Briefing to Incoming Ministers
An introduction to
Meteorological Service of New Zealand Ltd
for incoming Shareholding Ministers
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Welcome

This document is intended as a high level introduction to MetService, its roles and responsibilities, its areas of operation and the key opportunities and issues currently identified within that suite of activities.

It is accompanied by, and intended to be read alongside, MetService’s:

- FY2015-17 Statement of Corporate Intent;
- 2015-17 Business Plan; and

Introduction

As this country’s oldest continuous scientific institution, MetService has a proud history of scientific enterprise and public social responsibility. 2011 marked the 150th anniversary of the appointment of New Zealand’s first Director of Meteorological Stations, Dr Charles Knight, in August 1861. Through the years since, despite the pressures of structural change and funding uncertainty, the organisation’s dual focus on forecast quality and public safety has remained its driving force.

In 2012, MetService celebrated its 20th anniversary of becoming a State-Owned Enterprise in July 1992. This status gives the organisation an unique position among its National Meteorological Service peers – that of a fully commercial operation able to compete successfully in multiple markets and sectors around the world, while also providing a comprehensive range of World Meteorological Organization (WMO) standard weather services to New Zealanders. Both sides of the business benefit each other and work closely in tandem, with the creativity and can-do attitude of MetService’s highly skilled staff at the core of this success.

MetService employees offer a diverse skillset – not only meteorologists and the engineers and technicians who maintain the observing network, but also graphics and information system developers, sales managers and communicators, to name a few – so our culture is one of high performance. MetService employs the best and most talented in their fields, and we widen their expertise with training focused on the outcomes we need. MetService is further investing in a number of initiatives to position the company for international growth, that delivers long-term value to shareholders.

MetService’s brand promise is ‘Empowering foresight’ and its brand personality is shown in the brand values on the left. They represent the things that make MetService unique. Internally, MetService needs to actively foster a bold and curious brand culture that delivers world-leading results. MetService’s brand values are designed to be clear, actionable ideas and ways of working that help employees to build this ‘bold and curious brand culture’ and deliver empowering foresight for customers. The brand positioning ‘tagline’ is Powerful weather intelligence.
MetService operates as a commercially successful, international organisation with more than 260 employees in New Zealand, Australia, Asia and Europe. Based in Wellington, our international reach extends through our international brand MetraWeather with offices in Australia and the UK. Please see pages 10-11 for more detail on our commercial services and customers.

MetService’s cornerstone contract is with the Ministry of Transport. Public good forecasting services such as severe weather warnings are provided under this contract, which provides a mechanism for the Minister of Transport to fulfil their obligations under the Meteorological Services Act 1990. Please see page 9 for more information about the services provided under this contract.

The MoT contract also provides for the fulfilment of the Crown’s obligations as a member of the WMO.

Under the auspices of WMO, MetService plays an important role in the Pacific region providing the technology and people support to give South Pacific islands precious time to prepare for severe weather. A number of MetService staff are involved in supporting our activities in the Pacific, including a dedicated WMO Manager.

[Withheld under Section 9(2)(j) of the Official Information Act 1982]

The outlook for MetService is both confident and challenging. MetService is embarking upon a programme of investment to drive international growth and deliver value for shareholders. Investment is also required to modernise core legacy systems and respond to changing patterns in the way the public access and consume weather information.

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1 Page number cross-reference corrected from 13-14
2 Page number cross-reference corrected from 12
Ownership and governance

As a State-Owned Enterprise, MetService is wholly-owned by the Crown. The Shareholding Ministers are the Minister for State Owned Enterprises and the Minister of Finance. MetService operates as a commercial company under the Companies Act with a Board responsible for managing, by or under its direction or supervision, the business and affairs of the Company. This includes responsibility for the Company’s strategic direction with the ultimate aim of increasing shareholder value.

The Board closely monitors financial and non-financial performance against the annual plan and forecasts of the Group.

