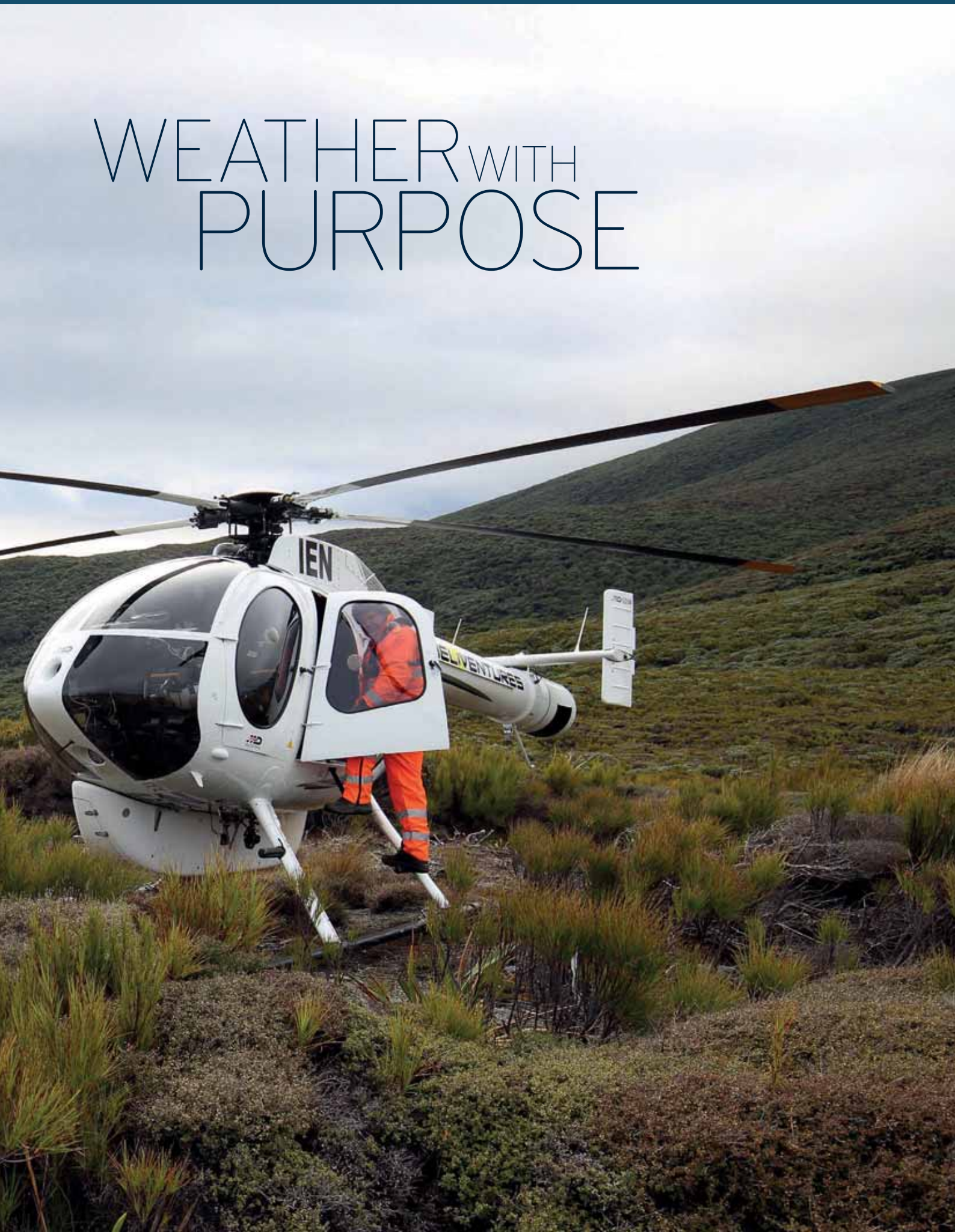
ANNUAL
REPORT 2017

MetService MetraWeather

WEATHER WITH PURPOSE



Cover Image: *MetService lead electrical engineer Gordon Saggers, 2016 calibration trip to the AWS on South West Cape, Stewart Island.*
Photo Credit: *Mark Thompson, MetService*

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CHAIR & CEO'S REPORT

The Directors are pleased to announce an operating profit of $4.4m for the 2016-17 Financial Year, up 21.7% on the previous year. Pre-tax profit is $3.9m and total revenue and other income has reached $55.4m, year-on-year growth of 8.5%.

The theme of this annual report is 'Weather with Purpose'. MetService's core purpose is to support safety of life and property and create wealth from weather for New Zealanders, shareholders and customers. In this, the 25th year of MetService's operation as a State-Owned Enterprise (SOE), the significance of the SOE operating model in delivering both social benefit and commercial differentiation has never been clearer.

MetService is unique among its international meteorological service peers for being commercial. The professional capability and service reliability that are demanded by MetService's safety obligations provide a strong foundation for its commercial business.

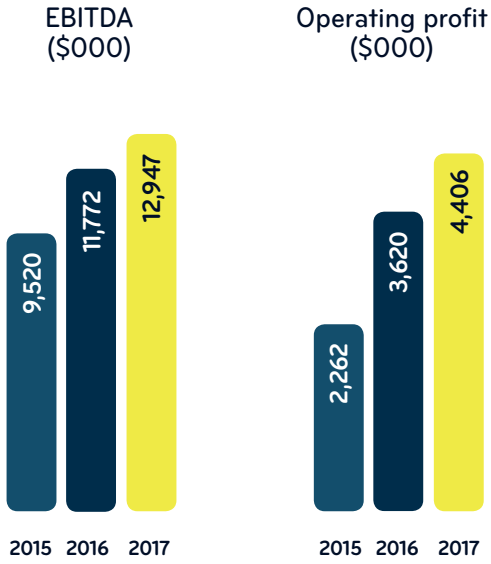
At the same time, operating as a commercial company ensures that MetService's safety services are underpinned by sound business practices, providing New Zealand with a National Meteorological Service that is both innovative and highly efficient. Over its 25 years as an SOE, the company has introduced new services and ways of working that have enabled it to contribute $84m in dividends and income tax to New Zealand's economy.

MetService has built a trusted international reputation based on its world-class quality standards, use of cutting-edge technology, and delivery of actionable insights. Its commercial success helps fund and develop the weather forecasting and warnings system that protects all New Zealanders – and in doing so, fulfils the purpose for which MetService was made an SOE.

Financial highlights

MetService ended the financial year in a strong position, with EBIT and revenue up and the gearing ratio now within the Board-targeted range of 30-35%. Revenue includes the consolidation of our associate company MetOcean Solutions Limited (MSL) from 1 August 2016 (refer Financial Statements note 14).

MetService's EBITDA for the 2016/17 year increased by $1.1m to $12.9m. Total Revenue and Other Income was $55.37m, up 8.5% from 2015/16, and the full-year Net Surplus was $2.44m. Since June 2016, careful cost management and targeted investment decisions have seen the gearing ratio reduced from 39.4% to 30.5%, a 22.6% reduction. In a recently-released report by Armillary Private Capital based on 2016 returns of the NZ listed sector and crown entities,



MetService had the second-highest return on capital employed (ROCE) of 16.9%, well above the median of 6.9% for the eight commercial crown entities included. MetService was in the top quartile of the 167 listed and crown entities reviewed.

Strong revenue growth associated with the MSL consolidation, services to the aviation industry and advertising on our digital platforms helped achieve a full-year pre-tax profit of $3.87m, 44.6% above last year's result. Revenue from customers outside of core New Zealand Government contracts was 12% above last year. The main product contributors to growth were Marine (+92.7% YOY), Aviation (+8.2% YOY) and advertising from digital platforms (+2.0% YOY).

As outlined in this report, 2016/17 saw completion of a number of major resilience projects. IT (+11.6%) and occupancy costs (+11%) increased as a result, particularly around delivering on the ISSP project and the enablement of the Auckland office. Other year-on-year cost movements were primarily associated with the MSL consolidation.

Interested readers will find detailed financial statements from page 24.

8.5%
Growth in Total Revenue and Other Income 2016/17

11.7%
Return on Equity 2016/17

11.9%
Return on Funds Employed 2016/17

8.0%
Operating Margin 2016/17

$84m
Returned to NZ economy in dividends and income tax

Looking ahead

The opportunities and challenges facing MetService have not fundamentally altered in recent years. But they may have intensified.

Weather events have dominated much of the news in New Zealand in the last 12 months. Farmers, government, local councils, emergency services and many other commercial and community groups will look to MetService for increasingly local, reliable and frequent weather information than before.

By investing in technology to both gather and analyse data, we are well placed to meet this need. That investment will continue. Alongside it, we will also continue investing in people – those who currently work with us, and those who are currently studying. Our partnership with Victoria University in establishing New Zealand's first Master of Meteorology degree is important to us. In a data-driven world, it's critical to have people qualified to interpret that data in ways that allow others to make good decisions.

Technology, community and commercial partnerships must also be nurtured. Our partnership with US company BloomSky has enabled us to bring weather measurements down to a highly localised area. Similar partnerships will aid us in making forecasting advances readily available in New Zealand and to our customers around the world.

Commercial partnerships, such as those with Fonterra and Livestock Improvement, are important in ensuring our work remains relevant to end users.

The work we have done with community partners such as NZ Transport Agency, the Police and Civil Defence, plays a critical role in keeping people safe in their day-to-day lives as well as during emergencies. We will continue investigating more effective and efficient ways of disseminating information, especially in light of the recent Kaikoura earthquake and Edgecumbe flooding. Although emergency responses were admirable, we must continue looking for ways to do even better.

New Zealand is also enjoying a boom in visitor numbers. That's exciting – but we should always remember that what makes New Zealand such a desirable tourist destination can also make it a dangerous one for the unprepared. It's important, we believe, to continue investing in additional forecasting tools in some of our most popular and unpredictable locations, such as national parks, alpine routes and others.

One of the most exciting developments over recent years has been the growth in offshore business. Thanks to these ventures, MetService is both contributing to the New Zealand economy and also enhancing our reputation as an innovative provider of technology- and skill-based information services. While this work goes largely unreported, we regard it as a key measure of our performance. Competing on the international stage means we can never, for one moment, become complacent.

Given the importance of sound weather forecasting in emergencies, resilience and business continuity have been written into the terms of our most recent MoT contract. That work is now well under way, and we look forward to completing it over the next two years. The result will be a robust system for providing New Zealanders with critical weather information under virtually all circumstances.

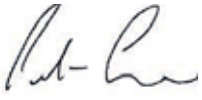
Finally, we are committed to engaging more closely with the public. A recent study revealed that seventy per cent of New Zealanders use weather information to plan leisure and domestic activities. To meet that demand, we will continue to invest in our website and other online services to make weather information more available and easily understood by everyone.

We thank our staff, management, directors, partners and customers for all that has been achieved during the year, and for their ongoing efforts. We also thank outgoing directors Carolyn Harkess and Te Taru White for their contribution during their time on the Board, and welcome Roanne Parker and Tupara Morrison as new directors. Our thanks also go to former executive team members Mark Ottaway and Colin Baruch for their achievements over the past decade on behalf of the company. We wish Colin and Mark success in their future endeavours.

We make special recognition of meteorologist Paul Mallinson and engineer Colin Brown, both of whom retired earlier this year. We wish them both all the very best for a happy retirement. We also mark with sadness the passing of meteorologist Derek Holland, a well-respected colleague and dear friend to many here at MetService.

Delivering 'weather with purpose' is why MetService was established as an SOE. Beyond adding value in a business sense, our daily work serves a higher purpose. Helping people and communities to safely enjoy life is a commitment that connects us all.

Anthony Howard
Chair



Peter Lennox
Chief Executive


MetService
MetraWeather

OUR PURPOSE AND BRAND

Our purpose drives what and who we are, and everything we do. In this report, we tell MetService's value creation story through three aspects of this purpose, aligned with our own brand attributes and those of New Zealand's international brand, which we represent.

In 2012 MetService adopted the koru form as our brand symbol. Internationally recognised as uniquely representative of New Zealand, the koru is symbolic of growth and development. We chose the Mangopare form (hammerhead shark), used by Maori throughout New Zealand to represent strength, leadership, agility, tenacity and determination, courage, and wealth.

New Zealand stands for	MetService is	We create value through	Our brand attributes
Ingenuity: Fresh thinking creates ingenious solutions for a better world	**Purpose-built:** Everything we do and how we do it is driven by our purpose	Our Networks Our Expertise	Strength Leadership
Integrity: Strong foundations of trust, honesty, humility and respect	**Purposeful:** Our people and our partners work with us because they believe in our purpose	Our People Our Relationships	Determination, tenacity Agility
Kaitiaki: Care of people and place – right now and for the future generations	**Higher purpose:** Our core purpose is the safety and well-being of New Zealanders	Our Community Our Investment	Courage Wealth

The Mangopare embodies the spirit and values of our brand – game changing, inquisitive, agile and rigorous – which give us the tenacity and strength to achieve our purpose. The twin Mangopare that form our symbol are equally balanced, each being as vital as the other, signifying the equal importance of the skills and talents of our people, and the powerful, unified and supportive MetService culture of which we are all part. The movement of the Mangopare also depicts the constant and inter-connected energy flows of the atmosphere and the elements, recalling that weather is at the heart of our business.

PURPOSE BUILT

Road-weather forecasts aid winter road safety

June this year saw the launch of a substantial upgrade to the award-winning road-weather modelling system developed by MetService in 2010, in collaboration with the NZ Transport Agency.

By identifying potentially treacherous areas in the road network at risk of snow and ice, particularly along major routes through alpine areas, the system enables road maintenance contractors to work more efficiently and effectively – resulting in safer roads for all road users.

