HALF-YEAR
REPORT 2017

MetService MetraWeather

HIGHLIGHTS

Award-winning innovation collaboration

The power of collaboration to produce innovative safety solutions was recognised in June 2016 through the awarding of the country's premier road safety award, the 3M Traffic Safety Innovation Award 2016, to the Weather Activated Variable Speed Limit (WAVSL) Project – a NZ Transport Agency / MetService joint initiative and part of the Government's Safer Journeys road safety strategy. A joint team has subsequently been established to prototype additional innovative solutions in support of road safety management. Initiatives include a vehicle-mounted mobile weather observations pilot, and a design thinking workshop focused on reducing fatalities and injuries due to ice on the Desert Road.

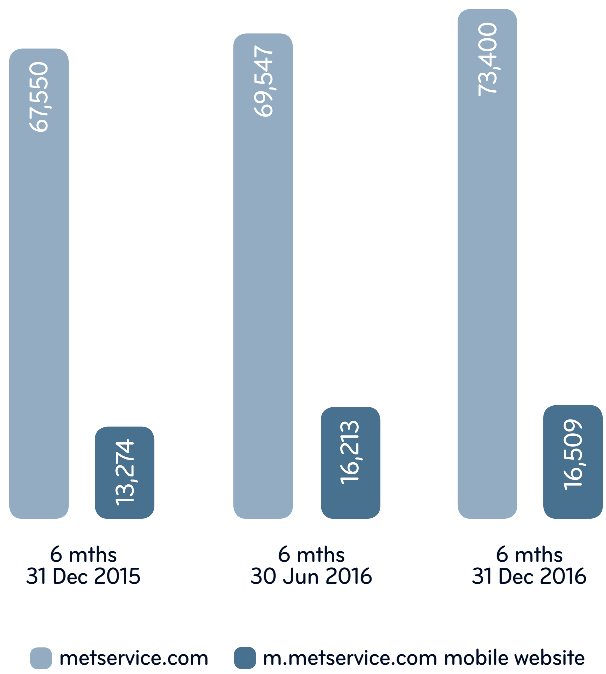
Avalanche advisories launched live

In August 2016, live avalanche advisories were launched on the Mountains & Parks section of metservice.com, the latest initiative created through our close partnership with the Mountain Safety Council (MSC). A direct feed from the New Zealand Avalanche Advisory website managed by MSC ensures the public see the very latest safety information when using metservice.com to plan trips to alpine areas. Later in the year MetService was also appointed as a member organisation of the Mountain Safety Council, further recognition by both organisations of their strong shared commitment to work together to promote safety in the outdoors.

Resilience programme proves its worth

Resilience is a key priority for MetService, underpinning our role in supporting safety of life and property for New Zealanders, and reducing the impacts of severe weather on the New Zealand economy. In July 2016, the first aviation shift based at our new Auckland office commenced. Officially opened three months later, the new office is a major milestone in a multi-phase project to strengthen the resilience of our forecasting capability and remove dependence on our Wellington operations. Shortly after the Kaikoura earthquake in November 2016, a number of Wellington-based forecasters were temporarily relocated to Auckland while the risk of aftershocks remained high in the capital. Three overseas forecasters have also joined the Auckland forecasting team following familiarisation training, bringing the number of meteorologists there to six.

Website Total Sessions (000s)[1]



Next-generation weather network launched

MetService has partnered with US-based technology innovators BloomSky to launch New Zealand's first next-generation weather community. BloomSky's revolutionary smart weather camera captures and broadcasts accurate, hyperlocal weather images and data to a companion mobile app and the BloomSky global community of more than 5,000 users. Launched in December 2016, the new network is being piloted in Auckland, where the region's 27 micro-climates make it a challenge to provide the degree of local-scale weather forecasting that is increasingly being expected by the public. The pilot aims to explore how data from BloomSky's weather cameras and sensors, part of the growing ecosystem of the Internet of Things (IoT), might be used in improving forecasting across the region.

