

FY2017/18–2019/20  
Statement of Corporate Intent

Meteorological Service of New Zealand Ltd

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## Introduction

This Statement of Corporate Intent is submitted by Meteorological Service of New Zealand Limited (MetService) and outlines the direction of the Company for the three financial years ending 30 June 2020.

## Background

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### Nature and Scope of Activities

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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. 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. The professional capability and service reliability that are demanded by its safety obligations provide a foundation for its commercial business that is substantially stronger than would be otherwise possible. At the same time, its commercial character ensures that MetService's safety services are underpinned by sound business practices, allowing it to provide New Zealand with a National Meteorological Service that is innovative and highly efficient.

MetService's principal business activities can be summarised as follows:

- provision of New Zealand's National Meteorological Service through a contract with the Ministry of Transport, including the supply of public-safety weather warning and forecasting services;
  - safety-critical aviation forecasting services for the New Zealand domestic aviation sector and the RNZAF, as well as services to the international aviation community 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 APIs;
  - media weather graphics products for broadcast television, print and online media services;
  - forecasting and consultancy services for the commercial marine sector, provided in collaboration with MetOcean Solutions Limited; and
  - other specialised weather products and services for industries whose business economics are affected by weather-related impacts and risks such as transportation, energy, oil and gas, retailing, construction, agriculture and mining.
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To support the effective delivery of these services, the company engages in the following, subject to appropriate professional and operational standards:

- collection of basic weather information, through the operation of its observing network in New Zealand and through arrangements with overseas agencies and other third-party data providers;
- analysis, forecasting, dissemination and communication of weather information;
- development of software-based tools for the presentation and interpretation of weather and other information;
- provision of meteorological consultancy services; and
- training of professional meteorologists to World Meteorological Organization (WMO) standards.

## Strategic Context

MetService is well-positioned to achieve its objectives in terms of its core assets and capabilities. These include a long-standing contract and productive relationship with the Ministry of Transport, and its well-established domestic and international aviation business, which together form the company's core New Zealand safety services.

The company's wider domestic business, including leading market positions in media, energy, transport, infrastructure support and consumer weather information, continues to benefit from a strong reputation and a very well-recognised brand. Its services are supported by a team of experienced and highly-skilled meteorologists, technical and other staff, in addition to its comprehensive New Zealand weather observing network, an increasingly robust IT infrastructure and a growing range of commercial partnership arrangements.

MetService's business strategy over the planning period is to build on this solid foundation, introducing new assets and adopting new technologies (such as APIs, increased automation, and cloud-based services) to drive growth, increase profitability, and position the company to take advantage of future opportunities and challenges.

MetService's key business goals during this period are to:

1. increase the efficiency of the company's operations, as evidenced by an increase in the ratio of EBIT to revenue from its current ratio of 7.6% to 10.0%;
2. reduce the company's gearing ratio from 34.7% as at 30 June 2017 to 29.9% as at 30 June 2020; and
3. fully deliver essential safety-related Ministry of Transport and aviation services in the event of the company's Wellington facilities being rendered unavailable.

MetService is also accelerating its growth initiatives in its key markets of Australasia and Southeast Asia, by leveraging its targeted investments in new technologies to drive greater returns from its commercial activities. The success of these strategies will enable MetService to significantly enhance its value, and ultimately increase returns to its shareholders, while at the same time allowing it to continue to provide New Zealanders with a world-class National Meteorological Service that contributes effectively to public safety and New Zealand's international commitments through the United Nations.

The Board will continue to monitor its investments to ensure the financial health of the business remains strong and the business continuance improvements are achieved.

MetService's people are the foundation on which it will grow its business and the company will continue to invest in the development of its staff to improve long-term company performance.

While R&D spend varies considerably by market sector and individual company, the majority of companies globally spend less than 5% of revenue annually on R&D. MetService's current ratio of 10% per annum will be sustained through the planning period, focused on core safety services and business growth areas due to their strategic significance to the company.