Sarah Smith  
Chairman  
As Chairman, Sarah Smith brings to the MetService Board her extensive business and governance experience in both the private and public sectors. She has held key financial and business development roles in a variety of businesses in New York and New Zealand. Sarah was made a Fellow of the Institute of Directors in New Zealand in 2005.

Greg Cross  
Deputy Chairman  
Greg Cross is an experienced entrepreneur, CEO and Company Director. He has extensive experience in growing international companies, export growth, capital raising, mergers and acquisitions, and corporate governance across a wide range of companies operating in New Zealand, USA and Asia.

Carlos da Silva  
Audit and Risk Chairman  
Carlos da Silva is a Chartered Accountant, professional director and business advisor. He brings to the Board a wealth of financial management and governance experience. He holds a number of board and trustee roles in the farming, tourism, property, IT and fashion industries, and is a Fellow of the Institute of Directors in New Zealand.

Carolyn Harkess  
Carolyn Harkess has held senior leadership positions in sales and marketing, manufacturing and retail industries in New Zealand and internationally. She brings to the Board experience in understanding and managing international markets, assisting organisations in their strategic development and driving improvement in bottom line results. She is a member of the Institute of Directors in New Zealand.

Te Tara White  
Te Tara White has over 30 years’ senior executive experience across both public and private sectors in the mining, health and indigenous social, cultural and economic development fields. He brings to the Board a science background combined with extensive cultural development and governance experience. He currently runs his own consulting business specialising in international indigenous development opportunities.

Judy Kirk  
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.

Anthony Howard  
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.
Structure

MetService consists of a group of companies that enables the organisation to operate commercially in national and international markets, including Australia, Asia, Europe, Middle East and Africa.

In New Zealand, the MetService brand has been well known and understood as the country’s national weather service for many years. More recently, the commercial success story has started to unfold for New Zealanders through increased coverage in business media.

In August 2013, MetService acquired a 49% stake in leading New Zealand oceanographic weather company, MetOcean Solutions Ltd. This investment is a key part of our growth strategy – exporting New Zealand’s meteorological expertise to the world under the MetraWeather brand.

The key business rationale for the equity purchase is leveraging MetService’s sales reach to maximise sales of MetOceanView (MoV), a scalable product that MetService believes has excellent potential in the ports, shipping and offshore oil and gas industries internationally.

[Withheld under Section 9(2)(i) of the Official Information Act 1982]

MetOcean’s product set and specialist numerical modelling and analysis services complement those of MetService, focusing on customised forecasting of local oceanographic features and complexity not undertaken by our own R&D function. Joining forces with MetOcean helps us accelerate our development in the energy sector, and springboards us into the rapidly-growing international marine sector with established products and world-class expertise.

We believe this purchase is core to MetService’s business, with the potential to greatly strengthen our R&D capabilities and expertise in marine forecasting and oceanography, as well as making immediate and ongoing contributions to revenue and profit.

[Withheld under Section 9(2)(i) of the Official Information Act 1982]

There is also very strong cultural alignment between the two companies.
Management

The Executive Team comprises a wide spread of scientific and commercial expertise, and its members work together in an active, collegial and forward-thinking style – very much in keeping with MetService’s dual focus on commercial success and public good.

Please read the profiles of the Executive Team below.