The greatly-enhanced system features new high-resolution road-weather forecasts, based on MetService's forecasting services and a host of additional weather and road information. For the first time, the system includes data from mobile sensors mounted on Fulton Hogan and Downer vehicles, the result of an innovative pilot programme which commenced last year. These sensors help to precisely monitor road weather conditions by transmitting real-time data providing road and air temperature, rain, snow, slush, water film height, ice content, humidity and dew point temperature, as well as road condition information.

Another key innovation, and another first for the New Zealand road network, is the modelling of selected mountain passes and key roads down to a resolution of every 30 metres. Lewis and Porters Passes and the Desert Road will be the first to see this enhanced level of forecasting, with more areas to follow. This modelling precision is a key benefit arising from MetService's new alliance with road-weather specialist Foreca Ltd, a private Finnish weather forecasting company. Foreca is the largest business of its kind in the Nordic countries, and has an international reputation for data accuracy and innovation in functionality and data presentation.

State Highway 5, Napier-Taupo Road, 2 July 2017.
Photo Credit: Downer NZ

The new road weather service allows us to provide meaningful day-time road environmental forecasts for the entire State Highway network, all year round. We are excited to deliver this new road weather service to the NZ Transport Agency and its Network Outcomes Contractors.

PETER FISHER,
BUSINESS DEVELOPMENT MANAGER

OUR NETWORKS

Warnings system now CAP-compliant

After launching refined warning and watch areas in November 2015, which standardised 'area codes' across all warning and watch types and regional/rural forecasts, development work has recently been completed that will enable Severe Weather Watches and Warnings to be delivered in Common Alerting Protocol (CAP) format.

CAP is the international standard format for emergency alerting and public warning for "all-hazards" (severe weather, earthquakes, tsunami, volcanoes, public health, power outages, etc.). As Severe Thunderstorm Watches and Warnings are already published in CAP, this standardisation work will further improve the way various warnings are expressed and distributed.

Third parties (such as Civil Defence and Emergency Management Groups, Fire and Emergency NZ, the NZ Transport Agency, etc.) will be able to use a graphical depiction of MetService official warnings in their display/GIS (Geographic information System) platforms using CAP. It will also give MetService the ability to improve the format of warnings and watches on its website and apps.

MetService is moving towards warnings that are impact-based and therefore more meaningful for users. Significant social science research into this has been undertaken with the assistance of GNS Science and the Joint Centre for Disaster Research at Massey University.

99.4%

Weather Radar Network Availability

99.0%

Automatic Weather Station (AWS) Network Availability

Local observations tell the real weather story

During the year, MetService commissioned new automatic weather stations (AWS) for a number of customers. The Royal New Zealand Navy's Offshore Patrol Vessel HMNZS OTAGO received a SHIP AWS system from MetService in October 2016. The on-board AWS is designed to cope with the wide range of weather conditions the Navy experiences, including sub-zero temperatures in the Ross Sea. The AWS performed very well over the summer when the OTAGO sailed south into the Southern Ocean, and we expect to equip other ships in the fleet with systems in future years.

Porirua and Palmerston North City Councils purchased new weather stations for their central business districts. With weather getting as much news coverage as it ever has, both councils were keen to ensure their cities were not 'sold short' when it comes to reporting representative temperatures and other local weather conditions. Observations from these stations are in turn helping MetService fine-tune forecasts for both cities.

Following the May 2016 installation of a new road weather station on Dunedin's Northern Motorway at the Leith Saddle for the NZ Transport Agency, additional road weather stations have been installed at the Auckland Waterview motorway interchange; on State Highway 63 at St Arnaud, near Nelson Lakes National Park; and at the summit of the Lewis Pass. After the Kaikoura earthquake last November and subsequent closure of State Highway One along the coast, the St Arnaud and Lewis Pass sites now play an important role in management of the alternate, inland state highway route between Picton and Christchurch, particularly during winter when inland routes are affected by snow and ice.

This June, construction began on another road weather station for the summit of the Crown Range Road in Central Otago. The joint venture between Queenstown Lakes District Council, MetService and the NZ Transport Agency will provide high-resolution data to the new road weather system to assist contractors maintaining the road through the busy winter ski season. It will also enable MetService forecasters to deliver a new road snow warning service for the Council. A high-definition panoramic web camera adjacent to the AWS will give the public the opportunity to check online for conditions at the summit, with images being refreshed every four minutes.

OUR EXPERTISE

MetService insider at Rocket Lab launch

On 25 May 2017, Rocket Lab successfully launched their Electron rocket into space and made New Zealand the latest country to achieve such a milestone. They are also the first people to achieve such a feat from a privately-owned launch facility. MetService meteorologist Josh Griffin was on-site during their campaign to help forecast and monitor for safe weather launch conditions. Rocket Lab follows guidelines originally developed by the FAA and NASA to ensure a successful launch and mitigate the risk of a lightning strike occurring on the launch site or the vehicle. These guidelines limit the types of cloud a launch vehicle can fly through or near, to minimise risk of triboelectrification (static electricity) which can cause a lightning strike or interfere with avionics. Triboelectrification was the main weather factor on two days of the countdown, then the team waited out another day of deteriorating weather before a successful launch on the afternoon of the fourth day.

On-the-spot expertise aids emergency management

The aftermath of last November's Kaikoura earthquake brought with it gale-force winds and flooding, making recovery all the more challenging for earthquake-affected areas in Canterbury, Marlborough and Wellington. From the day following the quake through to early December, MetService's expert meteorologist team provided daily advice to the National Crisis Management Centre, GNS Science and the Canterbury Civil Defence Emergency Management group to assist their response planning and management. Just a few months later, after April's Edgecumbe floods, MetService was on-site at the National Crisis Management Centre to support flood response efforts and preparations for the passage of former Tropical Cyclone Cook across New Zealand. MetService provides 24/7 support to emergency management teams across the country, all part of its role under New Zealand's National Civil Defence and Emergency Management Plan.

Southern skies provide insights into the galaxy

This year MetService is again providing forecasts to NASA in support of the Stratospheric Observatory for Infrared Astronomy (SOFIA) research project operating out of Christchurch. SOFIA is a Boeing 747SP jetliner modified to carry a 100-inch diameter telescope. Because it's based on an aircraft, SOFIA can carry heavier, more powerful instruments than spaced-based observatories. These instruments can also be changed and upgraded to accommodate a variety of observations. The airborne platform puts the observatory above 99% of Earth's infrared-blocking water vapor, and enables it to conduct observations from almost anywhere in the world. When flying from New Zealand, astronomers on board SOFIA can study celestial objects that are best observed from southern latitudes. According to SOFIA Program Manager Eddie Zavala, it's hard to beat the quality of the science data that is obtained while observing from New Zealand.

5
Tropical Cyclone Warnings issued

347
Severe Weather Warnings issued

46
Severe Thunderstorm Warnings issued

25 YEARS OF WEATHER INNOVATION

Establishing its national meteorological service as an SOE in 1992 was a prescient move by New Zealand's government of the day, recognising the potential of the commercial imperative to drive greater value for the country. You could even call it one of New Zealand's most successful science experiments.

Ten years on, Hon. Mark Burton (then Minister of State Owned Enterprises) said, *"Since MetService became an SOE, it has grown into a splendid example of the SOE model. MetService delivers world-class products and service to their customers both domestically and internationally, and excellent dividends to New Zealand."*[1] In 2013, Minister of Trade Hon. Tim Groser singled out MetService as a practical example of a high-end commercial services exporter, and *"probably the most efficient weather forecaster in the world"*.[2]

On these pages, we highlight some of the many innovations made by MetService over the past 25 years. Some recurring themes stand out: the ability to quickly re-purpose innovative thinking to provide new solutions; a hands-on approach to building and adapting new technologies; successful collaborations that have created mutual long-term value; and a core focus on scientific rigour that delivers reliably high-quality results. Above all, it is working with partners and customers that value our ability to innovate and collaborate that is a hallmark of MetService's success.

2008: L-R: MetService's Bruce Hartley (2nd from left), Peter Fisher (4th from left), Stephen Harris and Gordon Saggers (holding certificate), together with the NZ Transport Agency team involved, celebrating the 2007/08 Road Safety Road Engineering Award won by the Central Plateau road weather network trial.

June 2009: MetService CEO Paul Reid celebrates the launch of Weatherscape XT on Hong Kong-based Phoenix Satellite Television, the world's largest Mandarin broadcaster, with Phoenix EVP/CFO, KK Yeung.

No review of the 'SOE years' would be complete without recognition of those colleagues who have been with MetService throughout that time: Kevin Alder, Gerard Bellam, Shane Bidois, Erick Brenstrum, Cameron Coutts, John Crouch, Trevor Davie, Richard Finnie, Peter Fisher, Melanie Graham, Robert Hamilton, Stephen Harris, Paul Harris, Bruce Hartley, Peter Kreft, Peter Lowe, Jeremy Lumley, Ross Marsden, Tuporo Marsters, Alan McDougall, Trevor McGavin, Elizabeth McLaughlin, Paul Ngamanu, Douglas Parker, John Rapley, Nick Read, Gordon Saggers, Denise Smith, Tom Sutherland, Wim Vandijk, and Selwyn Williams.

We thank you all for your contributions to the innovations listed here, and to MetService's ongoing success.

[1] Parliamentary media release on the tabling of the MetService 2002 Annual Report.
[2] Ministerial address to the Wellington Chamber of Commerce, 28 August 2013.

Information & Data

1995: Development of MetDisplay specialised data display and automated radio broadcast services for air traffic control.

1996: MetService-developed WINZ information management system now supporting China Southern Airlines flight operations – MetService's very first client in Asia.

Early 2000s: Development of the mStar Automatic Weather Station system and one-minute reporting of observations.

Mid-2000s: Began automation of weather observing programme at domestic (and later international) airports.

2015: Development of high-resilience cloud-based data relay and data processing systems for high-volume data.

Partnership & Collaboration

1996: In collaboration with TVNZ, development of graphics system to present prime-time TV weather ... the forerunner of Weatherscape.

Mid-1990s: Worked with CAA to establish operational practice for volcanic ash prediction, tracking and information presentation to aviation users.

2005: The completely redeveloped Weatherscape XT weather graphics system is implemented by the BBC.

2007: In collaboration with NZ Transport Agency and Vaisala, development of award-winning road weather management system.

2017: Collaboration with BloomSky to bring 'IoT' smart weather devices to consumers and agribusinesses, building NZ's next-generation weather observation network.

Forecasting Science & Systems

1995: Achieved ISO 9001 Certification, the world's first NMS to do so. Also received CAA Part 174 certification for full suite of New Zealand aviation weather services.

Late 1990s: Development of agile, low-cost approach to numerical weather modelling based on open-source software and high-performance parallel computing.

2004: Development of road-marking and road-sealing forecast matrices, integrating non-weather criteria into the forecasting process.

Late 2000s: Development of ePD probability forecasting system and world-first capability to predict global model future behaviour.

2012: Development of radar-based detection of volcanic eruptions and automated alerts for GNS and MetService VAAC.

Communication & Distribution

1992: Relaunch of MetPhone telephone forecast service, providing forecasts via a set of 0900 numbers and *"seen by users as the most reliable source of serious weather information".*

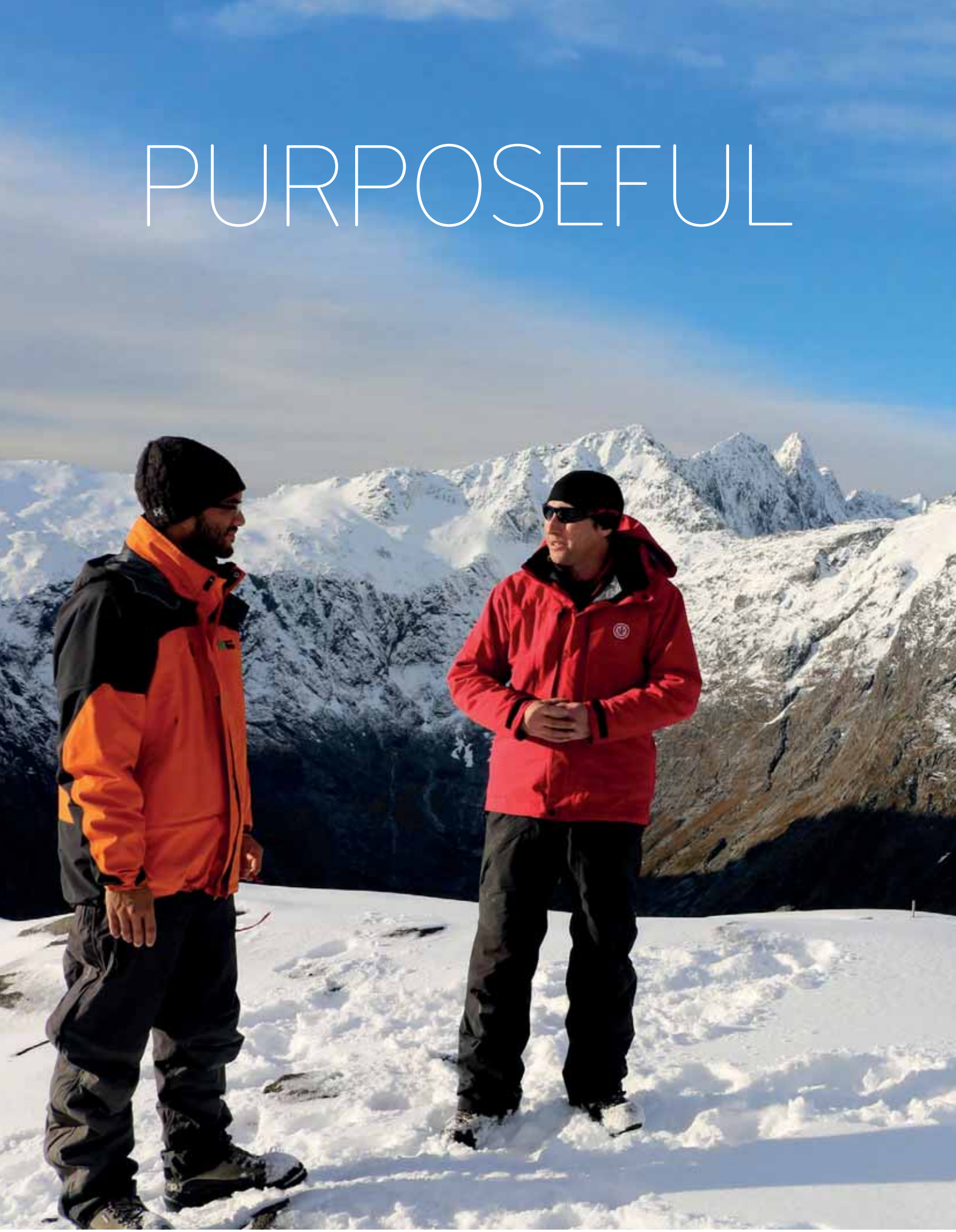
1997: 'Metra' brand launched to represent MetService's commercial activities internationally; all company branding and logos modernised.