WMO recognises MetService contributions

In November 2016 the World Meteorological Organization (WMO) recognised the work of a number of MetService staff for work undertaken over the past four years. While many of our staff contribute to the work of WMO across a number of different fields of expertise, certificates of appreciation were presented for work in public weather services (Ramon Oosterkamp); certification of global information centres undertaking information exchange (Kevin Alder); the WMO Information System, particularly XML codes and data management (Wim Vandijk); and the Severe Weather Forecasting project in the South-West Pacific (James Lunny). Presentations were made on behalf of WMO by MetService Chief Executive Peter Lennox, New Zealand's Permanent Representative with WMO.

Unlocking space and weather with curious minds

MetService and Carter's Observatory's Space Place combined forces in October 2016 to work with 22 year nine and ten students, nominated by lower decile schools across the Wellington and Horowhenua region, to launch a weather balloon into near space. The Unlocking Space and Weather project, funded by the Government's Curious Minds programme, involved students planning and building a payload of sensors and a camera, then launching it into the tropopause. In groups, the students learnt how the components communicated with each other during the launch and how they relayed information back to base. They also had to calculate how much helium would be needed for a good rate of ascent.

1. Google Analytics (Total Sessions)

>3.17m

METSERVICE TV

ALL-TIME VIDEO VIEWS
TO 31 DEC 2016

>1m YOUR WEATHER

ALL-TIME PAGE VIEWS
TO 31 DEC 2016

New user community to engage the public

Launched just before Christmas in 2016, Ask MetService is the new way for members of the public to engage with us about our forecasts, websites, apps and the weather in general. The new user community is built on a popular online customer engagement platform that fits seamlessly into our website, making it simple for us to provide even more efficient and engaging service. Members of the public can ask a question, submit an idea or problem, give praise or make a complaint through the Contact page on metservice.com. Access to the service will soon also be made available on MetService's highly popular Facebook page, which grew by almost 10,000 fans over the six months to 31 December 2016.

End of the radar-tracked balloon era

The introduction of GPS radiosondes at MetService's Invercargill upper air observation station in September 2016 marked the end of the radar-tracked weather balloon era in New Zealand – and an end to gaps in radar imagery while it was offline tracking balloons. The upgrade of the ground equipment at Invercargill completed a nationwide re-fit, with the station making good use of our last stocks of now-discontinued radiosondes. Although weather balloons are older than much of the high-tech observing and processing technology used at MetService, they continue to add value to forecasting – and continue to fascinate the public.

16.2%

growth in total Twitter followers for 6 mths to 31 December 2016

13.7%

growth in Facebook fans for 6 mths to 31 December 2016

BUSINESS PERFORMANCE & OUTLOOK

The Directors are pleased to announce an unaudited surplus after tax of $1.26m for the six-month period ended 31 December 2016.

MetService has from 1 August 2016 consolidated the results of MetOcean Solutions Limited (MetOcean). MetOcean is an associate company which MetService has substantive rights to purchase through a Call Option from 1 August 2016.

Revenue grew by 14% over the same period last financial year, driven mainly by the consolidation of MetOcean and strong performance in the interactive and aviation sectors. Expenses increased by 5.5%, reflecting the company's ongoing focus on key resilience initiatives and capacity to drive revenue growth. The outlook for the year-end result is that full-year profit will be in line with MetService's Statement of Corporate Intent (SCI).

Since June 2016 the gearing ratio has been further reduced, from 39.4% to 36.5% (the lowest since financial year ended 30 June 2009), and is forecast to remain below the SCI target of 38.4% at year end. This is primarily a result of achieving expected profits and lower-than-anticipated capital expenditure generating positive cash flow.

Accuracy of Severe Weather Warnings, measured by Probability of Detection (85% minimum target) and False Alarm Ratio (30% maximum target), continues to surpass MetService's SCI targets. At $95k the new non-financial KPI for Social Investment is on track to meet target ($210k), while Community Engagement, at 105 hours, should exceed target (150 hours).

Concluding statement

MetService is continuing to invest in core resilience and capability, while managing expenses tightly and driving growth in key markets to deliver returns in line with SCI targets.

On behalf of the Board.

