

Report of the Directors to the Shareholders

Directors' profiles



*NIWA Board: (left to right)
Ed Johnson, John Hercus,
David Sharp, Graham Hill,
Sue Suckling (Chair),
Carolyn Burns, John
Spencer, Troy Newton,
Miranda Cassidy.*

Sue Suckling (Chair), OBE, BTech (Hons), MTech, is a Christchurch-based director and strategic business consultant. She is Chair of Agriquality New Zealand Ltd and chair of several private companies. Previously, she was Deputy Chair of the Institute of Geological & Nuclear Sciences Ltd. Sue was appointed NIWA Chair in July 2001.

Professor Carolyn Burns is a distinguished limnologist at the Department of Zoology, University of Otago. She holds a doctorate from the University of Toronto, was awarded the CBE in 1984, and is a Fellow of the Royal Society of New Zealand. She has held visiting research professorships in US universities and was a research scientist at the Max-Planck Institute for Limnology. In 1999 she was honoured with the University of Canterbury Distinguished Alumni Award.

Miranda Cassidy, BA in sociology, MSc (Hons) in resource management, is an Auckland-based company director and consultant. She is a former customary fisheries manager of Ngai Tahu Development Corporation and is currently Director of FOLKUS Ltd, an environmental consulting company.

John Hercus has an MSc in physics from Victoria University of Wellington and has been a leading figure in polytechnic, technology, and science education, serving as Director of the Christchurch Polytechnic from 1974 to 1993. He has worked for the UN Development Programme in higher education and training, and on projects with UNESCO and the Asian Development Bank. He has held directorates with several companies involved in international education and technology development.

Dr Graham Hill is an astronomer and astrophysicist currently lecturing at the University of Auckland and the Auckland University of Technology. From 1967 to 1996 he was a research scientist at the National Research Council of Canada – Dominion Astrophysical Observatory in Victoria, BC, and is a scientific computer software consultant for several overseas universities. He is an invited member of the International Astronomical Union and holds a PhD in astronomy from the University of Texas. He is a director of the Meteorological Service of New Zealand, and a council member of Unitec.

Ed Johnson, BA (Hons) Finance and Accounting, MBA (Hons), is a Marlborough-based company director and advisor. He is currently Chair of Fulton Hogan Ltd, Goldpine Industries Ltd, and Custom Fleet (NZ) Ltd, and a director of several entities including the Bank of New Zealand, Port Otago Ltd, MDC Holdings Ltd, and Mudhouse Wine Company Ltd. He retired as Chairman and Chief Financial Officer of Shell New Zealand in 2002 after having senior management roles in New Zealand, the USA, and the UK. In 2001 Ed was appointed the inaugural Honorary Fellow of Massey University's Centre for Business and Sustainable Development. In 2003 he was made a Fellow of the Institute of Directors in New Zealand.

Troy Newton is a director of KPMG Corporate Finance, where he advises clients on mergers and acquisitions, valuation, regulatory reform, and financing matters in New Zealand, Australia, and the Pacific Rim. He is a chartered accountant and was a director of Industrial Research Ltd from 1997 until September 2002. He has particular industry experience in telecommunications, information technology, and energy and transport operations.

David Sharp, BSc, is Chairman of the New Zealand Seafood Industry Council, and holds a number of other positions in the seafood industry. He was previously executive director of a major New Zealand primary produce exporting and seafood company.

John Spencer is the Chairman of Tainui Group Holdings Ltd and a Director of Tower Ltd, Solid Energy Ltd, and Triage Capital Ltd. He was the Chief Executive of New Zealand Dairy Group before Fonterra was established, and he has held a number of senior management positions in New Zealand and overseas. A Fellow of the Institute of Chartered Accountants, he is Deputy Chairman of the Accounting Standards Review Board.

Report of the Directors to the Shareholders

The Directors take pleasure in presenting the National Institute of Water & Atmospheric Research Ltd (NIWA) and Group Annual Report for the financial year ended 30 June 2005.

Business activities

The NIWA Group provided scientific research and consultancy services in New Zealand and overseas during the financial year. In New Zealand, services were provided to the Foundation for Research, Science & Technology, the Ministry of Fisheries, and a range of other public and private sector customers. Internationally, services were provided by NIWA and its subsidiaries to public and private sector customers predominantly in the USA and Australia.

Results

This financial year the NIWA Group has exceeded its Business Plan objectives, as set out in the Statement of Corporate Intent (SCI), with a net surplus of \$6.4 million (2004: \$5.3 million) against a budgeted net surplus of \$3.1 million. This was achieved on a turnover of \$91.1 million (2004: \$84.6 million), against budgeted revenue of \$86.9 million.

Shareholders' equity at 30 June 2005 totalled \$43.7 million (2004: \$51.9 million). Total assets totalled \$66.9 million at 30 June 2005 (2004:

\$72.3 million). Both shareholders' equity and total asset values declined on the previous year as a result of the payment of dividends.

Donations

No donations were made during the year.

Dividends

Dividend payments of \$15.0 million were made to the Government of New Zealand (the Crown) as the sole shareholder.

Directors

The appointment of Ed Johnson on 9 June 2005 was the only change to the Board of Directors for the year ended 30 June 2005.

Auditors

In accordance with Section 21(1) of the Crown Research Institutes Act 1992, the auditors, Deloitte on behalf of the Auditor-General, continue in office. Their audit remuneration and fees paid for other services are detailed in note 4 of the 'Notes to the Financial Statements'.

Group actual performance versus Statement of Corporate Intent (SCI)

Years ended 30 June	Actual 2005 \$'000	SCI 2005 \$'000	Actual 2004 \$'000
Revenue	91,137	86,908	84,631
Operating expenses and depreciation	81,627	81,845	77,746
Operating surplus before tax	9,654	4,953	7,036
Net surplus	6,434	3,065	5,276
Average total assets	69,558	66,015	69,480
Average shareholders' funds	47,817	45,600	49,296
Profitability			
Operating surplus (%) (EBIT/revenue)	10.2	5.8	8.0
Return on average equity after tax (%) (net surplus/average equity)	13.5	6.7	10.7
Return on assets (%) (EBIT/average total assets)	13.4	7.7	9.8
Liquidity and Efficiency			
Current ratio	1.0	0.8	1.4
Quick ratio	1.3	0.9	1.8
Financial Leverage			
Debt to average equity (%)	48	47	41
Gearing (%)	5	23	1
Proprietorship (%) (shareholders' funds/total assets)	69	69	71

Report of the Directors to the Shareholders

Interests Register

The following are transactions recorded in the Interests Register for the year.