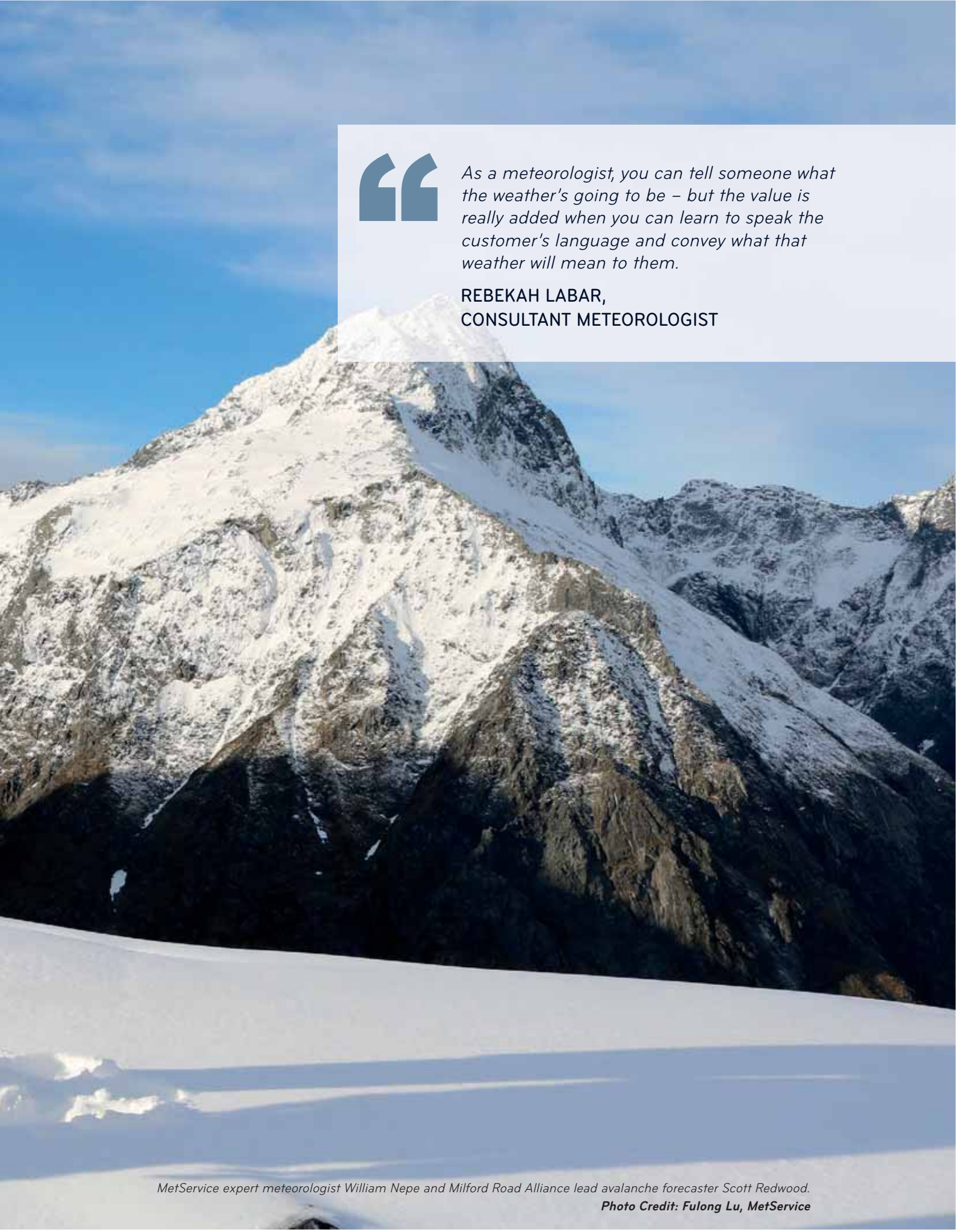
2004: MetService website completely developed and launched as metservice.com. Monthly users grow over 2000% in following 12 years (now 1.9m).

2009: Took a lead role in establishing the South Pacific Severe Weather Forecasting and Disaster Risk Reduction Programme, including training and web-based guidance.

2012: MetraWeather's media business now spans Asia, from Hong Kong to the Philippines, Bangladesh, Cambodia, Sri Lanka, Malaysia, Taiwan and Thailand.

PURPOSEFUL





As a meteorologist, you can tell someone what the weather's going to be – but the value is really added when you can learn to speak the customer's language and convey what that weather will mean to them.

REBEKAH LABAR,
CONSULTANT METEOROLOGIST

MetService expert meteorologist William Nepe and Milford Road Alliance lead avalanche forecaster Scott Redwood.
Photo Credit: Fulong Lu, MetService

OUR PEOPLE

Welcoming the next generation of forecasters

Eight new trainees commenced studies in January this year, the first intake of students for New Zealand's new Master of Meteorology degree. The Masters programme is the latest outcome from the long and fruitful relationship between MetService and Victoria University of Wellington (VUW), and recognises the world-class facilities and expertise that are used to educate the country's professional meteorologists in keeping with the high standards set by the World Meteorological Organization. The programme is taught by VUW School of Geography, Environment and Earth Sciences Deputy Head of School Professor James Renwick and Senior Lecturer Dr James McGregor, and by MetService's core meteorological instructing team of Chris Webster, Mark Schwarz, Leigh Matheson and Neal Osborne, and senior research scientists Drs Cory Davis and Devin Kilminster.

NEWS

22.4%

YoY growth in number of weather news stories in NZ media

86.7%

share of voice of all NZ weather news coverage

269

Full Time Equivalent Employees as at 30 June 2017

Getting the weather message out

Ensuring that the single authoritative voice on weather warnings is provided by MetService – as New Zealand's official provider – is an issue we must continue to manage closely in the current media environment.

Weather events in April and May this year called for record levels of weather communications activity from MetService, with unprecedented media and public interest in the potential effects of ex-Tropical Cyclones Debbie, Cook and Donna (the latter combined with a mid-Tasman low). MetService's proactive and authoritative news and social media commentary ensured that the public received timely safety messages from the most credible source. An iSentia media insights report for the period confirms that media messages reinforced MetService as 'the trusted source of weather information in the market', and as 'providing high quality forecasting'. Of the more than 8,800 weather-related news stories in NZ's media during FY2017 (34.7% more than last year), MetService achieved 86.7% share of voice (both mixed and exclusive mentions), with 74.7% average monthly exclusive share of voice. There was a 47% year-on-year increase in the number of direct quotes from a MetService spokesperson.

Regional team on board for Asia

Last year we reported on the establishment of a new regional hub in Thailand to support our commercial operations in Southeast Asia under the MetraWeather brand. During this year, we welcomed four new team members to represent us throughout the region: Consulting Meteorologist Jimmy Lorenzo and Business Development Manager Felix Ayque, both based in the Philippines; Sales Delivery Manager Bryan Lim, based in Malaysia; and Business Development Manager Siriporn Petcharapan, based in our Bangkok office along with General Manager Asia, James Caust and our Weatherscape support team, led by Martin Kantor. This team is spearheading our presence at major industry events, such as Oil & Gas Asia 2017, and ensuring our customers in the region enjoy more face-to-face contact.

OUR RELATIONSHIPS

Digitally-connected farms the future of agriculture

Technological advances in real-time weather data gathering and hyperlocal forecasting are set to provide the agribusiness sector with more valuable weather insights. Early this year, MetService joined Agrigate, the joint venture between Fonterra Farm Source and Livestock Improvement Corporation (LIC) which combines key data (including MetService weather) in an online dashboard to help farmers make faster and smarter decisions. As reported at half year, MetService has partnered with US-based technology innovators BloomSky to launch New Zealand's first next-generation weather community in Auckland. MetService is now bringing BloomSky's smart weather network technology to Agrigate, piloting a trial of 70 stations for Fonterra dairy farms. MetService will use its own historical weather data and observations from the BloomSky devices to provide Agrigate users with hyperlocal forecasting and greater seasonal insights through data analytics. Working in conjunction with the other Agrigate data providers, MetService also sees opportunities to develop products that will combine data from multiple sources to increase farmers' understanding of weather impacts on their operations.

>1m

visits to National Parks forecasts on MetService websites

>20k

clicks to NZ Avalanche Advisories from metservice.com

Walk the Heaphy with MetService

Thanks to the Department of Conservation (DoC) trampers, hunters and mountain bikers will benefit from new weather forecasts for Kahurangi National Park, launched in June this year on the MetService website and mobile website. Kahurangi has seen 28% growth in visitor numbers since 2014, with the Heaphy Track alone attracting over 7,000 people to walk or bike the track each year. Along with the addition of the new Kahurangi forecasts, forecast issue times for all National Parks have been changed based on feedback from tourism operators. Now timed for 6am, midday, 6pm and midnight, operators and other park users have the latest information possible to make go/no-go decisions each morning. Another change made in response to user feedback is the locations we forecast for within Arthur's Pass National Park - forecasts now focusing on Carroll Hut and Avalanche Peak in addition to Carrington Hut.

Avalanche control key to top tourist destination

One of MetService's longest-standing road safety collaborations, dating back to 1983, is benefiting from recently-expanded weather services. The Milford Road Alliance is a partnership between the NZ Transport Agency and Downer to manage the safety of State Highway 94 between Te Anau and Milford Sound, one of New Zealand's most visited tourist destinations. From the 2017 winter season, MetService is providing new and enhanced forecast services for the Alliance's avalanche control programme, including severe weather threat matrices and animated rainfall, snow and cloud ceiling forecast maps. Site-specific rainfall and temperature probability forecasts complete the picture, along with significant improvements to the distribution and communication of data and forecasts.

HIGHER PURPOSE

I love the outdoors. I love the waves, the oceans, the mountains. We've got incredible mountains here, and it's really important for us to produce the best mountain forecasts possible so that people can go and enjoy it, have a great day out, know which days to go out and, most of all, come back safe.

MADS NAERAA,
EXPERT METEOROLOGIST

OUR COMMUNITY

Offsetting our environmental footprint

Since March last year, paper used in the forecast room has been part of Misprint Co.'s innovative Offset programme, which repurposes (instead of recycling) printed paper to minimise waste and resources. This financial year, MetService has offset over 257kg (51,508 A4 sheets) of paper which has saved 515,080 litres of water – and over six trees. As one of the largest suppliers to their Offset programme, in May this year Misprint Co. featured MetService as their first-ever 'Repurposer of the Month'. Special mention went to the maps that are hand-drawn each day by our severe weather forecasters (still the most accurate way to conceptualise weather in specific local areas and confirm that computer models are on the right track): "Our purchasing customers love seeing all the cool maps and pictures of New Zealand feature in their notebooks. They really get a buzz seeing the weather drawn out. We think it's because it looks a bit like art, to be honest."

Social investment continues to grow

This year we added 'Social Investment' as a Corporate and Social Responsibility KPI in our Statement of Corporate Intent, reporting total advertising value donated on our websites and apps to not-for-profit and registered charity organisations. As a State-Owned Enterprise, we place great importance on social responsibility and caring for the interests of the community. For the 2017 financial year, we donated over $244k in advertising value (KPI $210k) – and almost $1.33m since we began recording these donations seven years ago. Organisations we have helped this year include: Auckland City Mission, Blind Foundation, Breast Cancer Foundation NZ, Cancer Society NZ, Christchurch City Mission, Coastguard Northern, Grandparents Raising Grandchildren, Forest & Bird, Habitat for Humanity, InternetNZ, Kaibosh Food Rescue, Malaghan Institute, Mary Potter Hospice, National Rural Fire Authority, NZ Red Cross, Philips Search and Rescue Trust, Project Crimson, Civil Defence, St John Ambulance, Unicef, Variety, Volunteer Service Abroad, Wellington Free Ambulance and Wellington Hospital.

Helping safeguard our nation's founding documents

Three of New Zealand's most precious founding documents were moved from Archives to the National Library in April this year, with the help of dedicated forecasts from MetService. The 1835 Declaration of Independence of the United Tribes of New Zealand, 1840 Treaty of Waitangi and 1893 Women's Suffrage Petition were all protected from rain by layers of foam and waterproofing. However, the Treaty of Waitangi is particularly vulnerable to vibrations which could jolt and dislodge the cracked and fragile inks sitting on the parchment surface. Knowing Wellington's reputation for windiness, Archives requested dedicated forecasts beginning days before the move, to ensure plans could be changed if needed. This even included a personal call at 2am from one of our meteorologists to give organisers the confidence they needed to proceed. We were confident of dry conditions with little wind several days out from the move, and this proved to be the case.

