



# Statement of Corporate Intent 2021/22-2023/24

30 June 2021

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# 1. Introduction

The Meteorological Service of New Zealand Limited (MetService), Te Ratonga Tirorangi, helps people stay safe and make informed decisions, based on the weather. It is New Zealand's national weather authority, providing comprehensive weather information services, 24 hours a day, 365 days a year to help protect the safety and well-being of New Zealanders and the New Zealand economy.

MetService is a State-Owned Enterprise established under the State-Owned Enterprises Act 1986. It is a public company registered under the Companies Act 1993. The shareholders are the Minister for State-Owned Enterprises and the Minister of Finance.

This Statement of Corporate Intent is prepared in accordance with section 14 of the State-Owned Enterprises Act for the period 1 July 2021 to 30 June 2024.

## 2. Objectives and Purpose

### 2.1 Objectives of a State-Owned Enterprise

Under the State-Owned Enterprises Act, MetService is required to operate as a successful business and achieve the following objectives:

- be as profitable and efficient as comparable businesses that are not owned by the Crown;
- be a good employer; and
- exhibit a sense of social responsibility by having regard to the interests of the community in which it operates.

### 2.2 Purpose

MetService helps people stay safe and make informed decisions, based on the weather.

Over the last 160 years, MetService has achieved its purpose by ensuring that everyone in New Zealand can access timely and accurate weather information that is relevant to their particular situation. MetService's business model is to blend high-quality weather forecast modelling with scientific meteorological expertise to provide New Zealand with the most accurate, reliable, useable, and safe weather information available. MetService delivers its weather services to its customers through multiple distribution channels and products that allow them to understand the impacts the approaching weather may have on their safety and productivity.

As a State-Owned Enterprise (SOE), MetService conducts profitable commercial activities alongside its public-good National Meteorological Services. This approach is efficient and effective and delivers significant value for money to New Zealand.

### 2.3 Managing the Impacts of COVID-19

MetService expects shorter term revenue and profitability to be significantly impacted, particularly from the aviation sector. The full impact of the pandemic on MetService will depend on the extent of the economic downturn and the time it takes for the New Zealand and the global economy to recover.

MetService's response has been and will be to focus on cost control, reviewing less profitable sectors and regions for efficiencies while emphasising product development to take advantage of shorter-term revenue opportunities.

## 2.4 Value Creation

MetService focuses on long-term value creation and will continue to set performance targets that stimulate innovation and create sustainable value for its customers, owners, stakeholders, and the people of New Zealand.

MetService identified the resources and relationships to create value as its 'six capitals', based on the Integrated Reporting framework. The overall performance targets in this Statement of Corporate Intent have been identified to balance performance across these six capitals.



### **Our Scientific Expertise**

Improve our ability to keep people safe in a changing climate, by strengthening our scientific expertise and ensuring we remain at the forefront of meteorology and oceanography in our operational practice.



### **Our Digital Infrastructure**

Ensure that our technology platforms, data management systems and supporting digital infrastructure enable us to extend our reach, and deliver scalable products and services quickly to satisfy the changing needs of our customers.



### **Our Relationships**

In New Zealand grow and strengthen our relationships with Māori, our customers and stakeholders. Internationally strengthen strategic relationships with customers, partners and stakeholders; this includes National Meteorological Services and UN agencies.



### **Our People**

Provide a modern and empowering work environment that promotes inclusion and wellbeing, supports connection and collaboration, delivers value and motivates our talented team to perform at their best every day.



### **Our Finances**

Deliver value to our shareholders through strong business performance and sound financial management.



### **Our Environment**

Reduce the impact of our business on the environment through sound practices and new services or initiatives that promote environmental awareness.

### 3. Nature and Scope of Activities

In its role as New Zealand's National Meteorological Service, MetService is responsible for delivering a range of weather services that directly support the safety of life and property. This includes forecasts and warnings of adverse weather tailored to the needs of the general public, the maritime community, and the aviation sector, within New Zealand and in the wider South Pacific region.