(a) Parent and Subsidiary Companies

Interested Transactions

Any business the NIWA Group has transacted in which a director has an interest, has been carried out on a commercial "arms-length" basis.

Directors' Remuneration

Details of the Directors' remuneration are provided in the Remuneration of Directors section of the Governance Statement.

Use of Company Information by Directors

Pursuant to section 145 of the Companies Act 1993 there were no recorded notices from Directors requesting to use company information received in their capacity as Directors that would not otherwise have been available to them.

Share dealings

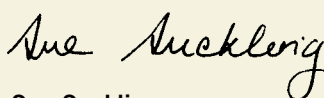
During the year no Directors purchased or disposed of any equity securities of the NIWA Group.

Directors' Loans

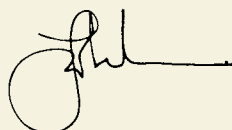
There were no loans by the NIWA Group to any Directors.

The Directors are pleased with the state of affairs of the NIWA Group.

For and on behalf of the Board:



Sue Suckling
Chair



Troy Newton
Director
24 August 2005

Statement of Management Responsibility

The following statement is made in accordance with Section 42 of the Public Finance Act (1989):

1. The management of the company is responsible for the preparation of these Financial Statements and the judgements used therein.
2. The management of the company is responsible for establishing and maintaining internal control procedures designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
3. In the opinion of management, these Financial Statements fairly reflect the financial performance, movements in equity, financial position and cash flows of the National Institute of Water & Atmospheric Research Ltd and Group for the year ended 30 June 2005.



Sue Suckling
Chair
24 August 2005



Rick Pridmore
Chief Executive

Corporate governance

Approach to corporate governance

Corporate governance is concerned with how companies are directed and controlled and, in particular, with the role of the board of directors ("the Board") and the need to ensure a framework of effective accountability and transparency.

The Company is a Crown Research Institute, established under the terms of the Crown Research Institutes Act (1992) and the Public Finance Act (1989), with all its shares held by the Minister of Finance and the Minister for Crown Research Institutes on behalf of the Crown.

The Board's authority and accountability is based on the two Acts noted above and the Statement of Corporate Intent (SCI). The SCI is produced annually and sets out the Board's strategic objectives, specific goals and performance targets. The SCI is submitted to the shareholding Ministers for acceptance.

The Company reports annually to Parliament on its performance in its Annual Report. A half yearly report and quarterly progress reports are also prepared for shareholding Ministers and performance is measured against the objectives contained in the SCI.

In addition to the above Statutes and the SCI, the Board also operates under a number of other governance instruments which include the following:

- periodic letter of expectation received from the Shareholder;
- Director's undertakings at the time of appointment;
- Directors' interests register;
- policy on Directors' expenses.

The Board and Management of the Company is committed to ensuring that the Company adheres to best practice governance principles and maintains the highest ethical standards.

This governance statement outlines the Company's main corporate governance practices as at 30 June 2005. Unless otherwise stated they reflect the practices in place throughout the financial year ending on that date.

Responsibilities of the Board and Management

The Board of Directors of the National Institute of Water & Atmospheric Research Ltd (NIWA) is appointed by the shareholding Ministers to guide and monitor the business of NIWA and its subsidiaries NIWA Vessel Management Ltd, NIWA Environmental Research Institute, NIWA (USA), Incorporated, NIWA Australia Pty Ltd, NIWA Natural Solutions Ltd and Unidata Pty Ltd, which constitute the NIWA Group.

The functions of the Board include:

- establishing the Company's objectives;
- reviewing and approving major strategies for achieving the Company's objectives;
- managing risks;
- determining the overall policy framework within which the business of the Company is conducted; and
- monitoring management's performance with respect to these matters.

The Board delegates management of the day-to-day affairs and management responsibilities of the Company to the executive team under the leadership of the Chief Executive Officer to deliver the strategic direction and goals determined by the Board. A formal delegations authority framework establishes the operational and expenditure delegations within which the Chief Executive must operate.

Board composition and activity

During the financial year ended 30 June 2005 the Board comprised of eight independent non-executive Directors (including the Chair). The Director's profiles are on page 60. Board meetings are held monthly. The Board formally met eleven times during the year (details on page 65).

Report of the Directors to the Shareholders

Remuneration

Directors' remuneration is annually reviewed and approved by the shareholding Ministers. Directors' remuneration received, or due and receivable during the year, is as follows:

	Parent	
	2005 \$'000	2004 \$'000
<i>Directors of the National Institute of Water & Atmospheric Research Ltd</i>		
Sue Suckling (Chair)	52	52
Carolyn Burns	26	26
Miranda Cassidy	26	26
John Hercus	26	26
Graham Hill	26	26
Troy Newton	26	30
David Sharp	26	26
John Spencer	33	30
<i>New appointees during the 30 June 2005 year</i>		
Ed Johnson	–	–
	Group	
<i>Directors of NIWA Natural Solutions Ltd</i>		
John Baird *	8	–
<i>Directors of NIWA Australia Pty Ltd</i>		
Paul Twynham	1	1

*John Baird was appointed as independent chair to the Board of NIWA Natural Solutions Ltd.

No fees were paid in respect of Directors of the subsidiaries NIWA Vessel Management Ltd, NIWA Environmental Research Institute, NIWA (USA), Incorporated, NIWA Australia Pty Ltd, NIWA Natural Solutions Ltd and Unidata Pty Ltd, other than those shown above.