>257kg

or 51,508 A4 sheets of paper repurposed via paper offset programme

$244k

online advertising value donated to not-for-profit organisations

>143k

average monthly social media referrals

OUR INVESTMENT

Ongoing investment in weather communication platforms

A daily must-visit for New Zealanders, with over 183m website visits during the year the public safety communication value of MetService's websites and apps is clear. Year on year, both websites experienced 11.3% growth in pageviews, with visits to metservice.com up 9.8% and to the mobile m.metservice.com up 10.5%. App downloads grew similarly, up 11.13% year-on-year.

In July 2016, we initiated a major refresh strategy for our digital platforms informed by research into consumers' use of weather information. Five segments were identified, based on four quadrants that allowed us to map a variety of underlying needs and motivations in relation to the weather. At least 7 in 10 respondents currently use weather information to make decisions regarding personal/leisure and domestic activities. The MetService website was the preferred source of weather information for all five segments.

The first major outcome of this work was the launch of an all-new NZ Weather app in April this year. Replacing MetService's very first smartphone app launched in May 2012, the new app is available on iPhone, iPad and Android and is free. Although small, the download cost for the previous app was a barrier for many people. It's our mission to make sure every New Zealander and visitor to our country can access important and reliable weather information when they need it, so we removed this cost barrier by switching to the advertising-supported model that has proven so successful for our other apps and websites. Advertising also helps to cover costs for ongoing development and enhancements.

Social media is playing a small but growing role in sending people to our websites, with social referrals to metservice.com up 23.6% (1.12% of all sessions) and to the mobile site up 44%. Growth on our social media platforms themselves continues to be strong, with 32,997 new followers joining us on Facebook this year (42.6% more than last year); 14,000 on Twitter (a similar number to last year); and 6,378 on Instagram (136.6% more than last year). Social Bakers analytics ranks the @MetService Twitter account at #9 in the Top 100 Twitter Brands in New Zealand, and MetService's Facebook page at #3 in the Top 100 Facebook Services Brands in New Zealand.

Resilience Programme update

The Resilience Programme is comprised of 12 work streams, falling under three areas of focus – disaster recovery backup; replacement of the meteorological forecasting system; and continuous scientific and technological advancement. Phase 1 of the Resilience Programme was completed in December 2016 and achieved some major steps in enabling MetService to conduct forecast operations outside of its Wellington-based head office.

Forecasting from the new Auckland office commenced in July 2016. A purpose-built forecast room has since been completed there with capacity for up to 16 meteorologists. Six are now operating from the new facility, with additional forecasters travelling from Wellington to make use of the space during the aftershock high-risk period post the November 2016 Kaikoura earthquake. An always-on live video link has also been established between the two forecast rooms.

A key goal for the Resilience Programme is to improve the business continuity plan (BCP) mode of operation for priority public weather safety services, so that capabilities better match the usual mode of operating. This includes enabling standard forecast tools in BCP mode and making more standard weather data available in the Auckland data centre or Amazon Cloud.

With requirements for aviation spearheading the Resilience Programme, forecasts required by aircraft flying into New Zealand's three main international aerodromes can now be issued should the Wellington office be offline. Forecasters now also have greater access to weather guidance in this situation. Migration off legacy forecast production systems is expected to be completed halfway through FY2019.

>183m

website visits

11.3%

growth in website pageviews

BOARD OF DIRECTORS

Anthony Howard, Chair

Anthony Howard has great depth and breadth of expertise in strategy development, go-to-market planning and execution, corporate governance, corporate restructuring, M&A, capital raising, company valuations, business strategies and planning. He has particular expertise and passion for facilitating a strong and constructive working dynamic between investors and owners. He is a Member of the Institute of Directors in New Zealand.

Judy Kirk, Deputy Chair

Judy Kirk is an experienced director with a wide knowledge of business, and runs her own consultancy providing strategic advice to organisations. Judy served as President of the New Zealand National Party from 2002–2009, is a Justice of the Peace and was appointed to be an Officer of The New Zealand Order of Merit in the Queen's Birthday Honours 2011 for services to the community. She is currently Chair of Airways Corporation and is a Member of the Institute of Directors in New Zealand.

Brent Armstrong

Brent Armstrong is a business consultant and former lawyer. Brent practised commercial law for 24 years, including as a partner in leading law firms in New Zealand and the UK. Returning from the UK in 2003, Brent has undertaken a wide range of consultancy assignments including implementing cross-border manufacturing joint ventures, advising on complex hydro-electricity engineering projects, providing governance and strategic commercial advice to start-up companies and serving as a board member of an engineering design company.

Margaret Devlin

Margaret Devlin is a professional director operating predominantly in the infrastructure and service sectors. She is a member of the National Infrastructure Advisory Board and the Waikato District Council Audit and Risk Committee, and holds a number of board roles in the Waikato region. Margaret is a Chartered Fellow of the Institute of Directors in New Zealand and Chair of its Waikato branch. Margaret brings to the Board significant experience in both the retail and infrastructure sectors.

Stephen Eaton

Stephen Eaton has held chief executive and senior management roles in the financial services and asset management sectors in New Zealand, including seventeen years as CEO of a significant national company with assets of $12 billion. He brings expertise in corporate governance, risk management and compliance, as well as proficiency in business strategy and profitability. He provides advice to companies on capital raising and expansion strategies. He is a Member of the Institute of Directors in New Zealand.

Sophie Haslem, Audit and Risk Assurance Chair

Sophie Haslem has over 20 years of broad commercial experience working across both large established corporate entities and early stage growth companies. Her diverse industry exposure includes logistics, banking, infrastructure, hi-tech manufacture/export, software development, digital/mobile services, direct marketing, registries, BPO, insurance and energy. Sophie is a Chartered Member of the Institute of Directors in New Zealand.

Tupara Morrison

Tupara Morrison has extensive governance and senior executive experience within the health, tertiary education, iwi development and tourism sectors. He is currently Tumu Tauwhirowhiro Maori (Executive Director, Transformation Maori) at Unitec; a board member of Competenz Trust; and holds a ministerial board appointment to Te Puia, the New Zealand Maori Arts and Crafts Institute. Of Te Arawa and Ngati Whakaue descent, Tupara is a Chartered Accountant and Fellow of CAANZ, and a Member of the Institute of Directors in New Zealand.

Roanne Parker

Roanne Parker has founded, partnered, grown and sold several companies across a broad range of sectors over 25 years. Today her commercial interests are predominantly in the areas of digital, technology and marketing data, from where she has delivered expertise to many of New Zealand's most successful organisations, along with mentoring and support to earlier stage companies. Roanne brings to the board M&A expertise and an entrepreneurial viewpoint. She holds a Certificate of Company Direction from the Institute of Directors in New Zealand.

GOVERNANCE OVERVIEW

The Directors are pleased to present an overview of the MetService Group's main governance practices.

Shareholders

Meteorological Service of New Zealand Ltd (MetService) is established under the State-Owned Enterprises Act 1986 (SOE Act) and incorporated under the Companies Act 1993. As a State-owned enterprise (SOE), MetService is wholly owned by the Crown, represented by two Shareholding Ministers – the Minister of Finance and the Minister for State Owned Enterprises.

Each Minister is responsible to the House of Representatives for the performance of the functions delegated to them under the SOE Act. In turn, the MetService Board is responsible to the Shareholding Ministers for ensuring effective corporate governance across the MetService Group. The Ministers' expectations are stated in the Owner's Expectations Manual (published on Treasury's website), and in the letter of expectations sent to every SOE each year.

Shareholder communication

MetService provides the Shareholding Ministers with quarterly reports outlining performance against the objectives set out in the Statement of Corporate Intent (SCI); half-yearly accounts; an annual business plan; and an annual report including audited annual accounts. The SCI, half year report and annual report are tabled in Parliament annually. Shareholding Ministers are also kept up-to-date on a regular basis by management and the Board as part of the 'no surprises' policy.

The Board

The MetService Board may comprise up to nine directors, all of whom must be non-executive and independent. As at 30 June 2017, the Board comprised eight directors. Each director is considered to be independent, in that each is independent of the management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the directors' unfettered and independent judgement.

In accordance with the Board Charter, the Chair takes the leadership role in the conduct of the Board and its relationship with the Shareholding Ministers and other stakeholders. The Chair also has a strong working relationship with the Chief Executive. The Chair has no external commitments that conflict with the Chair's role.

The Shareholding Ministers appoint directors under the process described in the Owner's Expectation Manual. Carolyn Harkess retired from the Board in October 2016 and Te Taru White in April 2017. Roanne Parker was appointed in November 2016 and Tupara Morrison in May 2017.

The Board's role

The Board is responsible to the Shareholding Ministers for directing and monitoring the management and affairs of the MetService Group. The MetService Group is comprised of Meteorological Service of New Zealand Ltd, MetraWeather (Australia) Pty Ltd, MetraWeather (Thailand) Ltd, MetraWeather (UK) Ltd and MetOcean Solutions Ltd. Under the SOE Act, MetService's principal objective is to operate as a successful business, including:

- to be as profitable and efficient as comparable private sector businesses
- to be a good employer
- to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavoring to accommodate or encourage these when able to do so.

The Board sets strategy to achieve these objectives and, in the context of the approved policies and risk and compliance framework within which the company operates, monitors those strategies. The Board has delegated day-to-day management to the Chief Executive.

The Board is presented annually with a three-year business plan, which is consistent with the company's strategic objectives, for approval. The Board closely monitors financial and non-financial performance and compares performance to the annual plan and forecasts at its regular meetings.

Access to information

If circumstances warrant additional assurance, the Board or individual directors may request independent and additional advice at the company's expense to assist them in carrying out their responsibilities. Such requests are made in consultation with the Chair and facilitated through the Company Secretary.

Board meetings

In the last financial year, the Board met 12 times as scheduled (together with additional meetings as required). The Board also holds two strategic planning sessions each year to consider strategic issues in conjunction with the Chief Executive and the Executive Team.

The Chief Executive attends all Board meetings. Other managers may attend Board meetings in relation to matters specific to their areas of responsibility. Directors have other opportunities, including site visits, for contact with employees.

Board committees

The Audit and Risk Assurance and Remuneration Committees assist the Board in discharging its responsibilities. Both committees have formal charters, approved by the Board, setting out their respective responsibilities.

The Board also has the power to establish ad-hoc committees as required to deal with specific issues.

Directors are entitled to attend committee meetings and copies of all meeting papers and minutes are available to them. The Chief Executive has a standing invitation to committee meetings. The Audit and Risk Assurance Committee also holds a 'director-only' session, which provides an opportunity for candid interaction with the external auditors to ensure a robust and independent audit process.

Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee is chaired by Sophie Haslem and comprises four directors. The committee holds up to four meetings a year and may hold additional meetings as required. The committee assists the Board in discharging its management, accounting and financial reporting responsibilities, including:

- assisting the Board to meet its accounting and reporting responsibilities under the Companies Act 1993, Financial Reporting Act 2013, and related legislation
- overseeing and reviewing the quality of external audits
- ensuring the integrity of internal financial reporting
- ensuring the company has the framework and methodologies in place that will ensure all strategic and business risks are thoroughly managed
- advising the Board in relation to governance, performance and strategic activity.

Remuneration Committee

The Remuneration Committee is chaired by Anthony Howard and comprises four directors. The committee holds up to three meetings per year and there is provision for additional meetings to be held to deal with other matters as they arise.

The committee assists the Board in fulfilling its oversight of good employer and human resource governance responsibilities, including:

- overseeing and reviewing the performance of the human resources strategy for the MetService Group
- reviewing, and recommending to the Board for approval, the remuneration policy for the Group, consistent with the strategic plan
- reviewing, and recommending to the Board for approval, remuneration arrangements and performance measures and targets for the Chief Executive
- reviewing the performance of the Chief Executive.

Health and safety

The Board continues to champion health, safety and wellbeing across the MetService Group. Following a staff-lead initiative, a new vision was adopted: 'health and safety starts with me'. To support the vision, a revised strategy was signed off by the Board that places greater emphasis on health and wellbeing. The Board has continued to visit MetService worksites across New Zealand so that each director becomes personally aware of the nature of MetService's operations and generally of the hazards and risks associated with those operations. The Board's Health and Safety Charter is reviewed annually, and the Board supports the Good Governance Practices Guideline for Managing Health and Safety Risks produced by the Institute of Directors in New Zealand and WorkSafe New Zealand.

Risk management

Management of risk is a key focus of the Board, as it is crucial to the protection of shareholder value. The MetService Group has in place a comprehensive risk management and internal control framework to identify and treat all key strategic and business risks.

The Board approves and monitors policies and processes in key risk areas. The Board has approved a comprehensive delegated authority structure that clearly states actions reserved to itself and those delegated to management. The Board is also required to approve all capital expenditure and operational expenditure that exceeds the Chief Executive's delegated authority. Any such request for approval is required to reflect a formal consideration of the relevant risk and prioritisation issues.

The following specific actions are taken:

- a Group risk profile that considers the key risks, and the management actions to treat such risks, is updated throughout the year
- the Audit and Risk Assurance Committee periodically reviews the key risk profile
- internal controls are externally assessed in line with a risk-based internal audit plan, with the outcomes considered by the Audit and Risk Assurance Committee.

Integrity standards

The Board supports the principles set out in the Codes of Proper Practice for Directors as published by the Institute of Directors in New Zealand. Under the Code, Directors are expected to:

- act with honesty and integrity
- comply with the law
- avoid conflicts of interest
- use company assets responsibly and in the best interests of the company
- be responsible and accountable for their actions
- act in accordance with their fiduciary duties.