New Zealand's complex geography presents a unique set of challenges with respect to meteorology and oceanography. MetService maintains a national focus across its public-safety services, ensuring that the public is well-advised of weather-related hazards whether they are in the main centres or in more sparsely populated regions.

As a State-Owned Enterprise, MetService is also required to provide its services in a wholly commercial context to drive the company based on business disciplines of continuous improvement and efficiency, as well as to provide opportunities for additional income from new customers that would benefit from MetService's capabilities.

MetService's dual responsibilities for public safety and commercial success are complementary, and together they support a unique position globally amongst other National Meteorological Services and commercial weather companies.

MetService's principal business activities are:

- Provision of New Zealand's National Meteorological Service via a contract with the Minister of Transport, through which MetService serves as the Crown's authoritative voice with respect to hazardous weather. This includes weather forecasting and warning services, as required under the Meteorological Services Act (1990), and representation of New Zealand at the UN World Meteorological Organization (WMO).
- Safety-critical aviation forecasting services for New Zealand domestic and international aviation operators and the Royal New Zealand Air Force. This includes services to international aviation operations within New Zealand's Flight Information Regions on behalf of the New Zealand Civil Aviation Authority (CAA) and subject to the requirements of the UN International Civil Aviation Organization (ICAO).
- A comprehensive range of data and forecast services provided to the general public and business customers through MetService's digital platforms, including web, mobile and Application Programming Interfaces (APIs).
- Media weather graphics products for broadcast television, print and online media services nationally and internationally.
- Forecasting and consultancy services for central government agencies, local government, the private sector, and international customers.

- Other specialised weather products and services for industries whose business economics are affected by weather-related impacts and risks such as transportation, marine, energy, oil and gas, retailing, construction, agriculture, and mining.
- Scientific research and development in meteorology and oceanography, with emphasis on weather-related events and impacts.



## 4. Commercial Value of the Crown's Investment

As at 30 June 2021, the Board's estimate of the current commercial value of the Crown's investment in MetService is in the range of \$52.8 million to \$65.6 million (if a point-value needs to be taken, the mid-point is \$58.6 million). At 30 June 2020, the valuation was in the range of \$56.7 million to \$61.7 million, with a mid-point of \$56.5 million

The current valuation is based on the following:

- The Discounted Cash Flow (DCF) methodology was used to calculate a Net Present Value (NPV) of the entire MetService group, including all subsidiaries, on an after-tax basis.
- The DCF/NPV is based on nominal future cash flows set out in the MetService Group's three-year business plan and an additional seven years, calculating a present value in the terminal year. The terminal or perpetuity free cash flow is based upon expected long term inflation expectations for the New Zealand economy, assuming nil real growth.
- A discount rate of 6.7% (30 June 2020- 6.9%).
- The valuation was prepared by Deloitte and approved by the MetService Board.

## 5. Ratio of Consolidated Shareholders' Funds to Total Assets

MetService's FY2022-24 Business Plan projects a 42.26% ratio of consolidated shareholders' funds to total assets (equity ratio) at 30 June 2024.

In this context, consolidated shareholders' funds means the total paid-up capital together with retained surpluses and reserves.

Total assets means the sum of all current and fixed assets owned by MetService, to the extent that these have been attributed value in its financial statements.

\$000's	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Forecast	Forecast	Forecast	Forecast
Shareholders' Funds	23,448	22,990	21,972	23,346	25,873
Total Assets	48,441	47,284	52,266	56,640	59,168
%	48.41	48.62	42.04	41.22	43.73

The equity ratio will be negatively impacted during this Statement of Corporate Intent period due to COVID-19, but also due to the requirement to seismically strengthen MetService's Wellington facility.