Anthony Howard
Chair

94%

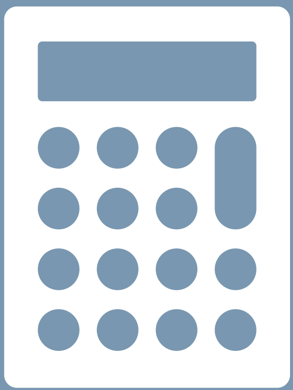
Probability of Detection (POD) of severe gales, 19% False Alarm Ratio (FAR)

93%

Probability of Detection (POD) of heavy snow, 24% False Alarm Ratio (FAR)

93%

Probability of Detection (POD) of heavy rain, 17% False Alarm Ratio (FAR)



NUMBER CRUNCH

Statements of Profit or Loss and Other Comprehensive Income
for the six months ended 31 December 2016

	Note	6 Mths 31 Dec 16 (unaudited) $000s	6 Mths 31 Dec 15 (unaudited) $000s	12 Mths 30 Jun 16 (audited) $000s
Operating Revenue		26,932	24,783	50,980
Government Grants		6	23	38
Total Operating Revenue		**26,938**	**24,806**	**51,018**
Operating Expenses				
Employee Benefits Expense		12,969	12,820	24,719
Communication Costs		451	602	1,149
Data Acquisition Costs		1,675	1,362	2,932
IT Costs		1,814	1,495	3,253
Marketing Costs		383	388	773
Occupancy Costs		234	283	536
Operating Lease Expenses		866	648	1,436
Office Expenses		154	170	308
Professional Expenses		718	657	1,556
Other Costs		1,351	1,143	2,584
Depreciation and Amortisation Expense		4,128	3,891	8,152
Total Operating Expenses		**24,743**	**23,459**	**47,398**
Operating Profit		**2,195**	**1,347**	**3,620**
Financial Costs	3	342	496	936
Share of (Profits) of Jointly Controlled Entity	6	–	–	7
Profit Before Taxation		**1,853**	**851**	**2,677**
Taxation Expense	4	551	244	742
Net Profit Attributable to Equity Holders		**1,302**	**607**	**1,935**
Other Comprehensive Income				
Movement in Foreign Currency Translation Reserve		33	7	124
Non-controlling Interests	6	11	–	–
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS		**1,258**	**614**	**1,811**

The accompanying notes to the financial statements form part of these financial statements.

Statements of Financial Position
as at 31 December 2016

	Note	6 Mths 31 Dec 16 (unaudited) $000s	6 Mths 31 Dec 15 (unaudited) $000s	12 Mths 30 Jun 16 (audited) $000s
Equity				
Issued Capital		5,000	5,000	5,000
Foreign Currency Translation Reserve		(197)	(33)	(164)
Retained Earnings		15,138	13,808	15,136
Controlling Interests		**19,941**	**18,775**	**19,972**
Non-controlling Interests	6	**1,211**	**–**	**–**
Total Equity		**21,152**	**18,775**	**19,972**
Liabilities				
Cash and Cash Equivalents		–	1,060	–
Trade and Other Payables		17,849	16,227	5,080
Income Taxation Payable		885	–	409
Employee Benefits		1,616	1,282	1,441
Total Current Liabilities		**20,350**	**18,569**	**6,930**
Deferred Taxation		112	1,016	908
Provisions		481	466	481
Employee Benefits		107	135	107
Borrowings		17,000	17,000	17,000
Total Non Current Liabilities		**17,700**	**18,617**	**18,496**
TOTAL LIABILITIES AND EQUITY		**59,202**	**55,961**	**45,398**
Assets				
Cash and Cash Equivalents		4,817	983	3,997
Trade and Other Receivables		18,329	17,377	5,044
Inventories		404	572	456
Current Tax Receivable		–	138	–
Total Current Assets		**23,550**	**19,070**	**9,497**
Property Plant and Equipment		16,840	23,023	17,677
Investments in Jointly Controlled Entities		–	3,177	3,170
Intangible Assets		18,812	10,691	15,054
Total Non Current Assets		**35,652**	**36,891**	**35,901**
TOTAL ASSETS		**59,202**	**55,961**	**45,398**

The accompanying notes to the financial statements form part of these financial statements.