Board Committees

Audit and Legislative Compliance Committee

The Audit and Legislative Compliance Committee is a sub-committee of the Board. During the financial year, the Audit and Legislative Compliance Committee comprised three members of the Board and met formally three times with the NIWA Chair as an ex-officio member.

The function of the Audit and Legislative Compliance Committee is to assist the Board in carrying out its responsibilities under the Crown Research Institutes Act 1992, the Public Finance Act 1989, the Companies Act 1993, and the Financial Reporting Act 1993 in respect of the Group financial accounting practices, policies, and controls and to review and make appropriate enquiry into the audits of the Group Financial Statements by both internal and external auditors.

Remuneration Committee

The Remuneration Committee is a sub-committee of the Board and comprised of two members, the NIWA Chair and Deputy Chair.

The Remuneration Committee reviews the remuneration policies applicable to the Chief Executive Officer on an annual basis and makes recommendations on remuneration packages and terms of employment to the Board. The Remuneration Committee also ratifies the remuneration packages of the direct reports to the Chief Executive Officer.

Remuneration packages are reviewed with due regard to performance and other relevant factors.

Directors' Insurance

The NIWA Group has arranged policies for Director's Liability Insurance which, with a Deed of Indemnity, ensures that generally Directors will incur no monetary loss as a result of actions undertaken by them as Directors. Certain actions are specifically excluded; for example, the incurring of penalties and fines which may be imposed in respect of breaches of the law.

Remuneration of employees

The numbers of employees (not including Directors) whose total remuneration exceeded \$100,000 is as follows:

\$	Group	
	2005	2004
100,000–109,999	23	11
110,000–119,999	10	16
120,000–129,999	4	1
130,000–139,999	2	3
140,000–149,999	2	1
150,000–159,999	2	4
160,000–169,999	2	1
170,000–179,999	–	2
180,000–189,999	2	–
190,000–199,999	–	1
200,000–209,999	1	–
290,000–299,999*	–	1
330,000–339,000*	1	–

* Chief Executive Officer's remuneration band.

Report of the Directors to the Shareholders

Risk management

Risk management has been incorporated into the normal business processes of the Company, such as business planning and budgeting, operational management and project management.

The Board has established a risk management framework and also annually reviews the delegation of authority framework. The delegation of authority framework set authorities for the treasury functions.

The Audit and Legislative Compliance Committee receives reports on internal audit reviews and also

meet with the external auditors to discuss findings from the annual audit.

Auditor independence

Appointment of auditors to conduct statutory work, and the annual audit fees are approved annually by the Auditor-General.

To ensure the independence of the external auditors, NIWA does not consult the external auditor for tax or management related services and takes care not to make use of the external auditors for any work which they may need to evaluate as part of the external audit.

Membership and Attendance:

Director	Date of Appointment	Appointment term expires	Board	Audit Committee	Remuneration Committee
Sue Suckling (<i>Chair</i>)	1 March 2001	30 June 2006	10	3 ¹	1
Carolyn Burns	31 October 2000	30 June 2006	11		
Miranda Cassidy	28 June 2001	30 June 2007	8	–	
John Hercus	27 October 2000	30 June 2006	9		
Graham Hill	27 May 2002	30 June 2008	9		
Ed Johnson ²	9 June 2005	30 June 2008	–		
Troy Newton (<i>Audit Committee Chair</i>)	18 June 2002	30 June 2008	11	3	
David Sharp	4 July 2001	30 June 2007	11		
John Spencer (<i>Deputy Chair</i>)	16 June 2003	30 June 2006	10	3	1

¹ The Chair is an ex-officio member of the Audit Committee.

² Ed Johnson had not attended any meetings as he was appointed shortly before the financial year end.

Membership of Subsidiary Boards:

Director	NIWA Vessel Management Ltd	NIWA Natural Solutions Ltd	NIWA Australia Pty Ltd	NIWA (USA), Inc. & NIWA Environmental Research Institute	Unidata Pty Ltd
Sue Suckling					✓
John Baird ²		✓ ¹			
Carolyn Burns			✓ ¹	✓ ¹	
Miranda Cassidy			✓		
Bryce Cooper ³		✓			✓
John Hercus	✓				
Graham Hill				✓	
Troy Newton		✓			
Rick Pridmore ³	✓	✓	✓	✓	✓
David Saunders ⁴					✓
David Sharp	✓ ¹				
John Spencer		✓			✓ ¹
Paul Twynham ²			✓		

¹ Chair.

² Independent Directors.

³ Executive members of the Parent company.

⁴ Director representing Minority interest.

Statement of Financial Performance

for the year ended 30 June 2005

	Note	Group 2005 Actual \$'000	Group 2005 Budget \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Revenue	3	91,137	86,908	84,631	86,807	83,396
Operating surplus before taxation	4	9,654	4,953	7,036	4,765	5,398
Taxation expense	5a	3,220	1,888	1,760	2,357	1,751
Net surplus		6,434	3,065	5,276	2,408	3,647
Net surplus comprises:						
Parent interest		6,437	3,021	5,280		
Minority interest	8	(3)	44	(4)		
		6,434	3,065	5,276		

The accompanying 'Notes to the Financial Statements' are an integral part of, and should be read in conjunction with, this 'Statement of Financial Performance'.

Statement of Movements in Equity

for the year ended 30 June 2005

	Note	Group 2005 Actual \$'000	Group 2005 Budget \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Net surplus for the year:						
Parent		6,437	3,021	5,280	2,408	3,647
Minority interests		(3)	44	(4)	-	-
Foreign currency translation reserve movement	6b	312	44	(113)	-	-
Total recognised revenues and expenses		6,746	3,109	5,163	2,408	3,647
Distributions to owners						
Dividends	7	(15,000)	(15,000)	-	(15,000)	-
Movements in minority interests						
Acquisition of subsidiary	8	-	-	68	-	-
Movements in equity for the year		(8,254)	(11,891)	5,231	(12,592)	3,647
Equity at the beginning of the year		51,944	51,545	46,713	41,370	37,723
Equity at the end of the year		43,690	39,654	51,944	28,778	41,370

The accompanying 'Notes to the Financial Statements' are an integral part of, and should be read in conjunction with, this 'Statement of Movements in Equity'.