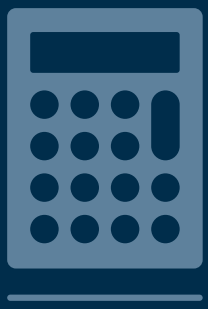
Conflicts of interest

The Companies Act 1993, MetService's Constitution and Board Charter and the Owner's Expectations Manual deal with the disclosure of interests by directors, and with participation and voting at Board meetings where any such interests are relevant.

Directors are regularly requested to make general disclosures of interest, which are recorded in the Register of Interests and set out in the Statutory Information on pages 51-52 of this report.

Governance best practice

The Board has confirmed that its corporate governance policies, practices and procedures are in accord with the Financial Markets Authority's Corporate Governance in New Zealand – Principles and Guidelines, published in 2014, in the material respects for which they are appropriate for an SOE.



NUMBER CRUNCH

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2017

	Note	Group 2017 $000s	Group 2016 $000s
Revenue		55,072	50,980
Investment Fair Value increase	14	256	-
Government Grants		42	38
Total Revenue and Other Income		**55,370**	**51,018**
Operating Expenses			
Employee Benefits Expense	4	26,285	24,719
Communication Costs		836	1,149
Data Acquisition Costs		3,687	2,932
IT Costs		3,630	3,253
Marketing Costs		616	773
Occupancy Costs		595	536
Operating Lease Expenses		1,770	1,436
Office Expenses		302	308
Professional Expenses		1,495	1,556
Other Costs		3,207	2,584
Depreciation and Amortisation Expense		8,541	8,152
Total Operating Expenses	3	**50,964**	**47,398**
Operating Profit		**4,406**	**3,620**
Financial Costs	5	495	936
Share of Loss of Jointly Controlled Entity	14	40	7
Profit Before Taxation		**3,871**	**2,677**
Taxation	6	1,431	742
Net Profit		**2,440**	**1,935**
Net Profit is attributable to:			
Owners of Meteorological Service of New Zealand		2,286	1,935
Non-controlling Interests		154	-
		2,440	1,935
Other Comprehensive Income			
Items that may be reclassified to profit or loss			
Movement in Foreign Currency Translation Reserve		269	124
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**2,171**	**1,811**
Total comprehensive income for the period is attributable to:			
Owners of Meteorological Service of New Zealand		2,017	1,811
Non-controlling Interests		154	-
		2,171	1,811

This statement should be read in conjunction with the notes to the financial statements.

Statement of Financial Position
as at 30 June 2017

	Note	Group 2017 $000s	Group 2016 $000s
Equity			
Issued Capital	7	5,000	5,000
Foreign Currency Translation Reserve		(433)	(164)
Retained Earnings		16,122	15,136
Attributable to owners		**20,689**	**19,972**
Non-controlling Interests		**1,155**	-
Total Equity		**21,844**	**19,972**
Liabilities			
Trade and Other Payables	8	5,506	5,080
Financial Liabilities	23	23	-
Income Taxation Payable		545	409
Employee Benefits	10	1,891	1,441
Total Current Liabilities		**7,965**	**6,930**
Deferred Taxation	6	1,475	908
Provisions	11	574	481
Employee Benefits	10	104	107
Borrowings	12	15,500	17,000
Total Non Current Liabilities		**17,653**	**18,496**
TOTAL LIABILITIES AND EQUITY		**47,462**	**45,398**
Assets			
Cash and Cash Equivalents	22	5,901	3,997
Trade and Other Receivables	9	5,875	5,044
Inventories	13	347	456
Total Current Assets		**12,123**	**9,497**
Property, Plant and Equipment	17	16,022	17,677
Investments in Jointly Controlled Entities	14	-	3,170
Intangible Assets	18	19,317	15,054
Total Non Current Assets		**35,339**	**35,901**
TOTAL ASSETS		**47,462**	**45,398**

This statement should be read in conjunction with the notes to the financial statements.

The Board of Directors of Meteorological Service of New Zealand Limited authorised these financial statements for issue on 22 August 2017.

A Howard
Director

S Haslem
Director

Statement of Changes in Equity
for the year ended 30 June 2017

GROUP 2017	Note	Attributable to Owners: Fully Paid Ordinary Shares $000s	Retained Earnings $000s	Foreign Currency Translation Reserve $000s	Total Balance $000s	Non-controlling Interests $000s	Total $000s
Equity as at 1 July 2016		**5,000**	**15,136**	**(164)**	**19,972**	-	**19,972**
Comprehensive Income							
Net Profit		–	2,286	–	2,286	154	2,440
Currency Translation Differences		–	–	(269)	(269)	-	(269)
Total Comprehensive Income		**–**	**2,286**	**(269)**	**2,017**	**154**	**2,171**
Transactions with Owners							
Dividends Relating to 2016	19	–	(1,300)	–	**(1,300)**		(1,300)
Total Transactions with Owners		**–**	**(1,300)**	**–**	**(1,300)**		**(1,300)**
Non-controlling Interests arising on business combination	14	–	–	–	–	1,001	1,001
Total Non-controlling Interests		**–**	**–**	**–**	–	**1,001**	**1,001**
EQUITY AS AT 30 JUNE 2017		**5,000**	**16,122**	**(433)**	**20,689**	**1,155**	**21,844**
GROUP 2016							
Equity as at 1 July 2015		**5,000**	**13,201**	**(40)**	**18,161**	-	**18,161**
Comprehensive Income							
Net Profit		–	1,935	–	1,935	-	1,935
Currency Translation Differences		–	–	(124)	(124)	-	(124)
Total Comprehensive Income		**–**	**1,935**	**(124)**	**1,811**	-	**1,811**
EQUITY AS AT 30 JUNE 2016		**5,000**	**15,136**	**(164)**	**19,972**	–	**19,972**

This statement should be read in conjunction with the notes to the financial statements.

Statement of Cash Flows
for the year ended 30 June 2017

	Note	Group 2017 $000s	Group 2016 $000s
Cash Flow from Operating Activities			
Cash was Provided from:			
Receipts from Customers		54,453	51,324
Interest Received		114	34
Cash was Applied to:			
Payments to Suppliers and Employees		(40,993)	(38,126)
Interest Paid		(608)	(965)
Income Taxation Paid		(1,264)	(438)
Net Cash Generated by Operating Activities	20	**11,702**	**11,829**
Cash Flow from Investing Activities			
Cash was Provided from:			
Proceeds from Disposal of Property, Plant and Equipment and Intangibles		16	2
Cash was Applied to:			
Purchase of Property, Plant and Equipment and Intangibles		(2,462)	(2,535)
Labour Capitalisation (Assets)		(5,036)	(4,595)
Net Cash Used by Investing Activities		**(7,482)**	**(7,128)**
Cash Flow from Financing Activities			
Cash was Applied to:			
Repayment of Borrowings		(1,500)	(1,806)
Dividends		(1,300)	-
Net Cash Generated by Financing Activities		**(2,800)**	**(1,806)**
Net Increase in Cash and Cash Equivalents		**1,420**	**2,895**
Add Cash and Cash Equivalents at the Beginning of the Year		3,997	1,102
Add Cash and Cash Equivalents from MetOcean Solutions Limited on consolidation	14	484	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	22	**5,901**	**3,997**

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements
for the year ended 30 June 2017

1. GENERAL INFORMATION

The financial statements presented here are for the reporting entity of Meteorological Service of New Zealand Limited and its subsidiaries ('Group').

These financial statements were authorised for issue by the Board of Directors on 22 August 2017.

Meteorological Service of New Zealand Limited ('Parent') is a for-profit entity incorporated and domiciled in New Zealand. The address of its registered office is 30 Salamanca Road, Wellington. Its primary service is to provide weather and presentation services to customers around the globe.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP).

The Group is a for-profit entity for the purposes of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The financial statements are prepared in accordance with the Companies Act 1993, the Financial Reporting Act 2013, and the State-Owned Enterprises Act 1986.

Standards adopted for the first time

None this financial period that are material.

Standards that are not yet effective and have not been early adopted by the Group

NZ IFRS 9 'Financial Instruments' – effective for periods beginning on or after 1 January 2018 addresses the classification, measurement and recognition of financial assets and liabilities and replaces guidance in NZ IAS 39 Financial Instruments Recognition and Measurement. The Group intends to adopt NZ IFRS 9 effective from 1 July 2018 and has yet to assess the full impact although given the low level of financial assets held does not expect the impact of applying the standard to be material.

NZ IFRS 15 'Revenue from contracts with customers' – effective for annual periods beginning on or after 1 January 2018. The standard addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and is applicable to all entities with revenue. It sets out a five-step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group has yet to assess NZ IFRS 15's full impact. The Group will apply this standard from 1 July 2018.

NZ IFRS 16 'Leases' – effective for periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces the existing IAS 17. This standard will introduce a single lessee accounting model and requires recognition of assets and liabilities for all leases with a term of more than 12 months. The Group has yet to assess NZ IFRS 16's full impact. The Group will apply this standard from 1 July 2019.

Principles of consolidation

Subsidiaries

The consolidated financial statements are prepared from the financial statements of the Parent and its subsidiaries as at 30 June 2017. Subsidiaries are all entities over which the Group has control. Control is achieved where the Parent has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of any subsidiary acquired or disposed of during the year are included in the Statements of Profit or Loss and Other Comprehensive Income from the effective date of acquisition or disposal. All significant transactions between Group companies are eliminated on consolidation.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

A business combination in which all of the combining entities or businesses are ultimately controlled by the Group both before and after the business combination is a common control acquisition. Common control acquisitions within the Group are accounted for using the predecessor values method. Predecessor values are the carrying values of the assets and liabilities of an entity from the consolidated financial statements of the Group.

Investments in jointly controlled entities

The Group has applied NZ IFRS 11 to account for its joint arrangement. 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 the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling Interests
The Group has elected to recognise the non-controlling interests as its proportionate share of the acquired net identifiable assets.

Revenue

Revenue is measured at the fair value of the consideration receivable for the sale of goods and services. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Rendering of services
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred; and
- funding is recognised in arrears, on submission of required reporting for the funding.

Interest income
Interest income is accounted for using the effective interest rate method.

Dividend income
Dividend income is recognised when the right to receive payment has been established.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Profit or Loss and Other Comprehensive Income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Government grants
Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants relating to assets are treated as deferred income and recognised in the Statements of Profit or Loss and Other Comprehensive Income over the expected useful lives of the assets concerned.

Inventories
Inventories are valued at the lower of cost, on a weighted average cost basis of inventory on hand calculated at the time of the last purchase, and net realisable value. Net realisable value represents the estimated selling price for inventories less costs necessary to make the sale.

Property, plant and equipment

The cost of purchased property, plant and equipment is valued at the consideration given to acquire the assets plus other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for the intended service. Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The costs of assets constructed by the Group include the costs of all materials used in construction and direct labour on the project. Costs are capitalised until available for use.

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 with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged as expenses in the Statements of Profit or Loss and Other Comprehensive Income during the financial period in which they are incurred.

Depreciation
Depreciation of property, plant and equipment, other than freehold land, is calculated using the straight-line method to allocate the historical cost over the estimated useful life of the asset, after due allowance has been made for the expected residual value.

The costs of improvements to leasehold property are capitalised, disclosed as leasehold property and amortised over the unexpired period of the lease, or the estimated useful life of the improvements, whichever is shorter.

The annual depreciation rates are shown below for each classification of asset:

Buildings	2.5% – 10.0%
Computer Hardware & Software Equipment	20.0% – 33.3%
Furniture & Fittings	8.0% – 33.3%
Buildings on Leasehold Land	3.1% – 33.3%
Meteorological Equipment	2.5% – 33.3%
Motor Vehicles	10.0% – 22.0%
Office Equipment	10.0% – 33.3%
Plant & Equipment	4.0% – 33.3%

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are recognised as profit or loss in the Statements of Profit or Loss and Other Comprehensive Income.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets of the acquired investment at the date of acquisition. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units ('CGU') or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill recognised as expenses in the Statements of Profit or Loss and Other Comprehensive Income are not reversed. Gains and losses on the disposal of a CGU or portion of a CGU include the carrying amount of goodwill relating to the CGU or portion of a CGU sold.

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives of between three and five years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Internally-generated intangible assets - computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- the intention to complete the intangible asset and use or sell it
- the ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Where no internally-generated intangible asset can be recognised, development expenditure is charged as expenses in the Statements of Profit or Loss and Other Comprehensive Income in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Research and development costs

Research expenditure is incurred by the Group and is recognised as expenses in the Statements of Profit or Loss and Other Comprehensive Income in the period in which it is incurred. Development costs are capitalised when they meet the requirements for capitalisation of NZ IAS 38 Intangible Assets.

Leases

Operating lease payments, where lessors retain substantially all the risk or benefit of ownership of the leased items, are recognised as an expense in the Statements of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restoration provision

Restoration costs include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas. The restoration costs are based on management's best estimate of the amount required to settle the obligation. Movements in the restoration provision are recognised as profit or loss in the Statement of Profit or Loss and Other Comprehensive Income.

Employee benefits

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, long service leave and alternative days leave expected to be settled within 12 months of the reporting date are recognised in payables in respect of employees' service up to the reporting date and are measured at the amounts expected to be paid when it is probable that the liabilities will be settled.

Termination leave

The liability for termination leave not expected to be settled within 12 months of the reporting date is recognised in non-current liabilities and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Statement of Profit or Loss and Other Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Foreign currencies

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of MetraWeather Australia, MetraWeather Thailand and MetOcean Solutions Limited is New Zealand dollars and the functional currency of MetraWeather UK is British pounds. These financial statements are presented in New Zealand dollars, which is the Group's presentation currency.