## 6. Dividend Policy and Capital Structure

### Dividend Policy

MetService's dividend policy has been to pay out dividends between 15% and 40% of Net Cash Flow from Operating Activities, less maintenance capital expenditure. This dividend pay-out ratio was a temporary reduction to address the levels of gearing and the effects of under investment in the past.

No dividends were paid to shareholders for financial years 2018/19 and 2019/20 due to the requirement to seismically strengthen the Wellington facility and the impact on the business of COVID-19. As gearing levels are anticipated to increase in the short term and the solvency ratio is expected to be below 1, it is expected that MetService will not be in a position to pay dividends during this business planning period.

This situation may change if the aviation industry recovers faster than anticipated or if Essential Transport Connectivity funding is available to MetService after 1 July 2021. This would alleviate pressure on the balance sheet quicker than forecast in the Business Plan.

The Board of Directors will review this policy on a regular basis.

### Capital Structure

The Board of Directors annually reassesses the capital structure of MetService to ensure that it continues to be appropriate for the circumstances, including the need to retain financial flexibility.

The impact of COVID-19 and the seismic strengthening project will see the requirement for additional funding of around \$9 million. The net gearing ratio is expected to increase to 46.4% by financial year 2022/23. Thereafter as economic conditions are expected to improve, greater cash flows from operations should see the balance sheet strengthen.

# 7. Relationship with Shareholding Ministers

## 7.1 Information to be Provided

To enable Shareholding Ministers to assess the value of their investment in MetService, any information that would normally be supplied to a controlling private sector shareholder will be made available; this includes the following:

- Annual Reports will be submitted in accordance with Section 15 of the State-Owned Enterprises Act 1986.
- Half-Yearly Reports will be submitted in accordance with Section 16 of the State-Owned Enterprises Act, and will include unaudited statements of financial performance, financial position, and cash flows, along with such other details as are necessary to permit an informed assessment of MetService's performance during the period.
- Quarterly reports will be submitted within one month of completion of the quarter, indicating actual performance against key financial and operating performance targets during the period, and reasons for any significant departure from forecasts.
- Shareholding Ministers will be advised of any changes to the Statement of Corporate Intent, Treasury management policies and procedures applied by MetService, including the Board's approved limits for currency, interest rate, and credit exposure.
- A Business Plan for the next three financial years will be made available to Shareholding Ministers for discussion prior to the commencement of each financial year.
- MetService will fully comply with Section 18 of the State-Owned Enterprises Act in providing to Shareholding Ministers such additional information as may from time-to-time be requested.

## 7.2 Consultation

MetService undertakes to consult with Shareholding Ministers when specific business opportunities exceed the following thresholds:

- Core Activities: Opportunities where the proposed transaction exceeds \$5 million.
- Related Activities: Opportunities where the proposed transaction exceeds \$3 million.

The thresholds for consultation are subject to any changes to the Owners Expectation Manual.

MetService maintains a “no surprises” communications approach with its Shareholding Ministers and their representatives, such as Treasury, including appropriate communication around major capital and investment business cases.

## 7.3 Procedure for Acquisition of Shares

MetService will not invest in the shares of another entity unless the securities acquired are likely to bring added value to MetService. In any instance where MetService intends to subscribe for,

or otherwise acquire (whether at the same time or over a period of time), 20% or more of the shares of any company, it will give prior written notice of its intention to Shareholding Ministers.

## **7.4 Activities for Which Compensation is Sought**

Where the Government wishes MetService to undertake activities, or assume obligations, that will, or could, result in a reduction in the surplus or net worth of MetService, the MetService Board of Directors will seek sufficient compensation to allow MetService's financial position to be preserved.

MetService does not currently seek compensation for any non-commercial activities under Section 7 of the State-Owned Enterprises Act.

## **7.5 Accounting Policies**

The MetService Group's accounting policies are in Appendix B.