Statement of Financial Position

as at 30 June 2005

	Note	Group 2005 Actual \$'000	Group 2005 Budget \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Equity						
Share capital	6a	24,799	24,799	24,799	24,799	24,799
Equity reserves	6b	18,830	14,787	27,081	3,979	16,571
Shareholders' interest		43,629	39,586	51,880	28,778	41,370
Minority shareholders' interest	8	61	68	64	-	-
Total equity		43,690	39,654	51,944	28,778	41,370
Non-current liabilities						
Unsecured Loans	9	403	454	424	-	-
Employee entitlements	10	1,598	2,121	1,752	1,522	1,676
Intercompany	22	-	-	-	14,285	8,015
Total non-current liabilities		2,001	2,575	2,176	15,807	9,691
Current liabilities						
Payables and accruals	11	13,163	6,698	13,339	12,599	12,963
Short-term advance facility	12	1,700	11,750	-	1,700	-
Employee entitlements	10	6,278	3,283	4,825	5,498	4,582
Taxation payable		18	-	-	-	-
Total current liabilities		21,159	21,731	18,164	19,797	17,545
Total equity and liabilities		66,850	63,960	72,284	64,382	68,606
Non-current assets						
Property, plant, & equipment	13	43,295	45,926	45,174	30,580	30,909
Identifiable intangibles	15	59	63	68	-	-
Investments	19	47	-	-	12,746	12,709
Future income taxation benefit	5b	1,460	727	979	3,338	3,218
Receivables and prepayments	16	208	-	547	208	547
Total non-current assets		45,069	46,716	46,768	46,872	47,383
Current assets						
Cash and short-term deposits		1,357	4,566	5,195	923	4,600
Receivables and prepayments	16	15,721	8,163	15,022	13,290	13,123
Taxation receivable		109	500	791	107	525
Contract work in progress		2,313	2,565	2,422	2,303	2,161
Inventories	17	2,281	1,450	2,086	887	814
Total current assets		21,781	17,244	25,516	17,510	21,223
Total assets		66,850	63,960	72,284	64,382	68,606

For and on behalf of the Board:



Sue Suckling
Chair
24 August 2005



Troy Newton
Director

The accompanying 'Notes to the Financial Statements' are an integral part of, and should be read in conjunction with, this 'Statement of Financial Position'.

Statement of Cash Flows

for the year ended 30 June 2005

	Note	Group 2005 Actual \$'000	Group 2005 Budget \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Cash flows from operating activities						
Cash was provided from:						
Receipts from customers		90,442	86,574	85,580	86,702	86,234
Interest received		355	9	242	351	241
		<u>90,797</u>	<u>86,583</u>	<u>85,822</u>	<u>87,053</u>	<u>86,475</u>
Cash was disbursed to:						
Payments to employees and suppliers		(71,048)	(71,507)	(71,904)	(72,456)	(73,169)
Interest paid		(1)	(110)	(14)	(1)	(7)
Taxation paid		(3,000)	(1,926)	(1,506)	(2,060)	(1,752)
		<u>(74,049)</u>	<u>(73,543)</u>	<u>(73,424)</u>	<u>(74,517)</u>	<u>(74,928)</u>
Net cash inflow from operating activities	18	<u>16,748</u>	<u>13,040</u>	<u>12,398</u>	<u>12,536</u>	<u>11,547</u>
Cash flows from investing activities						
Cash was provided from:						
Sale of property, plant, & equipment		169	300	168	161	169
Loans advanced from subsidiary company		-	-	-	3,937	384
Cash was applied to:						
Purchase of property, plant, & equipment		(7,348)	(7,281)	(8,389)	(6,974)	(7,431)
Investment in subsidiary	19	-	-	-	-	(288)
Investment in associates	21	(107)	-	-	(37)	-
		<u>(7,286)</u>	<u>(6,981)</u>	<u>(8,221)</u>	<u>(2,913)</u>	<u>(7,166)</u>
Net cash outflow in investing activities		<u>(7,286)</u>	<u>(6,981)</u>	<u>(8,221)</u>	<u>(2,913)</u>	<u>(7,166)</u>
Cash flows from financing activities						
Cash was applied to:						
Issue of equity share capital to minority shareholders	8	-	44	68	-	-
Unsecured loan received	9	-	-	424	-	-
Dividends paid to shareholders	7	(15,000)	(15,000)	-	(15,000)	-
Short-term advance facility received/(repaid)	12	1,700	11,250	(600)	1,700	(600)
		<u>(13,300)</u>	<u>(3,706)</u>	<u>(108)</u>	<u>(13,300)</u>	<u>(600)</u>
Net cash outflow from financing activities		<u>(13,300)</u>	<u>(3,706)</u>	<u>(108)</u>	<u>(13,300)</u>	<u>(600)</u>
Net increase/(decrease) in cash held		<u>(3,838)</u>	<u>2,353</u>	<u>4,069</u>	<u>(3,677)</u>	<u>3,781</u>
Add opening cash balance		5,195	2,213	1,126	4,600	819
Closing cash balance		<u>1,357</u>	<u>4,566</u>	<u>5,195</u>	<u>923</u>	<u>4,600</u>
Made up of:						
Cash		1,350	4,566	1,638	923	1,050
Short-term deposits		7	-	3,557	-	3,550
		<u>1,357</u>	<u>4,566</u>	<u>5,195</u>	<u>923</u>	<u>4,600</u>
Closing cash balance		<u>1,357</u>	<u>4,566</u>	<u>5,195</u>	<u>923</u>	<u>4,600</u>

The accompanying 'Notes to the Financial Statements' are an integral part of, and should be read in conjunction with, this 'Statement of Cash Flows'.

Notes to the Financial Statements

for the year ended 30 June 2005

1 Nature of activities

The National Institute of Water & Atmospheric Research Ltd (NIWA) and Group conducts research in water and atmospheric sciences in New Zealand and internationally.