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## Commercial Value of the Crown's Investment (to be confirmed by Deloitte)

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As at 30 June 2017, the Board's estimate of the current commercial value of the Crown's investment in MetService is in the range of \$52.3 to \$66.6 million (if a point-value needs to be taken, the mid-point is \$59.5 million). At 30 June 2016, the valuation was in the range of \$50.0 to \$66.6 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, including a growth assumption to the terminal value of 2.0%.
  - A discount rate of 8.1% has been used for the valuation.
  - The valuation was prepared by Deloitte and approved by the Board.
  - The Valuation range represents the range between a low case scenario and a high case scenario. The low case scenario is based on management forecasts but assumes that only 85% of forecast commercial revenue growth is achieved over the financial years 2017/18 to 2019/20. The high case scenario is based on management forecasts but adjusted for revenue and expenses based on historic trends in management forecasting.
  - The low end of the range has improved year on year. The prior year rationale for the low end of the range assumed reduced revenue from specific markets, whereas the current year assumes only 85% of commercial revenue growth for the business plan period.
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# Organisational Goals

## Vision

To be recognised as the global leader in local weather intelligence.

## Purpose

To support safety of life and property, and create wealth from weather, for New Zealanders, shareholders and customers.

## Mission

Empowering foresight through powerful weather intelligence.

## Corporate Objectives

- To support the safety of life and property in New Zealand and, as appropriate, the wider South Pacific region, through the provision of timely and reliable forecasts and warnings of adverse weather and its impacts.
- To provide customers with innovative, reliable, weather-related services that are highly profitable, enabling MetService to deliver an appropriate return on investment to its shareholders.
- To operate in a socially responsible manner, with particular regard to MetService employees, the environment, the community and customers.
- To be the most desirable meteorological company to work for in the world.
- To enhance MetService’s international reputation, through innovation in global markets for commercial weather services, and by contributing to the international community on behalf of New Zealand, through advances in the science and practice of meteorology.

## Ratio of Consolidated Shareholders’ Funds to Total Assets

MetService’s FY2018-20 Business Plan projects a 58% ratio of consolidated shareholders’ funds to total assets (equity ratio) as at 30 June 2020. 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.

2016	2017	2018	2019	2020
Actual 45%	Forecast 49%	Forecast 50%	Forecast 54%	Forecast 58%

## Capital Structure

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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 Board considers that, in the long term, a gearing ratio in the low 30% range is appropriate.

In the medium-term, MetService may create substantial growth opportunities based on its expertise and intellectual property, which could require investment funding beyond the level of free cash-flow generated. Should this occur, the Board may seek permission from the Shareholding Ministers to present alternative options.

MetService is committed to reducing debt from \$15.5 million at 30 June 2017 to \$13.5 million by 30 June 2020 to achieve the Board's targeted gearing ratio range of 30 - 35%.

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## Dividend Policy

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MetService aims to pay as dividends between 15% and 40% of Net Cash Flows from Operating Activities, less maintenance capital expenditure. This dividend pay-out ratio is a temporary reduction in dividends to address the level of gearing and the effects of under-investment in the past.

MetService will review the targeted percentage of Net Cash Flows from Operating Activities less maintenance capital expenditure to pay as dividends when a desired gearing ratio of between 30% and 35% has been achieved. It is expected that MetService will be in a position to end the temporary reduction in dividends after financial year ending 30 June 2020.

The level of forecast dividend will be reviewed annually as part of the business planning process and at the end of each financial year. This policy ensures that MetService manages its capital structure prudently and allows for re-investment in accordance with its strategy, where appropriate. Investment in new business opportunities will be considered in light of the Shareholders' preference for dividends over new investment.

Dividend payments will normally be paid as a final dividend in October.

The payment of dividends is subject to the Board complying with its:

- legal obligations under the Companies Act 1993;
  - commercial responsibilities;
  - fiduciary responsibilities; and
  - banking covenants.
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# Key Performance Indicators

## Financial KPIs

The following KPIs provide a representative view of the projected financial performance of MetService over the planning period. Notes to the Financial KPIs including definitions are found in the Appendix.

Financial KPI	2016/17 (Forecast)	2017/18 (BP)	2018/19 (BP)	2019/20 (BP)
<b>1. Shareholder Returns</b>				
Total Shareholder return	4.3%	1.8%	2.0%	2.4%
Dividend yield	2.2%	1.8%	2.0%	2.4%
Dividend payout	11.6%	11.2%	10.5%	12.8%
Return on equity (ROE)	10.1%	12.5%	14.4%	16.4%
Return on funds employed	11.5%	12.0%	13.9%	16.7%
<b>2. Profitability / Efficiency</b>				
NPAT	2,118	2,866	3,587	4,527
EBIT	4,268	4,679	5,629	6,958
EBITDA	13,015	14,354	16,274	16,863
Asset turnover	1.26	1.29	1.34	1.39
Operating margin (EBITDA)	23.1%	23.9%	25.1%	24.3%
Operating margin (EBIT)	7.6%	7.8%	8.7%	10.0%
<b>3. Leverage / Solvency</b>				
Gearing ratio (net)	34.7%	38.4%	34.9%	29.9%
Interest cover	18.2	20.6	25.2	25.2
Solvency	1.44	1.16	0.95	1.04
Debt coverage ratio	3.63	3.53	2.58	1.94
<b>4. Growth / Investment</b>				
Revenue growth	10.4%	6.6%	8.1%	6.8%
EBITDA growth	10.6%	10.3%	13.4%	3.6%
NPAT growth	17.0%	35.3%	25.1%	26.2%
Capital renewal	0.99	0.88	0.60	0.59