Statements of Changes in Equity
for the six months ended 31 December 2016

31 DECEMBER 2016 (UNAUDITED)	Note	Fully Paid Ordinary Shares $000s	Retained Earnings $000s	Foreign Currency Translation Reserve $000s	Non-controlling Interest $000s	Total $000s
Equity as at 1 July 2016		5,000	15,136	(164)	–	19,972
Comprehensive Income						
Net Profit		–	1,302	–	(11)	1,291
Currency Translation Differences		–	–	(33)	–	(33)
Total Comprehensive Income		–	1,302	(33)	(11)	1,258
Transactions with Owners						
Dividends Relating to 2016		–	(1,300)	–	–	(1,300)
Total Transactions with Owners		–	(1,300)	–	–	(1,300)
Non-controlling Interests arising on business combination		–	–	–	1,222	1,222
Total Non-controlling Interests		–	–	–	1,222	1,222
EQUITY AS AT 31 DECEMBER 2016		5,000	15,138	(197)	1,211	21,152
31 DECEMBER 2015 (UNAUDITED)						
Equity as at 1 July 2015		5,000	13,201	(40)		18,161
Comprehensive Income						
Net Profit		–	607	–		607
Currency Translation Differences		–	–	7		7
Total Comprehensive Income		–	607	7		614
Transactions with Owners						
Dividends Relating to 2014		–	–	–		–
Total Transactions with Owners		–	–	–		–
EQUITY AS AT 31 DECEMBER 2015		5,000	13,808	(33)		18,775
30 JUNE 2016 (AUDITED)						
Equity as at 1 July 2015		5,000	13,201	(40)		18,161
Comprehensive Income						
Net Profit		–	1,935	–		1,935
Currency Translation Differences		–	–	(124)		(124)
Total Comprehensive Income		–	1,935	(124)		1,811
EQUITY AS AT 30 JUNE 2016		5,000	15,136	(164)		19,972

The accompanying notes to the financial statements form part of these financial statements.

Statements of Cash Flows
for the six months ended 31 December 2016

	Note	6 Mths 31 Dec 16 (unaudited) $000s	6 Mths 31 Dec 15 (unaudited) $000s	12 Mths 30 Jun 16 (audited) $000s
Cash Flow from Operating Activities				
Cash was Provided from:				
Receipts from Customers		25,691	25,215	51,324
Interest Received		28	5	34
Cash was Applied to:				
Payments to Suppliers and Employees		(18,571)	(22,428)	(42,721)
Interest Paid		(370)	(501)	(965)
Income Taxation Paid		(1,006)	(447)	(438)
Net Cash Generated by Operating Activities	7	**5,772**	**1,844**	**7,234**
Cash Flow from Investing Activities				
Cash was Provided from:				
Proceeds from Disposal of Property, Plant and Equipment		15	2	2
Cash was Applied to:				
Purchase of Property, Plant and Equipment		(1,282)	(1,219)	(2,535)
Labour Capitalisation (Assets)	7	(2,384)	–	–
Net Cash Used by Investing Activities		**(3,651)**	**(1,217)**	**(2,533)**
Cash Flow from Financing Activities				
Cash was Provided from:				
Increased Borrowings		–	–	–
Cash was Applied to:				
Repayment of Borrowings		–	(746)	(1,806)
Dividends		(1,300)	–	–
Net Cash Generated by Financing Activities		**(1,300)**	**(746)**	**(1,806)**
Net Increase/(Decrease) in Cash and Cash Equivalents		**821**	**(119)**	**2,895**
Add Cash and Cash Equivalents at the beginning of the period		3,997	1,102	1,102
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**4,817**	**983**	**3,997**

The accompanying notes to the financial statements form part of these financial statements.

Notes to the Financial Statements
for the six months ended 31 December 2016

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 21 February 2017.

Meteorological Service of New Zealand Limited ('Parent') is a profit-oriented 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 Enterprise Act 1986.

Standards adopted for the first time

None this financial period.