2 Statement of accounting policies

The NIWA Financial Statements and Group Financial Statements are presented in accordance with the requirements of the Crown Research Institutes' Act 1992, the Public Finance Act 1989, the Companies Act 1993, and the Financial Reporting Act 1993. The NIWA Financial Statements are for the Parent Company as a separate entity. The consolidated (or "Group") Financial Statements comprise NIWA (the "Parent company"), its subsidiaries and the Group's interest in associates and joint ventures.

Measurement base

The Financial Statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP) in New Zealand. The measurement and reporting of financial performance, movements in equity, financial position, and cash flows is based on historical cost. The reporting currency used in the preparation of these Financial Statements is New Zealand dollars.

Specific accounting policies

The following specific accounting policies, which materially affect the measurement of financial performance, movements in equity, financial position, and cash flows, have been established and consistently applied.

(a) Basis of consolidation

i) Consolidation of Subsidiaries

Subsidiaries are those entities controlled by NIWA. The Group Financial Statements have been prepared using the purchase method of consolidation. This involves adding corresponding assets, liabilities, revenues, and expenses on a line-by-line basis. All intercompany transactions, balances and unrealised profits are eliminated on consolidation. The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised on acquisition together with the minority interests' share of post acquisition surpluses.

ii) Accounting for Associates

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the Group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

The Group Financial Statements incorporate the Group's interest in associates, using the equity method, as from the date that significant influence commenced or until the date the significant influence ceased. The investments are recorded at the lower of carrying value and recoverable amount.

The Group recognises its share of the associates' net surplus or deficit for the year as operating revenue in its statement of financial performance. The Group recognises its share of other post-acquisition movements in reserves in its statement of movements in equity. Dividends received from associates are recognised directly against the carrying value of the investment. In the statement of financial position the investment and the reserves are increased by the Group's share of the post-acquisition retained surplus and other post-acquisition reserves of the associates. In assessing the Group's share of earnings of associates, the Group's share of any unrealised profits between group companies and associates is eliminated.

iii) Accounting for Joint Ventures

Joint Ventures are joint arrangements between NIWA and another party in which there is a contractual agreement to undertake a specific business project in which the venturers share several liability in respect of the costs and liabilities of the project and share in any resulting output. NIWA's share of the assets, liabilities, revenues and expenses of the joint ventures are incorporated into the Parent Company and Group Financial Statements on a line by line basis using the proportionate method.

(b) Revenue recognition

Contract revenue is recognised based on the lower of the stage of completion of the contract or the value of work done. The amount of revenue unbilled is represented by "Contract work in progress", which is stated at cost in the Statement of Financial Position. Revenue received but not earned is recognised as revenue in advance in "Payables and Accruals" in the Statement of Financial Position.

(c) Goods and Services Tax (GST)

These Financial Statements are prepared on a GST exclusive basis, except for receivables and payables, which are stated GST inclusive.

(d) Taxation

Taxation expense is charged in the Statement of Financial Performance in respect of the current year's operating surplus after allowing for permanent differences. The provision for taxation for the year includes both current and deferred tax on income after taking into account all available deductions.

Deferred tax arising from timing differences in recognition of income and expenditure for tax purposes has been accounted for using the liability method on a comprehensive basis. A debit balance in the deferred tax account (hereafter called "future income taxation benefit"), arising from timing differences or taxation benefits from taxation losses, is recognised only if there is virtual certainty of realisation.

(e) Identifiable intangible assets

Purchased identifiable intangible assets, comprising copyrights and trademarks, are recognised at cost and amortised in the statement of financial performance on a straight line basis over their estimated useful lives. When the carrying amount of an identifiable intangible asset exceeds its recoverable amount, it is written down to its recoverable amount.

(f) Development costs

Development costs that meet the following criteria are recognised as an asset in the statement of financial position:

- the product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the Group intends to produce and market, or use, the product or process;
- the existence of a market for the product or process or its usefulness to the Group, if it is to be used internally, can be demonstrated; and
- adequate resources exist, or their availability can be demonstrated, to complete the projects and market or use the product or process.

Capitalisation is limited to the amount which, taken together with further related costs, is probable of recovery from related future economic benefits.

When the criteria above no longer applies, the unamortised balance of development costs is written off and recognised immediately as an expense.

Development costs recognised as an asset are amortised in the statement of financial performance on a straight line basis over the period of expected benefits.

When the unamortised balance of development costs exceeds the probable amount of future recovery from related future economic benefits less related future costs, the excess is written down and recognised immediately as an expense.

All other development and research costs are expensed as incurred.

(g) Investments

Non-current investments are valued at cost. Where the carrying amount of an investment exceeds its recoverable amount it is written down to its recoverable amount.

(h) Property, plant, and equipment

Property, plant, and equipment, except land, are valued at historical cost less accumulated depreciation to date. Provision is made for any impairment. Land is valued at cost. Property, plant, and equipment purchased from the Crown at 1 July 1992 and 1 July 1995 are stated at the transfer price at those dates, adjusted for subsequent disposals and depreciation.

Expenditure incurred on property, plant, and equipment is capitalised where such expenditure will increase or enhance the future economic benefits provided by the assets' existing service potential. Expenditure incurred to maintain future economic benefits is classified as repairs and maintenance.

(i) Depreciation

Property, plant, and equipment, except for freehold land, are depreciated on a straight-line basis at rates estimated to write off the cost (or transfer price) of the property, plant, and equipment over their estimated useful lives. Maximum useful lives used are as follows:

RV <i>Tangaroa</i> hull	26 years
RV <i>Kaharoa</i> hull	16 years
Small boats	5 years
Buildings	40 years
Leasehold improvements, freehold property	10 years
Leasehold improvements, rented property	5 years
Supercomputer	5 years
Scientific equipment	4 years
Plant & equipment	10 years
Other electronic data processing equipment	3 years
Furniture & fittings	10 years
Office equipment	5 years
Motor vehicles	4 years

(j) Receivables

Receivables are stated at their estimated realisable value after providing for doubtful and uncollectable debts.

(k) Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis for consumables and first in first out (FIFO) for finished goods and work in progress.