## Non-financial KPIs

Non-financial KPIs are the measures that MetService has agreed with stakeholders to assess business performance. Notes to the Non-financial KPIs including definitions are found in the Appendix.

	2015/16 (Actual)	2016/17 (To-date*)	2017/18 (BP)	2018/19 (BP)	2019/20 (BP)
<b>1. Warning Performance</b>					
POD[1] Heavy Rain	93%	93%	> 90%	> 90%	> 90%
POD Severe Gales	94%	93%	> 85%	> 85%	> 85%
POD Heavy Snow	100%	93%	> 85%	> 85%	> 85%
FAR[2] Heavy Rain	19%	14%	< 25%	< 25%	< 25%
FAR Severe Gales	15%	16%	< 30%	< 30%	< 30%
FAR Heavy Snow	29%	24%	< 30%	< 30%	< 30%
<b>2. Observing Radar</b>					
Radar % uptime	99.50%	99.40%	>97.0%	>97.0%	>97.0%
AWS[1] % Uptime	99.70%	99.20%	>98%	>98%	>98%
<b>3. Corporate and Social Responsibility</b>					
Critical programme Audit Findings	0	0	0	0	0
Accidents and Serious Incidents	0	0	0	0	0
Social investment (\$000)	201	210	220	230	230
Community Engagement (hours)	145	150	185	220	220
WMO staff participation (no. of staff)	18	10	10	10	10

\* to March 2017

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## Relationship with Shareholding Ministers

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### Information to be Provided

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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. In particular, 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 SOE 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 SOE Act in providing to Shareholding Ministers such additional information as may from time-to-time be requested.

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### Consultation

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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.

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.

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### Procedure for Acquisition of Shares

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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.

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## Activities for Which Compensation is Sought

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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 Act.

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## Accounting Policies

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The MetService Group's accounting policies are detailed in the attached appendix.

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# Appendix

## Notes on the Financial KPIs

**Table 1: Shareholder Returns**

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

**Table 2: Profitability, Efficiency**

Measure	Description	Calculation
Asset Turnover	The amount of revenue generated for every dollars' worth of assets	$\text{Revenue} / \text{Assets}$
Operating margin (EBITDAF)	The profitability of the company per dollar of revenue	$\text{EBITDAF} / \text{Revenue}$
Operating margin (EBIT)	The profitability of the company per dollar of revenue	$\text{EBIT} / \text{Revenue}$

**Table 3: Leverage, Solvency**

Measure	Description	Calculation
Gearing ratio (net)	Measure of financial leverage - the ratio of debt (liabilities on which a company is required to pay interest) less cash, to debt less cash plus equity	Net debt / Net debt plus equity
Interest cover	The number of times that earnings can cover interest	EBITDA / Interest paid
Solvency	Ability of the company to pay its debts as they fall due	Current assets / Current liabilities
Debt coverage ratio	Level of bank debt in relation to earnings	Bank debt / EBIT

**Table 4: Growth, Investment**

Measure	Description	Calculation
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	Capital expenditure / Depreciation expense

## Notes on the Non-Financial KPIs

Measure	Description /Calculation
Probability of Detection (POD)	<p>The ratio of correctly forecast severe weather events to actual events observed.</p> <p>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.</p>
False Alarm Ratio (FAR)	<p>The ratio of forecast severe weather events that did not occur (false alarms) to the number of events forecast.</p> <p>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.</p>
Radar % Uptime	The percentage of time that radar data is available to MetService, averaged over all radar sites.
AWS % Uptime	The percentage of time that Automated Weather Station data is available to MetService, 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 misses 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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## Summary of Significant Accounting Policies

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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

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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.

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### *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.

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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.

## 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
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- 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.

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### *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.

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## 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 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

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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.

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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.

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