## 8. Performance Targets

### 8.1 Overall Performance Targets

Our Scientific Expertise	2020/21	2021/22	2022/23	2023/24
	(Actual year to date)	(BP)	(BP)	(BP)
<b><i>Improve our ability to keep people safe in a changing climate, by strengthening our scientific expertise and ensuring we remain at the forefront of meteorology and oceanography in our operational practice.</i></b>				
Number of employees who are WMO-qualified meteorologists, or scientists with a postgraduate qualification in meteorology, oceanography, or a related discipline	138	>120	>120	>120
% uptime of weather observing systems (combined radar and Automated Weather Stations)	99.3%	>99%	>99%	>99%
Critical public safety measure of severe weather warning accuracy: Probability of Detection (POD) and False Alarm Ratio (FAR) of broad-scale warnings				
POD[1] Heavy Rain	91.9%	> 90%	> 90%	> 90%
POD Severe Gales	91.6%	> 90%	> 90%	> 90%
POD Heavy Snow	93.8%	> 90%	> 90%	> 90%
FAR[2] Heavy Rain	10.5%	< 15%	< 15%	< 15%
FAR Severe Gales	20.3%	< 25%	< 25%	< 25%
FAR Heavy Snow	16.7%	< 25%	< 25%	< 25%
Our Digital Infrastructure	2020/21	2021/22	2022/23	2023/24
	(Actual year to date)	(BP)	(BP)	(BP)
<b><i>Ensure that our technology platforms, data management systems and supporting digital infrastructure enable us to extend our reach, and deliver scalable products and services quickly to satisfy the changing needs of our customers.</i></b>				
Average number of monthly unique browsers across metservice.com and MetService mobile app	1.14 million	1.1 million	1.2 million	1.3 million

Number of MetService app downloads (*)	new target	250,000	250,000	250,000
<b>Our Relationships</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>(Actual year to date)</b>	<b>(BP)</b>	<b>(BP)</b>	<b>(BP)</b>
<b><i>In New Zealand, we will grow and strengthen our relationships with Māori, our customers and stakeholders. Internationally, we will strengthen strategic relationships with customers, partners and stakeholders, including other National Meteorological Services and UN agencies.</i></b>				
Number of effective and managed relationships with iwi, Māori businesses or community groups (*)	new target	6	6	6
Monetary value (\$000) of social investment (free digital advertising to charity, environmental organisations and COVID-19 recovery initiatives)	154	250	250	250
Number of employees who have contributed to WMO or ICAO constituent bodies (e.g., technical commissions, working groups and expert panels)	12	10	10	10
<b>Our People</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>(Actual year to date)</b>	<b>(BP)</b>	<b>(BP)</b>	<b>(BP)</b>
<b><i>Provide a modern and empowering work environment that promotes inclusion and wellbeing, supports connection and collaboration, delivers value and motivates our talented team to perform at their best every day.</i></b>				
Contribute to workplace Diversity and Inclusion through unconscious bias e-learning modules: % of employees who have completed training	55%	75%	80%	85%
Make progress towards our ideal company culture through annual culture surveys and action planning: percentage of employees who have participated in culture sessions	96%	90%	90%	90%

<b>Our Finances</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>(Actual to Feb 2021)</b>	<b>(BP)</b>	<b>(BP)</b>	<b>(BP)</b>
<b><i>Deliver value to our shareholders through strong business performance and sound financial management.</i></b>				
Cash flow from Operating Activities (\$000)	7,421	7,204	9,759	10,912
EBIT (\$000)	-342	-437	2,660	4,261
<b>Our Environment</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
	<b>(Actual year to date)</b>	<b>(BP)</b>	<b>(BP)</b>	<b>(BP)</b>
<b><i>Reduce the impact of our business on the environment through sound practices and new services or initiatives that promote environmental awareness.</i></b>				
External environmental impact: number of new services or initiatives that lead to a positive impact on the environment (*)	new target	3	3	3

Table 1 – Overall Performance Targets

(\*) New performance targets.

## 8.2 Financial Performance Targets

Financial Performance Targets provide a representative view of the projected financial performance of MetService.