(l) Foreign currencies

i) Transactions

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling on the date of the transaction. Monetary assets and liabilities are converted to the New Zealand rate of exchange ruling at balance date, and any exchange gains or losses are taken to the Statement of Financial Performance.

ii) Translation of independent foreign operations

Revenues and expenses of independent foreign operations are translated to New Zealand dollars at the exchange rates in effect at the time of the transactions, or at rates approximating them. Assets and liabilities are converted to New Zealand dollars at the rates of exchange ruling at balance date. Exchange rate differences arising from the translation of the independent foreign operations are recognised in the foreign currency translation reserve.

(m) Leases

The Group has not contracted for any leases which would be classified as finance leases.

Operating lease payments are recognised on a systematic basis that is representative of the benefit to the Group.

(n) Statement of cash flows

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the statement of financial performance. Operating activities comprise the provision of research services, consultancy and manufacture of scientific instruments. Investing activities comprise the purchase and disposal of property, plant, and equipment and advances to subsidiaries. Financing activities are those which result in changes in the size and composition of the capital structure of the Group. Cash includes cash and short term deposits.

(o) Provision for dividends

Dividends are recognised in the year that they are authorised and approved.

(p) Financial instruments

Forward exchange contracts entered into as hedges of foreign exchange assets or liabilities are valued at the exchange rate prevailing at year end. Any unrealised gains or losses are offset against forward exchange gains or losses on the related asset or liability. Unrealised gains or losses on forward exchange contracts entered into as future sales or purchasing are deferred and included in the measurement of the purchase or sale.

(q) Changes in accounting policies

There have been no changes in accounting policies this year.

(r) Implementation of New Zealand equivalents to International Financial Reporting Standards

NIWA has commenced reviewing its accounting policies and financial reporting to comply with the New Zealand equivalents of International Financial Reporting Standards ("NZ IFRS"). NIWA intends to adopt NZ IFRS for the year ending 30 June 2008 and accordingly the first report using NZ IFRS will be for the half-year ended 31 December 2007. The transitional rules for the first time adoption of NZ IFRS require NIWA to restate our comparative financial statements using NZ IFRS. The majority of the adjustments required on transition will be made to opening retained earnings in the opening NZ IFRS balance sheet as at 1 July 2006. The company has allocated internal resources and may engage external consultants to conduct impact assessments to isolate key areas that will be impacted by the transition to NZ IFRS.

Set out below are the key areas where accounting policies may change and have an impact on the financial reports of NIWA. It should be noted that at this stage NIWA is not able to reliably quantify the impacts of the new standards. NIWA will be required to restate the Statement of Financial Position of the comparative period financial statements in accordance with the version of NZ IFRS applicable at the first NZ IFRS reporting date. Changes continue to be made to NZ IFRS and therefore there may be further changes to the information disclosed.

(i) NZ IAS 12 – Income taxes

A 'balance sheet' approach will be adopted, replacing the 'income statement' approach under NZ GAAP. This method recognises deferred tax on most temporary differences between the carrying value of an asset or liability and its tax base. This change may lead to larger deferred tax balances being carried. Any initial impact will be on retained earnings as at 1 July 2006 but it is not expected to impact significantly on the tax expense reported in subsequent periods.

(ii) NZ IAS 36 – Impairment of Assets

An asset is impaired if its carrying value exceeds its recoverable amount, being the higher of the asset's fair value less costs to sell or 'value in use' to NIWA. Fixed assets must be reviewed each year to determine whether there are any indications that they may be impaired. Any impairment identified should be recognised immediately in the statement of financial performance.

(iii) NZ IAS 39 – Financial Instruments: Recognition and Measurement

NZ IFRS requires NIWA to recognise the derivatives used by the Group to hedge exposures to foreign currencies and interest rates on the balance sheet at fair value. Gains or losses on such contracts, even if unrealised on unsettled transactions, will be reported in the statement of financial performance in each period except in those cases where effectiveness tests are met and hedge accounting can be used. If a derivative instrument does qualify for hedge accounting then any change in fair value will be recognised directly within the Statement of Movements in Equity, then released to the Statement of Financial Performance in the same period as the hedged item is recognised in the Statement of Financial Performance. Any ineffectiveness is recognised in the Statement of Financial Performance immediately. Given the current level of hedging and short term nature of most hedges, no significant impact is anticipated. Higher volatility of earnings from period to period may result as the reported impact of a hedging instrument may now fall in a different reporting period to the impact of the underlying risk.

A number of other items related to financial reporting are also under consideration in conjunction with the transition to NZ IFRS. These include:

- Consideration of the current accounting policy on fixed assets, given the opportunity to revalue assets and apply a 'deemed cost' equivalent to values on the transition to NZ IFRS.
- The appropriate breakdown of reported segments for future reporting.

Notes to the Financial Statements

3 Revenue

	Group 2005 Actual \$'000	Group 2005 Budget \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Public Good Science and Technology					
– Contract funding	39,469	37,800	35,881	39,469	35,881
– Non-specific output funding (NSOF)	4,260	3,600	3,710	4,260	3,710
Ministry of Fisheries	16,626	16,500	14,602	16,626	14,602
Commercial	30,487	28,999	30,196	26,101	28,962
Share of Associate's net deficit	(60)	–	–	–	–
Interest income	355	9	242	351	241
	91,137	86,908	84,631	86,807	83,396

All revenue was derived from continuing activities.