Transactions and balances

Transactions denominated in foreign currency are converted to New Zealand dollars using the exchange rate at the date of the transaction.

At balance date, foreign monetary assets and liabilities are recorded at the closing exchange rate.

Gains or losses due to currency fluctuations, both realised and unrealised, are recognised as profit or loss in the Statement of Profit or Loss and Other Comprehensive Income.

Group companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position.
- income and expenses for each Statement of Profit or Loss are translated at average exchange rates (unless this average 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 rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income. On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the Statement of Profit or Loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments

Financial instruments carried on the Statement of Financial Position include cash and cash equivalents, trade and other receivables, trade and other payables, borrowings and employee entitlements.

Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of an asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs.

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables and other receivables as well as cash and cash equivalents that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest method.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been reduced.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

Financial liabilities

Financial liabilities, including trade and other payables, and borrowings are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised by applying the effective interest method.

The Group has entered into forward exchange contracts during the year. They are accounted for as held for trading with gains or losses recognised in the Statement of Profit of Loss and Other Comprehensive Income.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Statement of cash flows

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments with original maturities of three months or less, net of outstanding bank overdrafts. The following terms are used in the Statement of Cash Flows:

Operating activities: are the principal revenue-producing activities of the Group, including interest received and paid and other activities that are not investing or financing activities.

Investing activities: are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities: are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity including dividends paid.

Goods and Services Tax

All items included in the financial statements are reported exclusive of Goods and Services Tax (GST), except for accounts payable and accounts receivable, which include GST invoiced.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Impairment of tangible and intangible assets excluding goodwill

At each balance date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss in the Statement of Profit or Loss and Other Comprehensive Income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss in the Statement of Profit or Loss and Other Comprehensive Income.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated

assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

Note 11: Provisions

Note 18: Intangible assets - measurement of goodwill impairment of subsidiaries and Internally generated intangible assets

3. OPERATING EXPENDITURE	Group 2017 $000s	Group 2016 $000s
Profit for the year has been arrived after charging/(crediting)		
Audit Fees of Financial Statements paid to PwC	113	116
Audit Fees Related to Audit of Subsidiary MetraWeather (UK) Ltd paid to Crowe Clark Whitehall (CCW)	18	19
Audit Fees Related to Audit of Subsidiary MetOcean Solutions Ltd paid to Staples Rodway	17	–
Audit Fees Related to MetraWeather (Thailand) Ltd paid to Morakot Lao-Amnuaychai	2	–
Fees Paid to CCW for Business Services	16	45
Fees Paid to PwC for Consolidation Advice	3	10
Fees Paid to PwC for IT Consulting	13	–
Research Expenditure	680	643
Loss on Disposal of Property, Plant and Equipment	163	12
Impairment of Property, Plant and Equipment	–	140
Impairment of Intangible Assets	171	211
Directors' Fees	213	201
Software Development Expenditure	7	5
FX (Gains)/Losses	(177)	46
Increase in Provision for Doubtful Debts	79	–

4. EMPLOYEE BENEFITS EXPENSE	Group 2017 $000s	Group 2016 $000s
Wages and Salaries	29,182	27,453
Termination Benefits	3	28
Defined Contribution Pension Plan Expense	662	596
Labour Capitalised	(5,036)	(4,595)
Contractors/Temporary Staff	679	765
Other Employee Benefits	795	472
TOTAL EMPLOYEE BENEFITS	**26,285**	**24,719**

5. FINANCE COSTS – NET	Group 2017 $000s	Group 2016 $000s
Interest Revenue		
Bank Deposits	61	24
Use of Money Interest	2	5
Other	53	–
Total Finance Income	**116**	**29**
Interest on Bank Overdrafts and Loans	608	965
Use of Money Interest	3	–
Total Finance Costs	**611**	**965**
FINANCE COSTS - NET	**495**	**936**

6. TAXATION

	Group 2017 $000s	Group 2016 $000s
Net Profit Before Taxation	3,871	2,677
Prima Facie Taxation Thereon at 28%	1,084	749
Non-Deductible Legal Fees	6	–
Non-Deductible Expenditure	34	15
Non-Assessable Profit Share of Joint Ventures	11	2
Non-Assessable Government Grant	(9)	(4)
Prior Period Adjustment	53	(74)
Effect of Different Tax Rates in Other Jurisdictions	2	59
Effect of Deferred Tax Liability - MetOcean Solutions Limited	(230)	–
Write off Deferred Tax Asset - MetraWeather (UK) Ltd	480	–
Other	–	(5)
TAXATION EXPENSE	**1,431**	**742**
Prior Year Adjustment	53	(74)
Current Taxation	1,348	1,039
Deferred Taxation	30	(223)
TAXATION EXPENSE	**1,431**	**742**
Deferred Tax		
Deferred tax (liabilities)/assets arise from the following:		
TEMPORARY DIFFERENCES		
Property, Plant and Equipment	(1,028)	(1,182)
Intangible Assets	(936)	(772)
MetOcean Solutions Ltd	(167)	–
Provisions and Other Liabilities	656	566
Net deferred tax liability	**(1,475)**	**(1,388)**
Deferred tax assets arise from the following:		
MetraWeather (UK) losses carried forward	–	480
Deferred tax asset	**–**	**480**
Deferred Taxation		
Opening Balance	(908)	(1,169)
MetOcean deferred tax liability recognised on consolidation	(482)	–
On Profit for the Year	(267)	223
Effect of Deferred Tax Liability - MetOcean Solutions Limited	230	–
Prior Period Adjustment	(48)	38
CLOSING BALANCE	**(1,475)**	**(908)**
IMPUTATION CREDITS FOR USE	**7,153**	**5,483**

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

7. ISSUED CAPITAL	Group 2017 $000s	Group 2016 $000s
Authorised, Issued and Fully Paid Capital Consists of		
5,000,000 Ordinary Shares	5,000	5,000

Issued shares have no par value.

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

Ordinary shares are classified as equity.

8. TRADE AND OTHER PAYABLES	Group 2017 $000s	Group 2016 $000s
Trade Payables	1,995	2,096
Other Payables	254	295
Accruals	2,774	2,102
Income in Advance	483	587
TOTAL TRADE AND OTHER PAYABLES	**5,506**	**5,080**

9. TRADE AND OTHER RECEIVABLES	Group 2017 $000s	Group 2016 $000s
Trade Receivables	3,600	3,513
Allowance for Impairment	(79)	–
	3,521	**3,513**
Prepayments	1,158	1,076
Sundry Debtors	1,196	455
TOTAL TRADE AND OTHER RECEIVABLES	**5,875**	**5,044**

The average credit period on sales of goods and services is 30 days. No interest is charged on trade receivables overdue. Overdue debts are reviewed on a case-by-case basis and provided for if the receivable is considered not recoverable. Historical experience is such that international customers pay on a 60–90-day term and default is minimal.

Included in the Group's trade receivable balance are debtors with a carrying amount of $282,376 (2016: $80,696) which are past due at the reporting date for which the Group has not provided, as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing Past Due Trade Receivables (Not Impaired)	Group 2017 $000s	Group 2016 $000s
30-60 days	129	63
60–90 days	95	18
Above 90 days	58	–
TOTAL	282	81

Movement in the Allowance for Impairment		
Balance at Beginning of the Year	–	35
Doubtful Debts	79	–
Impairment Losses Reversed	–	(35)
BALANCE AT END OF THE YEAR	79	–

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Included in the allowance for impairment are individually impaired trade receivables with a balance of $78,623 (2016: $nil) for Group, relating to entities which have been considered doubtful.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds. The Group does not hold any collateral over these balances. The net carrying amount is considered to approximate their fair value.

10. EMPLOYEE BENEFITS	Group 2017 $000s	Group 2016 $000s
Annual Leave Entitlement	1,891	1,441
Termination Leave	104	107
TOTAL EMPLOYEE BENEFITS	1,995	1,548

Termination Leave		
Opening Balance as at 1 July	107	135
Reductions Arising from Payments/ Other Sacrifices of Future Economic Benefits	(3)	(28)
CLOSING BALANCE AS AT 30 JUNE	104	107

Termination Leave – Current	–	–
Termination Leave – Non Current	104	107
CLOSING BALANCE AS AT 30 JUNE	104	107

The liability for employee benefits represents annual leave and termination leave entitlements accrued. The termination leave accrual is an actuarial assessment of the accrued termination leave liabilities for current employees of the Group. Only those employees with 10 years' service when the scheme closed are eligible for the benefit.

Termination leave has been calculated by the actuarial firm Aon NZ Ltd and has been calculated based on inter alia: Contractual Employee Entitlements, Projected Employee Salary Increases, Expected Resignation and Retirement Rates, Forecasted Market Discount Rates.

11. PROVISIONS	Group 2017 $000s	Group 2016 $000s
Non Current		
Restoration Provision	574	481
TOTAL NON CURRENT PROVISIONS	**574**	**481**
Restoration Provision		
Opening Balance as at 1 July	481	466
Change for Passage of Time	82	27
Effects of Changes in Discount Rates	11	(12)
Closing Balance as at 30 June	**574**	**481**
TOTAL PROVISIONS	**574**	**481**

Restoration provision

The Parent has a number of sites leased around the country for the purpose of housing weather stations or related equipment. A restoration provision has been calculated for those sites that contractually require the site to be restored to its original state on expiry of the license to occupy. The Restoration provision is an estimate of the cost (in today's dollars) of restoring current leased sites to their original state on termination of the lease agreement assuming this would occur at the end of the useful life of equipment on the leased site (usually 20 years from commencement of lease.)

This provision includes estimation for restoring Campbell Island. The Parent has used the ten year government bond rate of 2.73% (2016: 2.34%) as the discount rate and assumed a 2.2% (2016: 1.2%) CPI increase on costs.

Contingent liabilities

Several lease agreements are held that do not include the requirement to restore the site on termination of the lease. Because the Parent is not contractually obligated to remove the equipment and restore the site, it is not certain that a liability would arise therefore, the estimated cost of restoring these sites has been excluded from the provision 2017: $295,043 (2016: $305,316).

12. BORROWINGS	Group 2017 $000s	Group 2016 $000s
Unsecured		
Non Current		
Bank Loan	15,500	17,000
TOTAL BORROWINGS	**15,500**	**17,000**

The Parent has a multi-option credit line facility with Westpac to the value of $4,000,000. Interest is charged on drawn amounts at the cash rate plus a corporate margin of 90 basis points as at 30 June 2017. There is a line of credit charge of 0.035% per month on the commitment during that month.

The Parent has an on-going term loan agreement with the Westpac Banking Corporation. The interest rates are fixed and due for renewal between 2 December 2017 and 30 June 2020. The average interest rate for the loans as at 30 June 2017 is 4.23% (2016: 4.27%).

These loans are subject to covenant clauses whereby the Parent is required to maintain a specified level of interest cover and total leverage ratio. As at 30 June 2017, all banking covenants had been complied with.

13. INVENTORIES	Group 2017 $000s	Group 2016 $000s
Meteorological Consumables	347	456
TOTAL INVENTORIES	**347**	**456**

The cost of inventories recognised as an expense during the year was $462,331 (2016: $430,089).
No provision has been made against inventory items held at year end.

14. INVESTMENT IN METOCEAN SOLUTIONS LIMITED

Details of the Group's Investment at 30 June 2017 are as follows:

Principal Activity	Oceanography and Meteorology
Place of Incorporation and Operation	New Zealand
Shareholding	49%

On 1 August 2013, the Group acquired a 49% stake in MetOcean Solutions Limited for $3million.

Reporting date of MetOcean Solutions Limited is 31 March. The reporting date is not planned to change unless the remainder of the business is acquired and incorporated as a subsidiary of the Group.

MetService also holds a call option to acquire the remaining 51% interest in MetOcean Solutions Limited and the sellers hold a put option to sell their interest to the Parent. The call option became exercisable on 1 August 2016. It has been determined that MetService holds substantive rights over MetOcean Solutions Limited and therefore has consolidated MetOcean Solutions Limited results from this date.

The fair value of assets and liabilities recognised as a result of the consolidation are as follows:

	$000s
Cash and Cash Equivalents	484
Trade and Other Receivables	440
Land and Buildings	5
Plant and Equipment	106
Intangibles - Software	1,722
Current Tax	28
Trade and Other Payables	(192)
Employee Benefits	(149)
Deferred Tax Liability	(482)
Add: goodwill	2,425
Sub-total	4,387
Less: non-controlling interests	(1,001)
Net Assets Consolidated	**3,386**

The goodwill is attributable to the internal intellectual property.
This is represented by:

Cash Consideration	3,000
Share of Profits of Jointly Controlled Entity	130
Investment Fair Value increase	256
Net Assets Consolidated	**3,386**

Prior to August 2016 this investment was accounted for using the equity method.

Summarised Financial Information of the Group's jointly controlled entity as at 31 July 2016 (Comparative 30 June 2016):

	2017* $000s	2016 $000s
Total Current Assets	924	1,033
Total Non Current Assets	110	114
Total Current Liabilties	(311)	(343)
Net Assets	723	804
Group's Share of Net Assets	**354**	**394**
Total Revenue	(189)	(2,834)
Total Loss for the Period	81	14
Group's Share of Loss of Jointly Controlled Entity	**40**	**7**

14. INVESTMENT IN METOCEAN SOLUTIONS LIMITED (CONTINUED)

Movement in the Carrying Amount of the Group's Investment in jointly controlled entity:

	2017* $000s	2016 $000s
Balance at Beginning of Year	3,170	3,177
Share of Loss of Jointly Controlled Entity	40	7
Closing Balance	**3,130**	**3,170**

*** 2017 is for July 2016 only and is eliminated on consolidation at balance date.**

15. SUBSIDIARIES

Details of the Group's 100% owned subsidiaries at 30 June 2017 are as follows:

Names	MetraWeather (Australia) Pty Limited	MetraWeather (UK) Limited
Place of Incorporation and Operation	Australia	United Kingdom
Balance Date	30 June	30 June
Principal Activity	Forecasting, Marketing and Promotion of Weather and Information Presentation Services.	Forecasting, Marketing and Promotion of Weather and Information Presentation Services.