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
<b>Financial Performance Targets</b>	<b>(Forecast)</b>	<b>(BP)</b>	<b>(BP)</b>	<b>(BP)</b>
<b>1. Shareholder Returns</b>				
<b>Total Shareholder return</b>	0.2%	0.0%	0.0%	0.0%
<b>Dividend yield</b>	0.0%	0.0%	0.0%	0.0%
<b>Dividend pay-out</b>	0.0%	0.0%	0.0%	0.0%
<b>Return on equity (ROE)</b>	-2.2%	-4.5%	6.1%	10.3%
<b>Return on funds employed</b>	6.9%	0.3%	7.7%	9.7%
<b>2. Profitability / Efficiency</b>				
<b>NPAT</b>	-509	-1,018	1,374	2,527
<b>Normal Trading EBIT</b>	2,503	133	3,337	4,540
<b>EBIT</b>	-342	-437	2,660	4,261



<b>EBITDA</b>	10,998	8,283	11,650	12,853
<b>Asset turnover</b>	1.23	1.22	1.19	1.15
<b>Operating margin (EBITDA)</b>	18.6%	13.6%	18.0%	19.4%
<b>Operating margin (Normal Trading)</b>	4.2%	0.2%	5.2%	6.8%
<b>Operating margin (EBIT)</b>	-0.6%	-0.7%	4.1%	6.4%
<b>3. Leverage / Solvency</b>				
<b>Gearing ratio (net)</b>	13.7%	41.5%	46.4%	41.3%
<b>Interest cover</b>	19.43	13.91	15.50	17.10
<b>Solvency</b>	1.79	1.11	0.92	1.16
<b>Debt coverage ratio</b>	5.19	N/A	6.59	4.85
<b>4. Bank Covenants</b>				
<b>Interest Cover ratio* (&gt;3)</b>	23.98	16.44	17.65	19.47
<b>Total Leverage ratio (&lt;3)</b>	1.18	2.29	1.89	1.71
<b>5. Growth / Investment</b>				
<b>Revenue growth</b>	-2.2%	3.0%	6.5%	2.6%
<b>EBITDAF growth</b>	-9.4%	-24.7%	40.6%	10.3%
<b>NPAT growth</b>	-136.8%	-100.1%	235.0%	83.9%
<b>Capital renewal</b>	0.85	2.35	1.73	1.07

Table 2 – Financial Performance Targets

\*Interest Cover ratio for the Bank Covenants is calculated using debt interest only and excludes IFRS 16 Lease interest costs.

Notes to the Financial Performance Targets are in Appendix A.

# Appendix A: Notes to Performance Targets, Acronyms and Abbreviations

## Notes to Financial Performance Targets

### Shareholder Returns

Measure	Description	Calculation
<b>Total shareholder return</b>	Performance from an investor perspective – dividends and investment growth	$(\text{Commercial value}_{\text{end}} \text{ less Commercial value}_{\text{beg}} \text{ plus dividends paid less equity injected}) / \text{Commercial value}_{\text{beg}}$
<b>Dividend yield</b>	The cash return to the shareholder	Dividends paid / Average commercial value
<b>Dividend pay-out</b>	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
<b>Return on equity (ROE)</b>	How much profit a company generates with the funds the shareholder has invested in the company	Net profit after tax / Average equity
<b>Return on funds employed (ROFE)</b>	A measure of profitability and the efficiency with which capital is employed to achieve that profit	Ratio of EBIT to average debt plus equity over the period

Table 3 – Notes: Shareholder Returns

### Profitability, Efficiency

Measure	Description	Calculation
<b>Asset Turnover</b>	The amount of revenue generated for every dollars' worth of assets	Revenue / Assets
<b>Operating margin (EBITDAF)</b>	The profitability of the company per dollar of revenue	EBITDAF / Revenue

