note	Group **2020 $000**	Group 2019 $000
Profit for the year		47,375	63,377
Add non-cash items:			
Depreciation and amortisation	5	50,353	17,509
Movement in provision for doubtful debts		1,024	(129)
Movement in deferred income tax		(4,149)	260
Net (gain) loss on disposal of property, plant and equipment		951	67
Net foreign exchange loss		5	-
Movement in derivative fair value		-	22
Non-recurring items		5,271	(461)
Impairment of non-current assets		608	-
Write-off of software		3,115	-
Share of profits of associates		(873)	-
Movement in working capital, net of effects of acquisitions of businesses:			
Decrease (increase) in trade and other receivables		(11,741)	(7,768)
Decrease (increase) in inventories		(1,010)	(139)
Increase (decrease) in trade and other payables		24,226	2,457
Increase (decrease) in income taxes payable		12,010	812
Net cash inflows from operating activities		**127,165**	**76,007**

Note 27. Capital commitments and contingent liabilities

The Group had made capital commitments to purchase or construct buildings and equipment for $2.9 million at 30 June 2020 (2019: $1.5 million), principally relating to the completion of operating facilities throughout the Group.

As at 30 June 2020, the Group had outstanding letters of credit and bank guarantees issued by its lenders totalling approximately $5 million (2019: $4 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 28. 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 **2020**	Group 2019
Profit for the year attributable to shareholders ($000)	47,332	63,367
Weighted average number of ordinary shares ('000)	157,952	155,332
Basic earnings per share (cents)	**30.0**	**40.8**

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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	
	2020	2019
Profit for the year attributable to shareholders ($000)	47,332	63,367
Weighted average number of ordinary shares ('000)	157,952	155,332
Effect of dilution ('000)	264	289
Diluted weighted average number of ordinary shares ('000)	158,216	155,621
Diluted earnings per share (cents)	**29.9**	**40.7**

* Basic and diluted earnings per share calculated on the profit for the year attributable to shareholders, excluding non-recurring items, net of tax (refer Note 7), are 35.5 and 35.4 cents, respectively (2019: 39.3 and 39.2 cents, respectively).

Note 29. Net tangible assets per security

Net tangible assets (liabilities) per security at 30 June 2020 was ($1.01) (2019: ($0.47)).

Note 30. 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 $13.1 million (2019: $11.8 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	
	2020 $000	2019 $000
Short term employee benefits	6,218	6,407
Long term employee benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	325
Share-based payments (Note 25)	438	354

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Note 31. Financial risk management

31.1 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 a 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 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
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
2019						
Bank borrowings	3,124	3,136	9,077	143,840	45,004	204,181
Trade and other payables	56,733	15,043	182	2,140	815	74,913
Lease liabilities	54	76	112	16	-	258
Derivative financial instruments – interest rate swaps*	1,252	1,241	1,642	1,548	-	5,683

* 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.

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(b) Credit risk

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

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

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

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

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

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

Despite the economic impact of the COVID-19 pandemic, the Group has not seen a material impact of bad debt. Nevertheless, out of prudence, the decision was made to increase provision for doubtful debts to $2.9 million (2019: $1.5 million).

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

	Group	
	2020 $000	2019 $000
Cash and cash equivalents	16,686	15,986
Trade and other receivables	92,942	78,036
	109,628	94,022

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:

	2020			2019		
	Gross carrying amount $000	**Expected loss rate %**	**Loss allowance $000**	Gross carrying amount $000	Expected loss rate %	Loss allowance $000
Current	71,426	0.5%	357	60,828	nil	-
31-60 days over standard terms	12,715	5%	636	8,781	2%	132
60-90 days over standard terms	1,497	25%	374	1,471	25%	368
91+ days over standard terms	3,285	47%	1,542	2,232	45%	1,000
	88,923		2,909	73,312		1,500

The Group has $14.6 million (2019: $11 million) of financial assets that are overdue and not impaired.

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(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 23, at 30 June 2020 the Group had Australian dollar denominated bank borrowings of AUD99,923,000 (2019: AUD90,250,000). Of these borrowings, AUD14,200,000 (2019: 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.