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. The standard specifies the classification and measurement criteria for financial assets and is designed to replace NZ IAS 39 'Financial Instruments: Recognition and Measurement'. NZ IFRS 9 reduces the classifications and measurement methods available for financial assets from four to two, being amortised cost or fair value through profit or loss. The adoption of this standard is not expected to materially impact the Group's measurement of or disclosure of financial assets or liabilities.

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 31 December 2016. 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.

Revenue

Revenue is measured at the fair value 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; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

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 and the value of 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 as soon as the asset is capable of productive 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 to 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 cost 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 in the Statements of Profit or Loss and Other Comprehensive Income.

Notes to the Financial Statements
for the six months ended 31 December 2016 (cont.)

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, identified according to operating segment.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill recognised 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 to 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 company and is recognised in the statement of financial performance in the period in which it is incurred. Development costs are capitalised when they meet the requirements 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 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.

Taxation

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 and MetraWeather Thailand 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 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 balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement 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 and other currency instruments designated as hedges of such investments, 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 income statement 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

Notes to the Financial Statements
for the six months ended 31 December 2016 (cont.)

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 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 sheet 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.

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 sheet 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 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 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.

3. FINANCE COSTS – NET

	6 Mths 31 Dec 16 (unaudited) $000s	6 Mths 31 Dec 15 (unaudited) $000s	12 Mths 30 Jun 16 (audited) $000s
Interest Revenue			
Bank Deposits	31	5	24
Use of Money Interest	–	–	5
Total Finance Income	**31**	**5**	**29**
Interest on Bank Overdrafts and Loans	370	501	965
Use of Money Interest	3	–	–
Total Finance Costs	**373**	**501**	**965**
FINANCE COSTS – NET	**342**	**496**	**936**

4. TAXATION

	6 Mths 31 Dec 16 (unaudited) $000s	6 Mths 31 Dec 15 (unaudited) $000s	12 Mths 30 Jun 16 (audited) $000s
Net Profit Before Taxation	1,853	851	2,677
Prima Facie Taxation Thereon at 28 percent	519	238	749
Non-deductible Expenditure	7	6	15
Non-deductible Legal Fees	2	–	–
Non-assessable Profit Share of Joint Ventures	–	–	2
Non-assessable Government Grant	–	(4)	(4)
Prior Period Adjustment	–	–	(74)
Effect of Different Tax Rates in Other Jurisdictions	14	7	59
Other	9	(3)	(5)
TAXATION EXPENSE	**551**	**244**	**742**
Prior Year Adjustment	–	–	(74)
Current Taxation	690	397	1,039
Deferred Taxation	(139)	(153)	(223)
TAXATION EXPENSE	551	244	742

Notes to the Financial Statements
for the six months ended 31 December 2016 (cont.)

5. SUBSIDIARIES

Details of the Group's 100% owned subsidiaries at 31 December 2016 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	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	Marketing and promotion of weather and information presentation services

6. INVESTMENT IN METOCEAN SOLUTIONS LIMITED

Details of the Group's investment as at 31 December 2016 is 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, funded by bank borrowing.

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 and put options came into effect on 1 August 2016. It has been determined that MetService holds substantive rights over MetOcean and therefore has consolidated MetOcean Solutions Limited results from this date.

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

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

	6 Mths 31 Dec 16 (unaudited) $000s	6 Mths 31 Dec 15 (unaudited) $000s	12 Mths 30 Jun 16 (audited) $000s
Net Surplus for the Year	1,258	614	1,811
Non Cash/Non-Operating Items			
Depreciation and Amortisation	4,128	3,891	8,152
Share of Profits of Associates	–	–	7
Non-controlling Interests	11	–	–
Labour Capitalised	–	(2,143)	(4,595)
(Decrease) in Deferred Tax	(795)	(153)	(261)
Movement in Foreign Currency Translation Reserve	34	(7)	124
Impairment losses on PPE and Intangibles	–	–	351
Loss on Sale of Fixed Assets	4	–	10
Increase Restoration Provision	–	–	16
Other Non Cash Operating Items	–	3	(1)
INCREASE IN NON-CASH ITEMS	3,382	1,591	3,803
Movements in Working Capital			
(Increase)/Decrease in Receivables	(13,284)	(11,544)	789
Increase in Accounts Payable and Accruals	13,885	11,191	176
Decrease in Income Taxation Receivable	479	6	553
Decrease/(Increase) in Inventories	52	(14)	102
Total Movement in Working Capital	1,132	(361)	1,620
NET CASH GENERATED BY OPERATING ACTIVITIES	5,772	1,844	7,234

Labour capitalised is now classified as cash flow from investing activities.