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<tr>
<th>Name</th>
<th>Position</th>
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<tr>
<td>Peter Lennox</td>
<td>Chief Executive</td>
<td>Peter joined MetService as Chief Executive in May 2011, and in October 2011 also took on the role of New Zealand’s Permanent Representative with the WMO. In his 9 years with New Zealand Trade &amp; Enterprise, Peter’s achievements included leading the transformation of NZTE’s Beachheads Programme, raising the profile of NZ technology sectors, and collaborating with key investors to stimulate investment in new ideas through the creation of the largest Ag/Bio fund in the Southern Hemisphere. As a Senior Director of Scottish Enterprise he led the roll-out of the UK’s biotechnology cluster programme forging synergies between biotechnology regions and other sectors such as engineering, ICT and specialised manufacturing. Peter has science degrees from Queens, Ireland and Heriot Watt, Edinburgh. Peter also has an MBA from Glasgow University.</td>
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<tr>
<td>Mark Ottaway</td>
<td>Deputy Chief Executive</td>
<td>Mark has two roles within MetService, as Deputy CEO and also overseeing the Sales function, with direct reports including the GMs in Australia, Asia and the United Kingdom. Mark joined MetService in July 2009 as General Manager, Marketing &amp; Communications, becoming Group General Manager, Sales &amp; Marketing a year later and taking on the role of Deputy CEO in August 2011. Mark heads up the commercial operations of MetService and its subsidiary MetraWeather. Mark has extensive company management experience, with a particular background in sales, marketing and operations in online and interactive media through his previous senior management roles at Nielsen Online and APN News &amp; Media. Mark has an MA (Hons) from Auckland University.</td>
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<tr>
<td>Clive Smith</td>
<td>Chief Financial Officer</td>
<td>Clive’s role includes overall responsibility for the Finance, Programme Office and Development teams. Clive joined MetService as CFO in January 2013. He has a background in leadership, strategy and business services/projects through previous roles at Transpower, Tesco and Powergen (formally TXU Europe). Clive is a Fellow of the Chartered Institute of Management Accountants^3 and has an MBA from Henley Management College.</td>
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^3 Reference to qualification corrected from Chartered Accountant
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<td>Norm Henry</td>
<td>GM National Weather Services and Aviation</td>
<td>Norm has overall responsibility for National Meteorological Services and Aviation. Norm has been involved in meteorology for over 25 years and is a WMO accredited meteorologist. From 1999 to 2007 he managed MetService’s weather modelling programme, and since 2007 has been part of MetService’s Executive Team. As GM of the National Weather Services division, Norm has overall responsibility for weather forecasting and observing programmes, and leads our engagement with the WMO. Prior to joining MetService in 1996, Norm spent five years as an operational forecaster for Environment Canada and the Canadian Armed Forces.</td>
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<tr>
<td>Colin Baruch</td>
<td>GM People and Culture</td>
<td>Colin joined MetService in January 2008 and is responsible for strategic and operational human resource delivery and functions, as well as Head Office administration services. With over 30 years’ experience in business analysis, human resources management and recruitment, and executive management, Colin has an extensive background in strategic and operational management and consulting with major corporate and government organisations such as IBM, PwC, Telecom, National Bank and NZ Post, as well as small business. Colin has a BCom in Marketing Management from Otago University.</td>
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<tr>
<td>Shane Bidois</td>
<td>GM Legal, Risk &amp; Assurance and Company Secretary</td>
<td>Shane is responsible for a number of functions, including legal, risk assurance, internal audit and the company secretariat. Shane has worked for MetService for over 25 years in various functions including weather presentation and observing, and joined the Executive Team in June 2010. Shane has a LLM, LLB from Victoria University and is currently undertaking a PhD.</td>
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<tr>
<td>Jacqui Bridges</td>
<td>GM Communications</td>
<td>Jacqui joined MetService in January 2011. As GM Communications, Jacqui is responsible for all aspects of MetService’s communications, branding and reputation management. Jacqui’s career spans over twenty years across the spectrum of brand and product marketing, advertising, sponsorship, corporate communications and marketing management, for organisations including BNZ, Singleton Ogilvy &amp; Mather, Rabobank, Thomson Reuters and Farmers’ Mutual Group. Jacqui has a BCA in Marketing and Commercial Law from Victoria University, and holds the NZ Certificate in Direct Marketing. She is the current Chair of the Marketing Association’s Central Region committee and is a member of PRINZ.</td>
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The roles of MetService

National Meteorological Service

The World Meteorological Organization (WMO) is the specialised agency of the United Nations for meteorology (weather and climate), operational hydrology and related geophysical sciences, and plays a global role in:

- Promoting cooperation in the establishment of networks for making meteorological, climatological, hydrological and geophysical observations;
- Promoting cooperation in the exchange, processing and standardisation of related data;
- Assisting technology transfer, training and research;
- Fostering collaboration between the National Meteorological and Hydrological Services of its Members; and
- Furthering the application of meteorology to public weather services, agriculture, aviation, shipping, the environment, water issues and the mitigation of the impacts of natural disasters.