4 Operating surplus before taxation

	Group 2005 Actual \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
The operating surplus before taxation is stated after charging/(crediting):				
Depreciation	9,204	9,533	7,282	7,508
Amortisation of identifiable intangible assets	9	–	–	–
Rental and operating lease costs	1,093	1,141	997	1,085
Remuneration of Directors	260	237	248	237
Net gain on sale of property, plant, & equipment	(147)	(166)	(140)	(166)
Bad debts written off	92	8	82	8
Provision for doubtful debts	76	2	76	2
Net realised foreign currency gain	(338)	(27)	(320)	(33)
Interest expense	1	14	1	7
Remuneration of the auditors of these Financial Statements:				
– Audit fees	104	58	88	55
– Other services	15	22	15	22
Provision for intercompany advances	–	–	2,332	–
4a. Depreciation				
Buildings & Improvements	1,289	1,255	1,265	1,232
Vessels	758	758	–	–
Plant & Equipment	3,995	4,348	3,249	3,341
Electronic Data Processing Equipment	1,933	1,876	1,653	1,748
Office Equipment	477	537	462	528
Furniture & Fittings	90	87	52	49
Motor Vehicles	536	532	516	511
Small Boats	126	140	85	99
Total	9,204	9,533	7,282	7,508

5 Taxation

5a. Taxation expense

Operating surplus before taxation	9,654	7,036	4,765	5,398
Prima facie tax @ 33%	3,186	2,322	1,573	1,781
Add/(less) tax effect of permanent differences	14	20	783	20
Share of Associate's net deficit	20	–	–	–
Tax losses recognised	(1)	(279)	–	–
Under/(over) provision in previous year	1	(303)	1	(50)
Income taxation expense	3,220	1,760	2,357	1,751
The income taxation expense is represented by:				
– Current taxation	3,701	1,417	2,477	1,389
– Deferred taxation/(Future income taxation benefit)	(481)	343	(120)	362
	3,220	1,760	2,357	1,751

5b. Future Income Taxation Benefit

Balance at the beginning of the year	979	1,322	3,218	3,580
Prior period adjustment	39	2	23	(62)
Current year movement	442	(345)	97	(300)
Balance at the end of the year	1,460	979	3,338	3,218

No tax losses are available to be carried forward and offset against future taxable income.

Notes to the Financial Statements

6 Equity

	Group 2005 Actual \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
6a. Share capital				
Issued and fully-paid capital 24,798,700 ordinary shares	24,799	24,799	24,799	24,799
All shares carry equal voting and distribution rights.				
6b. Equity reserves				
Equity reserves include:				
Retained earnings	18,766	27,329	3,979	16,571
Foreign currency translation reserve	64	(248)	-	-
Total equity reserves	18,830	27,081	3,979	16,571
Movements in reserves during the year were as follows:				
Retained earnings				
Balance at the beginning of the year	27,329	22,049	16,571	12,924
Add net surplus	6,437	5,280	2,408	3,647
Less Dividend paid	(15,000)	-	(15,000)	-
Balance at the end of the year	18,766	27,329	3,979	16,571
Foreign currency translation reserve				
Balance at the beginning of the year	(248)	(135)	-	-
Add foreign exchange gain (loss) on translation of independent foreign operations	312	(113)	-	-
Balance at the end of the year	64	(248)	-	-

Foreign currency translation occurs as a result of the incorporation of the net assets of the international subsidiaries into the Group Financial Statements. The international subsidiaries are NIWA (USA), Incorporated, NIWA Environmental Research Institute, NIWA Australia Pty Ltd, and Unidata Pty Ltd (note 20).

7 Dividend payments

Payments were made on the following dates:

5 January 2005	(7,500)	-	(7,500)	-
28 June 2005	(7,500)	-	(7,500)	-
	(15,000)	-	(15,000)	-

These dividend payments were made to the Government of New Zealand (the Crown) as the sole shareholder.

8 Minority shareholders' interest

Balance at the beginning of the year	64	-	-	-
Increase due to acquisition of subsidiary	-	68	-	-
Share of surplus/(deficit) for the year	(3)	(4)	-	-
Balance at the end of the year	61	64	-	-

9 Unsecured loan

Shareholder loan	403	424	-	-
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The loan is unsecured and relates to a vendor finance agreement on the acquisition of a subsidiary, Unidata Pty Ltd. The loan is not subject to any interest charge. Repayment will be made when, and in such amounts as, the cash flow and profitability of Unidata Pty Ltd permit, with full repayment due on 7 May 2014. The change in the value of the loan from the previous year is a result only of foreign currency translation.

Notes to the Financial Statements

10 Provision for employee entitlements

	Group 2005 Actual \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Balance at beginning of year	6,577	8,052	6,258	7,772
Additional provision recognised	3,665	4,167	3,101	3,847
Amount utilised	(2,366)	(5,642)	(2,339)	(5,361)
Balance at end of year	7,876	6,577	7,020	6,258
Classified as follow:				
Non-Current	1,598	1,752	1,522	1,676
Current	6,278	4,825	5,498	4,582

The provision for employee entitlements relates to employee benefits such as accrued wages, holiday pay, long service and retirement leave. The provision is affected by a number of estimates including the expected employment period of employees and the timing of employees using the benefits.

11 Payables and accruals

Trade payables	6,519	7,458	5,986	7,082
Revenue in advance	6,644	5,881	6,613	5,881
Total	13,163	13,339	12,599	12,963

12 Short-term advance facility

A short-term advance facility is available from Westpac Banking Corporation.

Advance facility	1,700	-	1,700	-
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The facility is unsecured, but subject to various covenants that were complied with during the year. The facility is operated on an on-call basis. The relevant interest rate for the period was 6.95%.

13 Property, plant, and equipment

	2005 Cost \$'000	2005 Accum Depn \$'000	2005 Book Value \$'000	2004 Cost \$'000	2004 Accum Depn \$'000	2004 Book Value \$'000
Group						
Land	2,217	-	2,217	2,217	-	2,217
Buildings & improvements	23,410	7,873	15,537	22,888	6,535	16,353
Vessels	18,869	7,464	11,405	18,869	6,706	12,163
Plant & equipment	45,881	35,270	10,611	41,824	31,429	10,395
Electronic data processing equipment	19,863	18,045	1,818	18,228	16,171	2,057
Office equipment	6,268	5,992	276	5,933	5,567	366
Furniture & fittings	1,979	1,793	186	1,909	1,687	222
Motor vehicles	3,066	2,054	1,012	3,089	1,980	1,109
Small boats	1,273	1,040	233	1,294	1,002	292
Total	122,826	79,531	43,295	116,251	71,077	45,174
Parent						
Land	2,217	-	2,217	2,217	-	2,217
Buildings & improvements	23,190	7,746	15,444	22,668	6,431	16,237
Plant & equipment	39,660	29,710	9,950	35,623	26,513	9,110
Electronic data processing equipment	18,677	17,287	1,390	17,258	15,715	1,543
Office equipment	6,066	5,804	262	5,757	5,399	358
Furniture & fittings	1,548	1,397	151	1,525	1,345	180
Motor vehicles	2,935	1,951	984	2,958	1,896	1,062
Small boats	1,029	847	182	1,011	809	202
Total	95,322	64,742	30,580	89,017	58,108	30,909

13a. Property, plant, and equipment valuation

Independent valuers, Tse Wall Arlidge Limited, undertook a valuation of Land and Buildings in June 2002. This valuation totalled \$33.4 million, and while the Directors consider this value to be relevant, they have elected not to revalue for reporting purposes.