Key Performance Indicators
Financial

	Statement of Corporate Intent Target (Full Year)	Actual 6 Months to 31 December 2016
1. Shareholder Returns		
Total Shareholder Return	2.0%	2.0%
Dividend Yield	2.0%	2.0%
Dividend Payout	19.0%	22.5%
Return on Equity (ROE)	11.6%	12.2%
Return on Funds Employed	11.6%	11.7%
2. Profitability/Efficiency		
NPAT ($000s)	2,385	1,258
EBIT ($000s)	4,263	2,196
EBITDA ($000s)	13,310	6,324
Asset Turnover	1.29	1.05
Operating Margin (EBITDA)	23.5%	23.5%
Operating Margin (EBIT)	7.5%	8.2%
3. Leverage/Solvency		
Gearing Ratio (net)	38.4%	36.5%
Interest Cover	14.0	16.9
Solvency	1.09	1.16
Debt Coverage Ratio	3.64	3.87
4. Growth/Investment		
Revenue Growth	11.2%	8.6%
EBITDAF Growth	13.1%	20.8%
NPAT Growth	33.3%	105.4%
Capital Renewal	0.63	0.89

Key Performance Indicators
Financial (cont.)

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)		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 (EBITDA)	The profitability of the Company per dollar of revenue.	EBITDA/Revenue.
Operating Margin (EBIT)	The profitability of the Company per dollar of revenue.	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.	EBITDAF/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 revenue.
EBITDA 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 Target (Full Year)	Dec 2016 Actual
Warnings Performance		
POD Heavy Rain (12 months mean)	> 90%	93%
POD Severe Gales (24 months mean)	> 85%	94%
POD Heavy Snow (24 months mean)	> 85%	93%
FAR Heavy Rain (12 months mean)	< 25%	17%
FAR Severe Gales (24 months mean)	< 30%	19%
FAR Heavy Snow (24 months mean)	< 30%	24%
Observing		
Radar % Uptime (12 months mean)	>97%	99%
AWS % Uptime (12 months mean)	>98%	99%
Corporate and Social Responsibility		
Critical Programme Audit Findings	0	0
Accidents or Serious Incidents	0	4
Social Investment ($000)	210	95
Community Engagement (hours)	150	105
WMO Staff Participation (number of staff)	10	11

Key Performance Indicators
Non-Financial (cont.)

NOTES ON THE NON-FINANCIAL KEY PERFORMANCE INDICATORS

Measure

Probability of Detection (POD)
The ratio of correctly forecast severe weather events to actual events observed.

False Alarm Ratio (FAR)
The ratio of forecast severe weather events that did not 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.

Accidents or Serious Incidents
The number of workplace Health and Safety incidents classed as either Accidents or Serious Incidents. An accident is defined as any event causing harm and a serious incident is an event that damages property or equipment but does not cause harm. This term is also used for a near miss that may affect reputation.

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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Judy Kirk (Deputy Chair)
Brent Armstrong
Margaret Devlin
Stephen Eaton
Sophie Haslem
Roanne Parker
Te Taru White

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NZ's Permanent Representative with WMO
Peter Lennox

Deputy Chief Executive
GM Innovation & Technology
Mark Ottaway

Head of the Chief Executive's Office
Colin Baruch

Company Secretary
Shane Bidois

GM Corporate Affairs
Jacqui Bridges

GM Meteorological Services
Norm Henry

Chief Financial Officer
Keith Hilligan

Chief Information Officer
Mark Huttley

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