The economic impact of COVID-19 is not expected to change the way foreign exchange risk is managed.

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.

The economic impact of COVID-19 is not expected to change the way interest rate risk is managed.

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.

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Sensitivity analysis:

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

(d) Fair value estimation

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

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

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

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

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

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

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

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Specific valuation techniques used to value financial instruments include:

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

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

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

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

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
2020				
Liabilities				
Derivative financial instruments	-	2,882	-	2,882
Contingent consideration in a business combination	-	-	27,386	27,386
Total liabilities	**-**	**2,882**	**27,386**	**30,268**
2019				
Liabilities				
Derivative financial instruments	-	5,417	-	5,417
Contingent consideration in a business combination	-	-	1,464	1,464
Total liabilities	**-**	**5,417**	**1,464**	**6,881**

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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	
	2020 $000	2019 $000
Opening balance	1,464	3,113
Acquisition of businesses	27,381	-
Settlement	-	(1,097)
Purchase price adjustment	(1,505)	(461)
Exchange rate adjustments	46	(91)
Closing balance	**27,386**	**1,464**
Total losses for the year included in the income statement for liabilities held at the end of the reporting period, under:		
• Non-recurring items	(1,505)	(461)
• Net interest and finance costs	-	-
	(1,505)	**(461)**

Contingent consideration in a business combination relates to the acquisition of Big Chill Distribution Limited in the current year (2019: relates to acquisition of the business and assets of State Waste Services). Refer Note 33 for details of acquisitions.

31.2 Capital risk management

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

The Group's long term debt facilities impose a number of banking covenants. These covenants are calculated monthly and are reported to the banks quarterly on a rolling 12-months basis. The most significant covenant relating to capital management is a requirement for the Group to maintain its operating leverage (net debt divided by profit before interest, tax, depreciation and amortisation) below a maximum level. There have been no breaches of banking covenants or events of review during the current or prior year.

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Note 32. Financial instruments by category

(a) Assets, as per balance sheet

	Financial assets at amortised cost		Derivatives used for hedging		Total	
	2020 $000	2019 $000	**2020 $000**	2019 $000	**2020 $000**	2019 $000
Group						
Trade and other receivables (excluding prepayments)	100,025	80,951	-	-	100,025	80,951
Cash and cash equivalents	16,686	15,986	-	-	16,686	15,986
Total	**116,711**	**96,937**	**-**	**-**	**116,711**	**96,937**

(b) Liabilities, as per balance sheet

	Derivatives used for hedging		Other financial liabilities at amortised cost		Total	
	2020 $000	2019 $000	**2020 $000**	2019 $000	**2020 $000**	2019 $000
Group						
Borrowings (excluding lease liabilities)	-	-	221,694	167,394	221,694	167,394
Lease liabilities	-	-	311,072	256	311,072	256
Derivative financial instruments	2,882	5,417	-	-	2,882	5,417
Trade and other payables	-	-	87,482	51,310	87,482	51,310
Total	**2,882**	**5,417**	**620,248**	**218,960**	**623,130**	**224,377**

Note 33. Business combinations

Acquisition of 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.

The contribution of BCD to the Group results for the year ended 30 June 2020 was revenue of $22 million and operating profit before interest, income tax and amortisation of intangibles of $2.7 million. If this acquisition had occurred at the beginning of the year, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the period is estimated at $100.9 million and $12.9 million, respectively. There was no material impact on these contributions from COVID-19.

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

	$000
Purchase consideration:	
Cash paid during the period	84,553
Issue of Freightways shares	30,000
Fair value of future earn-out payment	27,193
Total purchase consideration	141,746
Fair value of assets and liabilities arising from the acquisition:	
Cash and cash equivalents	5,715
Trade and other receivables	11,706
Plant and equipment	24,256
Right-of-use assets	91,292
Net investment in sublease	4,506
Brand name	5,500
Customer relationships	40,900
Non-compete agreement	1,900
Goodwill	83,754
Trade and other payables	(12,802)
Borrowings	(6,023)
Deferred tax liability	(12,723)
Lease liabilities	(96,235)
	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 estimated discounted future earn-out payment of $27.2 million may be payable in August 2022 and has been accrued for in the financial statements, but is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2021 and 2022. 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 $30 million. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement.