<b>Operating margin (Normal Trading)</b>	The profitability of the company per dollar of revenue from normal trading	Normal Trading EBIT / Revenue
<b>Operating margin (EBIT)</b>	The profitability of the company per dollar of revenue	EBIT / Revenue

Table 4 – Notes: Profitability, Efficiency

## Leverage, Solvency

Measure	Description	Calculation
<b>Gearing ratio (net)</b>	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
<b>Interest cover</b>	The number of times that earnings can cover interest	EBITDAF / Interest paid
<b>Solvency</b>	Ability of the company to pay its debts as they fall due	Current assets / Current liabilities
<b>Debt coverage ratio</b>	Level of bank debt in relation to earnings	Bank debt / EBIT

Table 5 – Notes: Leverage, Solvency

## Growth, Investment

Measure	Description	Calculation
<b>Revenue growth</b>	Measure of whether the company is growing revenue	% change in revenue
<b>EBITDAF growth</b>	Measure of whether the company is growing earnings	% change in EBITDAF
<b>NPAT growth</b>	Measure of whether the company is growing profits	% change in NPAT
<b>Capital renewal</b>	Measure of the level of capital investment	Capital expenditure / Depreciation expense

Table 6 – Notes: Growth, Investment

## Notes to Non-Financial Performance Targets

Measure	Description /Calculation	
<b>Probability of Detection (POD)</b>	The ratio of correctly forecast severe weather events to actual events observed	The POD and FAR for heavy rain events are 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
<b>False Alarm Ratio (FAR)</b>	The ratio of forecast severe weather events that did not occur (false alarms) to the number of events forecast	
<b>Uptime of weather observing systems</b>	The average of (a) percentage of time that radar data is available within MetService's Wellington Head Office, averaged over all radar sites; and (b) the percentage of time that Automated Weather Station data is available within MetService's Wellington Head Office, averaged over all Automated Weather Station sites.	
<b>Effective relationships with iwi, Māori businesses or community groups</b>	Effective should reflect authenticity, collaboration, longevity, and MetService's Treaty responsibilities.	

Table 7 – Notes: Non-Financial Performance Targets

# Appendix B: Accounting Policies

The principal accounting policies applied in the preparation of MetService's Statement of Corporate Intent are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

## Basis of preparation

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

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

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment, and defined benefit pension plans measured at fair value.

## Standards adopted for the first time

None.

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

None.

## Principles of consolidation

### *Subsidiaries*

The financial statements are prepared from the financial statements of the Parent and its subsidiaries. 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 Statement of Profit or Loss and Other Comprehensive Income from the effective date of acquisition or disposal. All 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 financial statements of the Group.

## Revenue

The Group derives revenue from delivering a range of weather services that directly support the safety of life and property. Revenue is recognised when control of a good or service transfers to the customer. The Group has segregated its revenue streams into the following portfolios:

- Forecasting data and licence
- Interactive
- One-off hardware sales
- Grants and consultancy projects

Sales are made with a standard term of 30 days.

For each contract portfolio the five-step method was applied to assess the impact on revenue recognition. The following accounting policies have been adopted:

### *Forecasting data and licence*

Revenue for the provision of forecasting data is recognised over the period the data is provided. Revenue for licences is recognised over the defined term that access is granted.

Timing of recognition – Over time

### *Interactive*

Revenue is recognised over the period of time in which the advertising space is made available on our website.

Timing of recognition – Over time

### *One-off hardware sales*

Revenue for hardware sold is recognised when the customer obtains control of the hardware.

Timing of recognition – Point in time

### *Grants and consultancy projects*

Revenue is recognised over the period of the project, measuring progress towards completion based on costs incurred to date.

Timing of recognition – Over time

### *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*

Contestable government grants are treated as revenue from customer contracts and recognised using the five-step revenue model.

Research & Development tax credits are reported in the profit or loss statement based on 15% of the eligible expenditure.