New Zealand is a Member of the WMO and MetService operates many of the country’s weather-related National Meteorological Service functions on behalf of the Crown.

Key aspects of these services are outlined below. Climate and water-related functions for New Zealand are provided by other agencies.

Permanent Representative of New Zealand with WMO

The Permanent Representative (PR) of New Zealand with WMO is Peter Lennox, MetService Chief Executive. The PR is the single point of contact within each country with whom the WMO Secretariat in Geneva stays in touch over any issues, whether they are weather, hydrology or climate related.

In New Zealand the PR is responsible not just for MetService participation in WMO, but also for coordinating WMO matters with other organisations such as the National Institute of Water and Atmospheric Research (NIWA), a Crown Research Institute.

New Zealand’s Authorised Meteorological Warning Service

Under the Meteorological Services Act 1990, the Minister of Transport is responsible for ensuring the provision of meteorological services in New Zealand, as follows:

- the authorised meteorological warning service in New Zealand
- the making and issuing of forecasts of the weather
- the collection and recording of such meteorological information as is necessary for the purposes of the making and issuing of forecasts of the weather.

The Minister of Transport has designated MetService as the party responsible for providing these services, as specified in the commercial contract between MetService and the Minister of Transport. This contract makes up around half of MetService’s revenue, and is discussed in more detail on page 13 of this document.

MetService is also the responsible agency for issuing national warnings for severe weather (a civil defence emergency management hazard) under the National Civil Defence Emergency Management Plan Order 2005.
Commercial services

MetService’s customer list is a who’s-who of well-known local and international brands:

Customised weather intelligence

MetService and MetraWeather have commercial contracts in New Zealand and overseas with a wide range of clients in the energy, aviation and industry sectors, delivering what we call ‘customised weather intelligence’ to their business:

Energy:

We work with energy generators and retailers, transmission system operators and energy traders across Western, Central and South Eastern Europe and Australasia, providing specialised software, dependable high-quality forecasts and observational data designed to give customers throughout the energy supply chain the essential insights necessary for them to make timely and effective business and trading decisions.

Aviation:

MetService provides high quality CAA-certified aviation weather information required to conduct flight operations in New Zealand and the Asia-Pacific region. Forecasts and en-route planning tools are tailored to either recreational or commercial aviation requirements. From recreational pilots through to commercial airlines, MetService tailors weather information management and delivery systems to specific needs, helping aviators minimise their weather risk and operate more safely and efficiently.

Industry (roading, transport, retail logistics, sports management):

MetService has established innovative weather risk management solutions for transport agencies and road maintenance operations, including collaboration with the NZ Transport Agency to develop a winter road
maintenance programme and with Downer Road Science to establish an innovative new road sealing forecast system. We also work with retail supermarket chains such as Tesco and Waitrose, providing stock control and logistics management forecasting solutions, and provide general and spot location forecasts (both locally and internationally) to assist the All Blacks and other NZRU representative teams with decision-making for travel, training and match management.

Weather presentation and communication

MetService and MetraWeather also work with commercial customers in New Zealand and overseas to deliver weather and other environmental information to the public and provide platforms for advertising messages:

**Media:**

MetService has a well-established international business providing high-end graphics and weather data to support broadcast television weather shows. Anchor clients include the BBC and Phoenix TV – the largest Chinese-language broadcaster – and we hold substantial market share in Australia, SE Asia, the UK and Western Europe. We are investing in development of new business opportunities in the media sector beyond conventional broadcasting, leveraging our existing graphics capability, our growing expertise in weather presentation through our Wellington production studio, and our expertise in interactive (web and mobile) delivery. Commercial contracts with broadcast and print media including TVNZ, Fairfax, MediaWorks and Maori Television also ensure the New Zealand public receive weather information through their preferred communications channels.