The goodwill of $83.8 million arising upon this acquisition is attributable to the business know-how and the premium paid for strategic reasons, including acquiring an entry point into the temperature-controlled transport and facilities industry. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of certain assets and liabilities arising from the acquisition have been determined on a provisional basis due to the acquisition being completed close to the financial year end. Plant and equipment, customer relationships and brand name have been measured provisionally, pending confirmation of certain determinants and completion of independent valuations. The fair value of these assets will be finalised within 12 months from the acquisition date.

Notes to the financial statements
For the year ended 30 June 2020

Other acquisitions during the year:

During the year ended 30 June 2020, the Group acquired seven small information management businesses in Australia for an aggregate purchase consideration totalling approximately $10.4 million. These businesses have been integrated into the Australian businesses of the Group's information management division. The acquisitions were of the business & assets of:

- Green Team in South Australia (SA) on 2 September 2019
- Country Hygiene in New South Wales (NSW) on 1 October 2019
- Scanning Conversion Services in SA on 1 November 2019
- Specialised Waste Treatment Services in NSW on 2 December 2019
- Pro Opt in NSW on 6 March 2020
- Queensland Document Destruction on 16 March 2020
- Avon Paper in Western Australia on 1 April 2020

The contribution of these businesses to the Group results for the year ended 30 June 2020 was revenue of $3.4 million and operating profit before interest, income tax and amortisation of intangibles of $0.5 million, net of acquisition costs of $0.3 million.

If these acquisitions had all occurred at the beginning of the year, the contribution to revenue and operating profit before interest, income tax and amortisation of intangibles for the year is estimated at $6.5 million and $1.3 million (net of acquisition costs of $0.3 million), respectively.

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

	$000
Purchase consideration:	
Cash consideration paid during the year	10,168
Estimated working capital adjustment	194
	10,362
Fair value of assets and liabilities arising from the acquisition:	
Trade and other receivables	7
Inventories	33
Plant and equipment	1,139
Customer relationships	3,109
Goodwill	7,659
Trade and other creditors	(288)
Provisions	(520)
Deferred tax liability	(777)
	10,362

Notes to the financial statements
For the year ended 30 June 2020

The goodwill of $7.7 million arising upon these acquisitions is attributable to the business know-how 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 fair value of certain assets and liabilities arising from these acquisitions has been determined on a provisional basis. Plant and equipment and customer relationships have been measured provisionally, pending confirmation of certain determinants and valuation methods. The fair value of these assets will be finalised within 12 months from the acquisition date.

Prior period acquisitions:

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.

The potential earn-out is contingent upon certain financial performance hurdles being achieved for the years ended 30 June 2019, 2020 and 2021. The Group has forecast several scenarios and probability-weighted each to determine a fair value for this contingent payment arrangement. As at 30 June 2020, based on the actual performance of the acquired business, management has estimated that there is likely to be no future earn-out payment payable in September 2021 and accordingly has reversed the accrual of $1.5 million as a non-recurring gain in the income statement.

Note 34. Investment in associate

In October 2019, the Group acquired a 33% interest in Sweetspot Group Limited (trading as GoSweetSpot (GSS)) for $7.5m. GSS is a New Zealand-based courier and freight aggregator. GSS purchases courier services from the Group for on-selling to its customers. The Group also utilises the GSS software solution to support some of its own customers.

Note 35. Significant events after balance date

Freightways Performance Share Rights Scheme

In July 2020, the Freightways Board of Directors approved a new Executive Long-term Incentive Scheme for the Freightways senior leadership team to replace the existing Freightways Senior Executive Share Performance Plan (described in Note 25). An initial issue of 141,916 Share Rights under the rules of the new scheme was made on 31 July 2020. The Share Rights have a 3-year vesting period commencing 1 July 2019 and will be eligible for vesting as of 30 June 2022. Vesting is subject to the achievement of certain financial hurdles set by the Board and included in the annual offer of participation to executives. Once it has been determined how many Share Rights have vested, each Share Right will convert to a Freightways fully paid ordinary share at that time.