Names	MetraWeather (Thailand) Limited
Place of Incorporation and Operation	Thailand
Balance Date	30 June
Principal Activity	Forecasting, Marketing and Promotion of Weather and Information Presentation Services.

16. RELATED PARTY TRANSACTIONS

The ultimate controlling party of the Group is the Crown.

Loans to/(from) Subsidiaries

The Parent provides funds to MetraWeather (Australia) Pty Limited, MetraWeather (UK) Limited and MetraWeather (Thailand) Limited via an intercompany account.

Balances are interest free and the parent has no intention of requesting payment in the near future.

Compensation of Key Management Personnel

Key management personnel are paid in their capacity as employees and receive salary and bonus.

Key management personnel includes Directors and the Executive Team.

	Group 2017 $000s	Group 2016 $000s
Total Salaries	1,358	1,609
Performance Pay Paid Relating to Prior Year	293	–
Directors' Remuneration	213	201
	1,864	**1,810**

Other Related Parties

Relationship with the Crown

Meteorological Service of New Zealand Limited is a limited liability company incorporated in New Zealand, under the Companies Act 1993. The shares are held equally by the Minister for State Owned Enterprises and the Minister of Finance on behalf of the Crown. The Crown does not guarantee the liabilities of Meteorological Service of New Zealand Limited.

No amounts owed by related parties have been written off or forgiven during the year.

17. PROPERTY, PLANT & EQUIPMENT

GROUP 2017	Land & Buildings $000s	Meteorological & Plant $000s	ICT Equipment, Vehicles & Furniture $000s	Work In Progress $000s	Total $000s
Cost	9,570	24,447	13,707	292	**48,016**
Accumulated Depreciation and Impairment	(5,756)	(14,033)	(12,205)	–	**(31,994)**
CARRYING AMOUNT	**3,814**	**10,414**	**1,502**	**292**	**16,022**
Opening Carrying Amount	4,233	11,332	1,958	154	**17,677**
Additions at Cost	4	228	383	325	**940**
MetOcean Property, Plant and Equipment on Consolidation	5	37	69	–	**111**
Disposals	(8)	(210)	(43)	–	**(261)**
Impairment Reversal	143	80	15	–	**238**
Asset Write Off	–	–	–	(57)	**(57)**
Depreciation	(572)	(1,271)	(922)	–	**(2,765)**
Accumulated Depreciation Recovered	6	91	42	–	**139**
Work In Progress Movement	3	127	–	(130)	–
NET BOOK VALUE AS AT 30 JUNE 2017	**3,814**	**10,414**	**1,502**	**292**	**16,022**

GROUP 2016	Land & Buildings $000s	Meteorological & Plant $000s	ICT Equipment, Vehicles & Furniture $000s	Work In Progress $000s	Total $000s
Cost	9,420	24,167	13,103	154	**46,844**
Accumulated Depreciation and Impairment	(5,187)	(12,835)	(11,145)	–	**(29,167)**
CARRYING AMOUNT	**4,233**	**11,332**	**1,958**	**154**	**17,677**
Opening Carrying Amount	4,660	12,362	2,563	393	**19,978**
Additions at Cost	–	152	445	151	**748**
Disposals	(16)	(827)	(125)	–	**(968)**
Asset Impairment	(125)	–	(15)	–	**(140)**
Depreciation	(536)	(1,291)	(1,064)	–	**(2,891)**
Accumulated Depreciation Recovered	7	818	125	–	**950**
Work In Progress Movement	243	118	29	(390)	–
NET BOOK VALUE AS AT 30 JUNE 2016	**4,233**	**11,332**	**1,958**	**154**	**17,677**

18. INTANGIBLE ASSETS

GROUP 2017	Goodwill	Software	Customer Base	Capital Work In Progress	Total
Cost	3,025	41,376	412	3,945	**48,758**
Accumulated Amortisation	–	(29,029)	(412)	–	**(29,441)**
CARRYING AMOUNT	**3,025**	**12,347**	–	**3,945**	**19,317**
Opening Carrying Amount	600	12,149	–	2,305	**15,054**
Additions at Cost	–	132	–	6,888	**7,020**
MetOcean Additions on Consolidation	2,425	1,722	–	–	**4,147**
Disposals	–	(1,924)	–	–	**(1,924)**
Assets Impairment	–	(171)	–		**(171)**
Amortisation Expense	–	(5,776)	–	–	**(5,776)**
Accumulated Amortisation Recovered	–	967	–	–	**967**
Work in Progress Movement	–	5,248	–	(5,248)	–
NET BOOK VALUE AS AT 30 JUNE 2017	**3,025**	**12,347**	–	**3,945**	**19,317**

GROUP 2016	Goodwill	Software	Customer Base	Capital Work In Progress	Total
Cost	600	36,368	412	2,305	**39,685**
Accumulated Amortisation	–	(24,219)	(412)	–	**(24,631)**
CARRYING AMOUNT	**600**	**12,149**	–	**2,305**	**15,054**
Opening Carrying Amount	600	11,025	45	2,592	**14,262**
Additions at Cost	–	36	–	6,243	**6,279**
Disposal	–	(325)	–	–	**(325)**
Asset Impairment	–	(211)			**(211)**
Amortisation Expense	–	(5,217)	(45)	–	**(5,262)**
Accumulated Amortisation Recovered	–	311	–	–	**311**
Work in Progress Movement	–	6,530	–	(6,530)	–
NET BOOK VALUE AS AT 30 JUNE 2016	**600**	**12,149**	–	**2,305**	**15,054**

Internally developed software and capital work in progress includes software development to be used in sellable products and installations of infrastructure. The amount to be capitalised is determined on the basis of time spent by employees developing these assets. Timesheets are used for recording hours spent against specific pre-approved activities, both capital and operational. The timesheets are reviewed against the criteria determined in the accounting policy and approved by management. IT development is allocated at a rate of $103 per hour (2016: $103) and Network Engineer's rate is $72 per hour (2016: $72), These rates were determined by using the appropriate overheads for each area, along with the average hourly rate for employees developing these assets:

Impairment test for goodwill

Goodwill of $600,000 is allocated to MetraWeather (UK) Ltd. The recoverable amount has been determined based on a value-in-use calculation. The calculation used forecast cash flows to 2018 and a discount rate of 8.1% based on company WACC. The recoverable amount exceeds the carrying amount therefore no impairment loss has been recognised.

Goodwill of $2.425 million is allocated to the deemed acquisition of MetOcean Solution Limited. An independent valuation of the company was conducted at date of deemed acquisition being 1 August 2016 to determine the fair value of net assets acquired and goodwill.

19. DIVIDENDS

As at balance date, there has been no provision made for a final dividend. The Group's dividend policy is to distribute 15% to 40% net cash flows from operating activities, less maintenance capital expenditure.

	Group 2017 $000s	Group 2016 $000s
Final Dividends Paid	**1,300**	–

Final Dividends Relating to Prior Year

20. RECONCILIATION OF NET SURPLUS WITH CASH FLOW FROM OPERATING ACTIVITIES

	Group 2017 $000s	Group 2016 $000s
Net Surplus for the Year	**2,440**	**1,935**
Non Cash/Non Operating Items		
Depreciation and Amortisation	8,541	8,152
Share of Losses of Associates	40	7
Increase/(Decrease) in Deferred Tax	84	(261)
Loss on Foreign Exchange Contracts	23	–
Gain on Fair Value of Investment	(256)	
Impairment losses on PPE and Intangibles	171	351
Loss on Sale of Fixed Assets	148	10
Increase in Restoration Provision	92	16
Other Non Cash Operating Items	–	(1)
INCREASE IN NON CASH ITEMS	**8,843**	**8,274**
Movements in Working Capital		
(Increase)/Decrease in Receivables	(391)	789
Increase in Accounts Payable and Accruals	532	176
Decrease in Income Taxation Receivable	169	553
Decrease in Inventories	109	102
Total Movement in Working Capital	**419**	**1,620**
NET CASH GENERATED BY OPERATING ACTIVITIES	**11,702**	**11,829**

Movements in Working Capital have been adjusted for acquisition related balances.

In 2017, capitalised labour has been reclassified as an investing activity. It was previously treated as an operating activity.

Comparatives have been restated.

21. OPERATING LEASE EXPENSES

The Group as Lessee:

Leasing arrangements
The Group leases land, office space and IT equipment.
Operating leases over these properties give the Group the right to renew the lease subject to a redetermination of the lease by the lessor.

	Group 2017 $000s	Group 2016 $000s
Non Cancellable Operating Lease Commitments		
Not later than One Year	786	702
Later than One Year and Not Later Than Five Years	1,525	1,515
Later Than Five Years	1,316	1,588
	3,627	**3,805**

22 . CASH AND CASH EQUIVALENTS

Cash and cash equivalents at the end of the year as shown in the Statement of Cash Flows can be reconciled to the related items in the balance sheet as follows:

	Group 2017 $000s	Group 2016 $000s
Cash and Cash Equivalents	**5,901**	**3,997**

The Parent has an overdraft facility with Westpac to the value of $50,000.

The Parent provides support for meteorological services in the Pacific Islands and Africa. In this role, the Parent acts as an intermediary between the 'Funder' and the 'Recipient or Client'. The role encompasses the provision of project management expertise, sourcing equipment, calibration and testing and site installation.

Funding is received from international sources to fund these projects.

Funds Held at Balance Date*	40	123

*Included in Cash and Cash Equivalents above.
The cash held at balance date is offset by a liability within 'Other payables'.

23. FINANCIAL RISK MANAGEMENT

Financial risk management objectives
Financing risk is the risk of not being able to refinance debt obligations or other cash outflows when required, on terms that are less unfavourable than those currently in place. The main objectives of the management of financing risk is to ensure sufficient funding is available to meet the Group's requirements and to avoid liquidity crises, achieve competitive pricing on sources of funding and lines of credit, and diversify sources of funding and liquidity.

Capital risk management
The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2016.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 12, cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued capital and retained earnings as disclosed in the Statement of Changes in Equity.

Debt covenants are reviewed by management on a monthly basis.

Under the terms of the major borrowing facilities, the Group is required to comply with the following financial covenants:

Total Leverage Ratio - requires debt to remain lower than 3 times EBITDA.

Interest Cover Ratio - requires EBITDA to be greater than or equal to 3 times the interest expense.

Change in Ownership - any sale of shares must be advised immediately to the bank.

Event of Review - we must advise the bank if the MoT contract is cancelled or renewed on less favourable terms including if revenue is reduced by 25%.

The Group has complied with all covenants through out the reporting period. As at 30 June 2017, the interest cover was 21.2 (2016: 12.3) and the leverage cover was 1.2 (2016: 1.4)

Financial instruments by category

Categories of Financial Instruments	Group 2017 $000s	Group 2016 $000s
Assets		
LOANS AND RECEIVABLES		
Cash and Cash Equivalents	5,901	3,997
Trade and Other Receivables	4,716	3,967
TOTAL FINANCIAL ASSETS	**10,617**	**7,964**
Liabilities		
FINANCIAL LIABILITIES AT AMORTISED COST		
Trade and Other Payables	4,469	4,095
Borrowings	15,500	17,000
FINANCIAL LIABILITIES AT FAIR VALUE		
Foreign Exchange Contracts	23	–
Termination Leave	104	107
TOTAL FINANCIAL LIABILITIES	**20,096**	**21,202**

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Market risk

There has been no change in the types of risks the Group is exposed to.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, and price risk), credit risk and liquidity risk.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuation arise.

The New Zealand dollar equivalent carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities 2017 $000	Liabilities 2016 $000s	Assets 2017 $000s	Assets 2016 $000s
Group				
US Dollars	42	46	354	401
British Pounds	16	52	603	477
Euro	6	163	344	91
Australian Dollars	140	84	1,328	427
Thai Baht	16	40	284	43
	220	**385**	**2,913**	**1,439**

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to exchange rate at the balance sheet date. This analysis is based on the closing foreign currency denominated monetary assets and monetary liabilities at the reporting date.

If exchange rates had been 10% higher and all other variables were held constant, Group profit and equity would have decreased by $245,000 (2016: $96,000). If exchange rates had been 10% lower and all other variables were held constant, Group profit and equity would have increased by $270,000 (2016: $105,000).

Forward Foreign Exchange Contracts

Forward Foreign Exchange Contracts are reported at fair value through profit and loss and are all held for trading.

	Group 2017 $000s	Group 2016 $000s
Fair Value Loss on contracts held	23	–

Interest rate risk management

The Group manage interest rate risk by borrowing funds at fixed interest rates and maintaining an appropriate level of debt.

If interest rates had been 1% higher and all other variables were held constant, Group profit and equity would have decreased by $169,000. (2016: $170,000). If interest rates had been 1% lower and all other variables were held constant, Group profit and equity would have increased by $169,000 (2016: $170,000).

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Financial instruments which potentially subject the Group to credit risk principally consist of bank transactions and deposits, accounts receivable and sundry accounts receivable. The Group has a credit policy which is used to manage its exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis.

In the normal course of business amounts due from the Ministry of Transport represent a significant account receivable, and a concentration of credit risk. However, the Directors do not expect any loss from non-performance of this counterparty.