### *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 not 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 Statement 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%



#### *Table 8 – Depreciation Rates*

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 Statement 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 Statement 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 ten 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 Statement 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 Statement 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 NZ IFRS 16*

The Group adopted NZ IFRS 16 on 1 July 2019. The Group leases various land and building sites and IT equipment under lease arrangements. Lease terms are negotiated on an individual basis and contain a range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost.

The finance cost is charged to the Profit or Loss Statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Lease extension options were taken into consideration as a result of the

adoption of NZ IFRS 16. When the Group recognises a lease as a lessee, it assesses the lease term based on the conditions of the lease and determines whether it is reasonably certain that it will exercise any extension or termination options. It then uses the expected modified term under such options if it is reasonably certain that it will be exercised. As such, a change in the assumption used could result in a significant impact in the amount recognised as a right-of-use asset and lease liability, as well as in the amount of depreciation of right-of-use asset and interest expense on lease liability.

### *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. Re-estimates of the restoration provision are capitalised as part of the Right-of-Use Asset. Other movements are recognised as profit or loss in the Statement of Profit or Loss and Other Comprehensive Income.

## **Employee benefits**

### *Remuneration*

The Board and management are committed to remuneration practices that are fair, transparent and appropriate, and which contribute to strong governance, shareholder value and company performance. This starts with MetService's Remuneration Policy which is developed under the supervision of the Board's People, Culture & Remuneration Committee and approved by the Board.

MetService's Remuneration Policy sets out the remuneration principles applying to all employees and is designed to ensure that MetService meets the strategic policy objective of attracting, rewarding and retaining staff with the requisite skills and capabilities to ensure our successful business outcomes.

The People, Culture and Remuneration Committee oversees the implementation of our Remuneration Policy, including recommending to the Board remuneration for the position of Chief Executive Officer and other senior leaders, and budget parameters for the annual pay review. Employee fixed remuneration comprises a base salary, Employer Kiwisaver contributions (for participating employees), Group Income Continuance insurance as well as other work-related benefits such as a broadband allowance and on-site parking. Remuneration is reviewed yearly for employees, with any changes based on market movement and performance, effective from 1 July.

MetService does not offer a Long-Term Incentive scheme however members of the Senior Leadership Team and sales employees are invited to join a Short-Term Incentive (STI) scheme which forms part of the employment agreement. Any benefits from the STI scheme are in addition to the salary and other benefits agreed with the employee. The terms of the STI scheme set out the performance criteria to be met before any payments are made under the STI scheme.

#### *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) Pty Limited and MetraWeather

(Thailand) Limited is New Zealand dollars and the functional currency of MetraWeather (UK) Limited 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 and Other Comprehensive Income 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 and Other Comprehensive Income 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, employee entitlements and forward contracts.

Management determined the classification of financial instruments at the initial recognition and re-evaluates the designation at each reporting date.

### *Financial assets*

Trade and other receivables and cash and cash equivalents are initially measured at fair value plus transaction costs. Subsequently they are measured at amortised cost, including any expected credit loss allowance provisions. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current.

### *Impairment of financial assets*

Collectability of trade receivables is reviewed on an ongoing basis and uncollectable debt is written off. A provision for impairment losses is recognised where there is objective evidence that the Group may not be able to collect some or all amounts due according to the original terms.

In addition to this, consideration is also given to other economic factors which could contribute to further expected credit losses.

The amount of the provision is recognised in profit and loss in the Statement of Profit or Loss and Other Comprehensive Income.

While cash and cash equivalents are subject to the impairment requirements of NZ IFRS 9, the identified impairment loss was deemed immaterial.

### *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, termination leave and borrowings, are initially measured at fair value, net of transaction costs.

Trade and other payables and borrowings are subsequently measured at amortised cost using the effective interest method.

The Group enters into forward exchange contracts, with gains or losses recognised in the Statement of Profit or Loss and Other Comprehensive Income. The classification within profit or loss depends on the purpose for which contracts were acquired.

### *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 post-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.