COVID-19

Post year end, parts of both New Zealand and 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.

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

Notes to the financial statements
For the year ended 30 June 2020

Note 36. Standards, amendments and interpretations to existing standards that are not yet effective

From time to time, certain new standards, amendments and interpretations of existing standards are published by the International Accounting Standards Board (IASB) and the External Reporting Board (XRB) that become mandatory for future periods and which the Group will adopt when they become mandatory. As at 30 June 2020, the following new amendments are applicable to the Group:

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

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

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

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

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

Shareholder information

Stock exchange listing

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

Distribution of shareholders and shareholdings as at 31 July 2020

	Number of holders	Number of shares held	% of issued capital
Size of shareholding			
1 to 1,999	3,282	3,204,234	1.94
2,000 to 4,999	2,563	7,759,125	4.69
5,000 to 9,999	1,274	8,363,033	5.06
10,000 to 49,999	815	13,640,068	8.25
50,000 to 99,999	39	2,427,665	1.47
100,000 to 499,999	26	4,491,958	2.72
500,000 to 999,999	7	5,174,194	3.13
1,000,000 and over	14	120,352,827	72.74
Total shareholders	8,020	165,413,104	100.00
Geographic distribution			
New Zealand	7,851	163,100,250	97.89
Australia	101	2,062,983	1.26
Other	68	249,871	0.85
	8,020	165,413,104	100.00

Substantial product holders as at 31 July 2019

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

	Voting securities	
	Number	%
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	6.08
Investment Services Group Limited	9,451,348	5.71

The total number of issued voting securities of the Company as at 31 July 2020 was 165,413,104.

Shareholder information

Top twenty registered shareholders of listed shares as at 31 July 2020

	Number of Shares held	% of issued capital
Citibank Nominees (New Zealand) Limited <CNOM90> *	14,094,659	8.52
HSBC Nominees (New Zealand) Limited <HKBN45> *	12,294,980	7.43
FNZ Custodians Limited	9,904,591	5.99
TEA Custodians Limited <TEAC40> *	9,185,225	5.55
Custodial Services Limited <A/C 4>	8,261,886	4.99
Accident Compensation Corporation <ACCI40> *	7,199,995	4.35
ANZ Custodial Services New Zealand Limited <PBNK90>*	6,677,741	4.04
JPMorgan Chase Bank <CHAM24> *	5,906,493	3.57
HSBC Nominees (New Zealand) Limited <HKBN90> *	5,050,456	3.05
Custodial Services Limited <A/C 3>	4,627,127	2.80
Port Devon Limited	3,153,554	1.91
BNP Paribas Nominees (NZ) Limited <COGN40>*	3,082,420	1.86
Custodial Services Limited <A/C 2>	2,811,201	1.70
Forsyth Barr Custodians Limited <1-Custody>	2,769,977	1.67
ANZ Wholesale Australasian Share Fund <PNAS90>*	2,743,264	1.66
JBWere (NZ) Nominees Limited <NZ Resident A/C>	2,741,074	1.66
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	2,698,773	1.63
National Nominees Limited – <NNLZ90> *	2,456,081	1.48
Investment Custodial Services Limited <A/C C>	2,027,099	1.23
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited <SUPR40> *	1,927,062	1.16
	109,613,658	**66.25**

*Held through NZ Central Securities Depository Limited

Corporate governance statement

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

The role of the Board of Directors

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

Board responsibilities

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

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

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

A formal Board Charter, which can be found at https://www.freightways.co.nz/about/corporate-governance/, has been adopted by the Board that elaborates on Directors' responsibilities. The Board will internally evaluate its performance annually. Any recommendations flowing from this review will be implemented promptly. The Board will review its Corporate Governance practice against current best practice and continue to develop company policies and procedures, as deemed necessary.