**Interactive:**

MetService’s consumer websites and apps provide a comprehensive range of weather and environmental information to the public, delivered through innovative use of digital technology. On-site/app advertising is a key revenue generator for the company due to the popularity of these services; metservice.com is typically ranked in the top 5 most visited local commercial website brands in New Zealand, and has grown average monthly visits by over 20% over the past year. We have achieved over 466,000 downloads of our apps to date.
Performance summary

Annual result

We are pleased to report that this year has been one of our most successful. Globally, all of our sales business units experienced year-on-year growth. This, combined with careful management of expenses, has resulted in a full-year pre-tax profit of $4.25m, 7.2% above our target for the year and 13% above last year’s pre-tax profit result.

This has been accompanied by a 7.9% increase in operating revenue to $45.6m, the third highest year-on-year increase in our 21 year history as an SOE. MetService’s EBITDA for the 2013/14 year was up $1.3m to $11.8m ($10.5m in 2012/13).

Net Surplus was $2.6m, return on equity was 15.1% and taxation increased by 63.7%.

Exchange rates had a major impact this year so our international operations had to work particularly hard for their revenue results. For example, in Australia, 25% year-on-year growth in local revenue only translated to 11% growth in NZ dollars. Despite this challenge, all international regions recorded revenue increases, with a number of new customers won from key competitors and many successes driven by the value of expanded local commercial meteorological capabilities.

With customers throughout the Asia/Pacific region and across to South America, Aviation revenues grew by 9% on the previous year, due to the addition of new services in a number of major contract renewals.

Our Interactive operation delivered 26% year-on-year growth, fuelled by ongoing product innovation driving uptake. App downloads grew by 45%, metservice.com page impressions by 8%, and mobile website m.metservice.com page impressions by over 100%. Revenue from sales of advertising and sponsorship on our websites, apps and video weather broadcasts, enables us to develop and maintain world-leading digital information tools that are greatly valued by New Zealanders and tourists.

Historical and forecast performance
MoT contract for public safety weather services

MetService’s contract with the Minister of Transport to provide public-safety weather services to New Zealanders is expected to account for approximately 40% of the company’s FY14/15 revenue, and covers:

- Delivery of core public-safety weather forecasts and warnings, and operation of an appropriate weather observation network to support those services, which together meet the obligations of the Minister of Transport under the Meteorological Services Act (1990);

- New Zealand’s international obligations with respect to weather services for the international community – e.g., South Pacific high-seas marine forecasts and warnings, etc.; and

- Representation of New Zealand at the WMO.

A key aspect of the services provided under the contract is that they are delivered to specifications established by the WMO, which ensures that the Crown is providing New Zealanders with public-safety weather services that meet appropriate international standards. This in turn supports a high level of professional standards across the rest of MetService’s operations, placing the company in a strong competitive position in commercial markets.

MetService works closely with the MoT to ensure that the contract meets New Zealand’s public-safety requirements and international obligations, under commercial terms that reflect MetService’s responsibilities as an SOE. The proportion of MetService revenue derived from the MoT contract has fallen from 65% in FY92/93 – our first year as an SOE – to 44% in FY13/14.

Current status

[Withheld under Section 9(2)(j) of the Official Information Act 1982]
To address this problem, the extension agreement stipulates that the new price agreement, once it is signed, will be retroactive to 1 July 2014. However, we believe, based on recent discussions with the MoT, that this issue is likely to become wrapped up in the 2015 budget process, with no resolution on contract price before the end of FY14/15.

This situation creates a high degree of uncertainty regarding the future of the contract, and places MetService in a difficult position, given that it has provided Shareholders with a Business Plan that is predicated on timely execution of the new agreement. At the current price – which is $2.4M p.a. less than the negotiated agreement for FY14/15 – the contract is uneconomical for MetService, which effectively requires that the services be subsidised by the rest of MetService’s business.

[Withheld under Section 9(2)(j) of the Official Information Act 1982]