The Group does not require collateral or security to support financial instruments due to the quality of financial institutions and trade debtors dealt with.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Parent has access to financing facilities, the total unused amount of which is $4,000,000 (2016: $4,000,000) at the balance date. The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

The table below summarises the cash flows payable by the Group by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual and expected undiscounted cash flows.

Financial Liabilities

	Group 2017 $000s		Group 2016 $000s	
	Borrowings $000s	Interest Payable $000s	Borrowings $000s	Interest Payable $000s
< 6 Mths	–	–	–	–
12 Mths	–	–	–	–
1–5 Yrs	15,500	2,825	17,000	2,901
5+ Yrs	–	–	–	–
	15,500	**2,825**	**17,000**	**2,901**

It is likely that we will be rolling over this facility past five years.

Trade and other payables and employee benefits, excluding termination leave, are repayable within the next six months.

24. CAPITAL COMMITMENTS

	Group 2017 $000s	Group 2016 $000s
Commitments for the acquisition of property, plant and equipment	378	175

25. SUBSEQUENT EVENTS

No material events have occurred subsequent to the end of the reporting period that require recognition of, or additional disclosure in, these financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF METEOROLOGICAL SERVICE OF NEW ZEALAND LIMITED'S GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The Auditor-General is the auditor of Meteorological Service of New Zealand Limited (the "Company") comprising of the Company and its controlled entities (together the "Group"). The Auditor-General has appointed me, Lesley Mackle, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Group on his behalf.

Opinion

We have audited the financial statements of the Group on pages 25 to 48, that comprise the Statement of Financial Position as at 30 June 2017, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include the summary of significant accounting policies and other explanatory information.

In our opinion the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2017; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 22 August 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and we explain our independence.

Basis for opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the State Owned Enterprises Act 1986.

Responsibilities of the auditor 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

We did not evaluate the security and controls over the electronic publication of the financial statements. As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and the performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

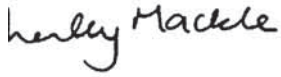
The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the financial statements, if other information is included in the annual report, 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 our auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

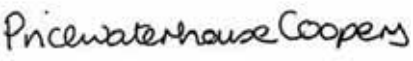
Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standards 1 (revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit our firm carries out other services for the Group in areas of information technology consulting and accounting advice. The provision of these services has not impaired our independence.



Lesley Mackle
On behalf of the Auditor-General
Wellington, New Zealand



PricewaterhouseCoopers

Statutory Information

Results of operations

	2017 $000s	2016 $000s
Net Profit	2,440	1,935
Final Dividend Paid	(1,300)	–
Retained Earnings at Beginning of the Year	15,136	13,201
Retained Earnings at End of Year	16,122	15,136

Changes in accounting policies

There has been no material changes in accounting policies during the year. The policies are set out on pages 29–34.

Changes in capital

There were no changes in capital during the year.

Remuneration bands

The number of employees (not including Directors) whose remuneration and benefits during the accounting period were within the specified band is as follows:

	Number
$100,000 – $109,000	43
$110,000 – $119,000	20
$120,000 – $129,000	12
$130,000 – $139,000	13
$140,000 – $149,000	3
$150,000 – $159,000	4
$160,000 – $169,000	3
$170,000 - $179,000	4
$190,000 – $199,000	1
$200,000 – $209,000	1
$220,000 – $229,000	3
$230,000 - $239,000	2
$260,000 – $269,000	1
$270,000 - $279,000	1
$330,000 - $339,000	1
$510,000 – $519,000	1

Donations

The Company made no donations during the year.

Auditor

The Auditor for the Group is Lesley Mackle, assisted by PricewaterhouseCoopers, Wellington, on behalf of the Auditor General. The amount payable by the Group to PricewaterhouseCoopers during the year as audit fees is $113,000.

The amount in respect of the year for other services provided by PricewaterhouseCoopers is $16,000.

Directors' fees

The total fees payable to members of the MetService Board during FY2016/17 was $212,685. The total Board fees are within the amount authorised by the Shareholding Ministers.

Anthony Howard (Chair)	$46,230
Judy Kirk (Deputy Chair)	$29,028
Brent Armstrong	$23,224
Carolyn Harkess (Resigned 30 September)	$5,750
Margaret Devlin	$23,224
Roanne Parker (Appointed 1 November)	$15,557
Stephen Eaton	$23,224
Sophie Haslem	$23,224
Te Taru White (Resigned 30 April)	$19,316
Tupara Morrison (Appointed 1 May)	$3,908
Total Directors' Remuneration	**$212,685**

Directors' and employees' indemnity and insurance

The MetService Group has insured the Directors and employees of the Group against any costs or liabilities of the type referred to in s162(5) of the Companies Act 1993. The MetService Group has also agreed to indemnify Directors of the Group and MetService appointed Directors of associated and subsidiary companies against any costs or liabilities referred to in s162(4) of the Companies Act 1993 that are incurred in any proceedings of the type referred to in s162(3) of the Companies Act 1993.

Directors' loans

No loans were made to the Directors during the year.

Directors' disclosures

No specific disclosures were given by the Directors pursuant to s140(1) of the Companies Act 1993.

General disclosures of interest made by the Directors of MetService and its subsidiaries pursuant to s140(2) as at 30 June 2017 are:

Director	Interest
A Howard (Chair)	Howard Co Ventures Onvine Limited Karma Kola Limited Be. Institute Wayfairer Limited All Good Bananas Limited Ecological Investments Limited Mimomax Wireless Limited Verde Advisory Board
S Haslem (Chair, Audit and Risk Committee)	Rangatira Limited Magritek Limited Magritek Holdings Limited Rainbows End Theme Park Limited New Zealand Experience Limited Omphalos Limited The Akina Foundation CentrePort Limited CentrePort Properties Limited CentrePort Property Management Limited Harbour Quays Property Limited Kordia Group Limited
C Harkess (Resigned 30 September 2016)	None
J Kirk (Deputy Chair)	J M K Consultancy Limited Airways Corporation of NZ Limited Airways International Limited
T Morrison	ID Group Holdings Ltd Unitec Institute of Technology NZMG Ltd Competenz New Zealand Maori Arts and Crafts Institute Pukeroa Oruawhata Trust Ngati Whakaue Tribal Lands Inc
B Armstrong	None
S Eaton	AMS Consult Limited Hanlu Consulting Limited Heyrex Limited Heyrex International Limited Number 63 Limited
M Devlin	Harrison Grierson City Care Limited Institute of Directors Waikato Regional Airport Limited Titanium Park Limited Waikato Spatial Plan Joint Committee Waikato District Council Waikato University National Infrastructure Advisory Board Waikato Electricity Limited IT Partners Group Limited Women in Infrastructure Network Aurora Energy Limited Watercare Limited
T White (Resigned 20 April 2017)	Indigenuity Limited Te Taru White Consultancy Limited NOA New Zealand Limited Lottery Environment Heritage Committee Toitu Te Waonui Limited Eagle Spirit Energy Holdings Limited (CA) Lake Rotorua Incentives Board Te Tatau o Te Arawa National Federation of Maori Authorities
R Parker	Information Empowerment Technologies Limited Calibrate Marketing Limited Wonderstuff Limited Fishpond Limited

Directors' statement

This Annual Report is for the period 1 July 2016 to 30 June 2017 and is signed on behalf of Meteorological Service of New Zealand's Board of Directors.

A Howard
Director

S Haslem
Director

Key Performance Indicators
Financial

	Statement of Corporate Intent	Actual 2017	Actual 2016
1. Shareholder Returns			
Total Shareholder Return	2.0%	4.3%	8.4%
Dividend Yield	2.0%	2.2%	0.0%
Dividend Payout	19.0%	10.6%	0.0%
Return on Equity (ROE)	11.6%	11.7%	9.5%
Return on Funds Employed	11.6%	11.9%	10.0%
2. Profitability/Efficiency			
NPAT	2,385	2,440	1,935
EBIT	4,263	4,406	3,620
EBITDA	13,310	12,947	11,772
Asset Turnover	1.29	1.24	1.18
Operating Margin (EBITDAF)	23.5%	23.4%	23.1%
Operating Margin (EBIT)	7.5%	8.0%	7.1%
3. Leverage/Solvency			
Gearing Ratio (net)	38.4%	30.5%	39.4%
Interest Cover	14.0	21.2	12.3
Solvency	1.09	1.54	1.37
Debt Coverage Ratio	3.64	3.52	4.70
4. Growth/Investment			
Revenue Growth	11.2%	8.5%	10.8%
EBITDA Growth	13.1%	10.0%	23.6%
NPAT Growth	33.3%	26.1%	90.9%
Capital Renewal	0.63	1.09	0.87

NOTES ON THE FINANCIAL KEY PERFORMANCE INDICATORS

Measure	Description	Calculation
1. Shareholder Returns		
Total Shareholder Return	Performance from an investor perspective – dividends and investment growth.	(Commercial value$_{end}$ less Commercial value$_{beg}$ plus dividends paid less equity injected)/ Commercial value$_{beg}$.
Dividend Yield	The cash return to the shareholder.	Dividends paid/Average commercial value.
Dividend Payout	Proportion of net operating cash flows less allowance for capital maintenance paid out as a dividend to the shareholder.	Dividends paid/Net cash flow from operating activities.
Return on Equity (ROE)	How much profit a company generates with the funds the shareholder has invested in the Company.	Net profit after tax/Average equity.
Return on Funds Employed (ROFE)	Measures company profitability and the efficiency with which its capital is employed.	Ratio of EBIT to average debt plus equity over the period.
2. Profitability/Efficiency		
Asset Turnover	The amount of revenue generated for every dollar worth of assets.	Revenue/Assets.
Operating Margin (EBITDAF)	The profitability of the Company per dollar of revenue, with profitability measured as earnings before interest, taxation, depreciation and amortisation adjustments.	EBITDA/Revenue.
Operating Margin (EBIT)	The profitability of the Company per dollar of revenue, with profitability measured as earnings before interest, taxation, depreciation and amortisation adjustments.	EBIT/Revenue.
3. Leverage/Solvency		
Gearing Ratio (net)	Measure of financial leverage – the ratio of debt (liabilities on which a company is required to pay interest) less cash, to debt less cash plus equity.	Net debt/Net debt plus equity.
Interest Cover	The number of times that earnings can cover interest.	EBITDA/Interest paid.
Solvency	Ability of the Company to pay its debts as they fall due.	Current assets/Current liabilities.
Debt Coverage Ratio	Level of bank debt in relation to earnings.	Bank debt/EBIT.
4. Growth/Investment		
Revenue Growth	Measure of whether the Company is growing revenue.	% change in Total Revenue and Other Income.
EBITDAF Growth	Measure of whether the Company is growing earnings.	% change in EBITDA.
NPAT Growth	Measure of whether the Company is growing profits.	% change in NPAT.
Capital Renewal	Measure of the level of capital investment being made by the Company.	Capital expenditure/Depreciation expense.

Key Performance Indicators
Non financial

	Statement of Corporate Intent	Actual 2017	Actual 2016
Warnings Performance			
POD Heavy Rain (12 mo mean)	>90%	94%	93%
POD Severe Gales (24 mo mean)	> 85%	92%	94%
POD Heavy Snow (24 mo mean)	> 85%	91%	100%
FAR Heavy Rain (12 mo mean)	< 25%	9%	19%
FAR Severe Gales (24 mo mean)	< 30%	16%	15%
FAR Heavy Snow (24 mo mean)	< 30%	25%	29%
Observing			
Radar % Uptime (12 mo mean)	>97%	99%	99%
AWS % Uptime (12 mo mean)	>98%	99%	100%
Corporate and Social Responsibility			
Critical Programme Audit Findings	0	0	0
Lost time Incidents	0	1	1
Social Investment ($000)	210	244	0
Community Engagement (hours)	150	222	0
WMO Staff Participation (number of staff)	10	11	10

NOTES ON THE NON FINANCIAL KEY PERFORMANCE INDICATORS

Measure	Description/Calculation
Probability of Detection (POD)	The ratio of correctly forecast events to actual events observed.
False Alarm Rate (FAR)	The ratio of severe forecast events that didn't occur (false alarms) to the number of events forecast. The POD and FAR for heavy rain events is reported as a 12-month running mean. For heavy snow and high wind events the POD and FAR are reported as a 24-month running mean, reflecting the relative infrequency of these events.
Radar % Uptime	The percentage of time that radar data is available within MetService's Wellington office, averaged over all radar sites.
AWS % Uptime	The percentage of time that Automated Weather Station data is available within MetService's Wellington office, averaged over all AWS sites.
Critical Programme Audits	Critical programmes that are externally audited, including Civil Aviation Part 174, ISO 9001 Quality Management Systems and Accident Compensation Corporation's Work Place Safety Management.
Lost Time Incidents	A lost-time incident is work place-related injury that results in time lost from work.
Social Investment	The amount of investment over the financial year given to community organisations or charities.
Community Engagement	The number of hours over the financial year that staff engaged directly with schools and community organisations.
WMO Staff Participation	Staff participation with the United Nations World Meteorological Organization in either a working group or a formal meeting over the financial year.

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Brent Armstrong
Margaret Devlin
Stephen Eaton
Sophie Haslem (Audit and Risk Assurance Chair)
Roanne Parker (from Nov 2016)
Tupara Morrison (from May 2017)
Te Taru White (to 30 April 2017)
Carolyn Harkess (to 30 October 2016)

EXECUTIVE
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Peter Lennox

Deputy Chief Executive
GM Innovation & Technology
Mark Ottaway - resigned August 2017

GM Meteorological Services
Norm Henry

Chief Financial Officer
Keith Hilligan

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Design: Trevor Richardson, MetService

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