Board composition

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

Freightways' Board currently comprises six Directors: the non-executive Chairman and five non-executive directors. All Freightways' Directors are independent. Key executives attend board meetings by invitation.

Diversity & Inclusion

The Company has a formal diversity & inclusion policy which can be found at https://www.freightways.co.nz/about/corporate-governance/. The Company is committed to encouraging diversity throughout all levels of its operations and by ensuring all employees have an equal opportunity to realise their career ambitions within Freightways. As required to be reported by the NZX Listing Rules, the Company advises that from a gender diversity perspective, as at 30 June 2020, the Board was comprised of four male and two female directors (2019: four male and two female directors), and all five officers of the Company, who are not directors of the Company, were male (2019: all five officers of the Company, who were not directors of the Company, were male).

The Company conducted a Group-wide climate survey on culture and diversity of our employees and contractors in 2019. The results of this survey formed the following objectives:

i. To help develop the careers of our people with a focus on gender and ethnic diversity through into leadership roles;

ii. To improve the mental health and wellbeing of our contractors and employees; and

iii. To maintain our focus on being a diverse and inclusive workplace through leading by example and targeted training and awareness.

Board meetings

The following table outlines the number of board meetings attended by Directors during the course of the 2020 financial year:

Director	Meetings Held	Meetings Attended
Mark Verbiest	12	12
Kim Ellis	12	11
Abby Foote	12	12
Peter Kean	12	12
Mark Rushworth	12	12
Andrea Staines	12	11

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	6	6
Mark Rushworth	6	6
Mark Verbiest	6	6

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

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

Director	Meetings Held	Meetings Attended
Kim Ellis	5	5
Peter Kean	5	5
Andrea Staines	5	5
Mark Verbiest	5	5

Nominations Committee: The Nominations Committee is responsible for ensuring the Board is composed of Directors who contribute to the successful management of the Company, ensuring formal review of the performance of the Board, individual Directors and the Board's committees, ensuring effective induction programmes are in place for the Directors and confirming the status of Directors' independence for external reporting purposes. The Company's Nominations Committee Charter can be found at https://www.freightways.co.nz/about/corporate-governance/.

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

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

Code of ethics

Freightways expects its Directors and employees to maintain high ethical standards that are consistent with Freightways' core values, business objectives and legal and policy obligations. A formal Code of Ethics has been adopted by the Board and can be found at https://www.freightways.co.nz/about/corporate-governance/. Freightways' people are expected to continue to lead according to this Code. The Code deals specifically with conflicts of interest, proper use of information, proper use of assets and property, conduct and compliance with applicable laws, regulations, rules and policies.

Protected disclosures (whistleblower)

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

Delegation of authority

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

Share trading by Directors and management

The Board has adopted a policy that ensures compliance with New Zealand's insider trading laws. This policy requires prior consent by the Chief Financial Officer in relation to any trading by executive management, and in the case of Directors of the Company and its subsidiaries, prior consent by the Chairman of the Board. The Company's Insider Trading Policy can be found at https://www.freightways.co.nz/about/corporate-governance/.

Treasury policy

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

Reporting and disclosure

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

Risk management

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

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

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

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.

Directory

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

Messenger Services Limited

32 Botha Road
Penrose
DX EX10911
Auckland
Telephone: 09 526 3680
www.sub60.co.nz
www.kiwiexpress.co.nz
www.stuck.co.nz
www.securityexpress.co.nz

New Zealand Couriers Limited

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

Post Haste Limited

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

Castle Parcels Limited

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

NOW Couriers Limited

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

Shred-X Pty Limited

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

New Zealand Document Exchange Limited

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

The Information Management Group (NZ) Limited

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

Fieldair Holdings Limited

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

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 2 9882 0600
www.timg.com
www.filesaver.com.au
www.litsupport.com.au

Company particulars

Board of Directors

Mark Verbiest (Chairman)
Kim Ellis
Abby Foote
Peter Kean
Mark Rushworth
Andrea Staines OAM

Registered office

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

Auditors

PricewaterhouseCoopers
15 Customs Street West
Auckland

Share registrar

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

Stock exchange

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