13b. Vessels

As agreed with the shareholders, an amount has been earmarked within the Group for any shortfall between the current insured value of \$40 million and the estimated replacement cost of the research vessel RV *Tangaroa*, in the event of loss of that vessel.

Notes to the Financial Statements

14 Heritage Assets

NIWA has one collection and three databases that have been defined as heritage assets. Heritage assets are those assets held for the duration of their physical lives because of their unique scientific importance.

NIWA has the following heritage assets:

Type	Description
Marine Benthic Biology Collection	A National reference collection for marine invertebrate animals.
National Climate Database	A National electronic database of high quality climate information including temperatures, rainfall, wind and other climate elements.
Water Resources Archive Database	A National electronic database of river and lake locations throughout New Zealand including levels, quality and flows.
New Zealand Freshwater Fish Database	A National electronic database of the occurrence of fish in the fresh waters of New Zealand, including major offshore islands.

The nature of these heritage assets, and their significance to the science NIWA undertakes, makes it necessary to disclose them. In the Directors' view the value of these heritage assets cannot be assessed with any reliability and accordingly these assets have not been valued for reporting purposes.

15 Identifiable intangibles

	Group 2005 Actual \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Copyrights and Trademarks				
At cost	68	68	–	–
Accumulated amortisation	(9)	–	–	–
Book value	59	68	–	–

Identifiable intangibles such as copyrights and trademarks are amortised over their estimated useful lives.

16 Receivables and prepayments

Trade receivables	15,520	14,282	13,174	12,604
Provision for doubtful debts	(100)	(24)	(100)	(24)
Prepayments	509	1,311	424	1,090
Total	15,929	15,569	13,498	13,670
Classified as follow:				
Non-Current	208	547	208	547
Current	15,721	15,022	13,290	13,123

The non-current component of receivables relate to the long-term portion of contract retentions included in trade receivables.

17 Inventories

Consumables	391	457	–	–
Finished goods	1,550	1,273	797	742
Work in progress	340	356	90	72
Total	2,281	2,086	887	814

Inventories are not pledged as security for liabilities, nor are any inventories subject to retention of title clauses.

18 Reconciliation of net surplus after taxation to net cash inflow from operating activities

Note	Group 2005 Actual \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Net surplus	6,434	5,276	2,408	3,647
Add/(less) items classified as investing activities				
Net gain on disposal of property, plant, & equipment	(147)	(166)	(140)	(166)
Add/(less) non-cash items				
Share of Associate's deficit for the year	60	–	–	–
Depreciation	9,204	9,533	7,282	7,508
Amortisation of identifiable intangibles	9	–	–	–
Unrealised changes in the value of subsidiaries	313	(113)	–	–
(Gain)/Loss on foreign currency loan	(21)	–	–	–
Increase/(decrease) in employee entitlements	(154)	(208)	(154)	(205)
Increase/(decrease) in provisions	–	(571)	2,332	(571)
(Increase)/decrease in future income taxation benefit	(481)	343	(120)	362
	8,930	8,984	9,340	7,094
Add/(less) movements in working capital items				
Increase/(decrease) in payables and accruals	(176)	2,599	(363)	3,285
Increase/(decrease) in employee entitlements	1,453	(1,266)	916	(1,309)
(Increase)/decrease in receivables and prepayments	(360)	(1,053)	172	363
(Increase)/decrease in inventory and contract WIP	(86)	(1,887)	(215)	(1,003)
(Increase)/decrease in taxation receivable	700	(89)	418	(364)
	1,531	(1,696)	928	972
Net cash inflow from operating activities	16,748	12,398	12,536	11,547

19 Investments

Investment in subsidiaries	20	–	–	12,709	12,709
Investment in associates	21	47	–	37	–
		47	–	12,746	12,709

20 Investments in subsidiaries

Name	Principal activities	Ownership and voting interest	
		2005 %	2004 %
NIWA Vessel Management Ltd	Vessel charters for scientific research	100	100
NIWA Natural Solutions Ltd	Commercialisation of NIWA products	100	100
NIWA Australia Pty Ltd	Scientific research and consultancy services	100	100
NIWA Environmental Research Institute	Scientific research and consultancy services	100	100
NIWA (USA), Inc.	Scientific research and consultancy services	100	100
Unidata Pty Ltd	Supplier of environmental technology products	80	80

All subsidiaries have a balance date of 30 June.

NIWA Vessel Management Ltd and NIWA Natural Solutions Ltd are the only subsidiaries incorporated in New Zealand. NIWA Australia Pty Ltd and Unidata Pty Ltd are incorporated in Australia. NIWA (USA), Incorporated and NIWA Environmental Research Institute are incorporated in the USA.

NIWA has an A\$100 equity investment in NIWA Australia Pty Ltd, a US\$1 equity investment in NIWA (USA), Incorporated and an A\$250,000 equity investment in Unidata Pty Ltd. NIWA has no equity investment in NIWA Environmental Research Institute (non-stock corporation). NIWA Environmental Research Institute is a not-for-profit entity which has been classified as a publicly supported organisation by the Internal Revenue Service, and as such is exempt from US Federal income tax. NIWA Environmental Research Institute conducts scientific research with a Federal or State focus in the USA.

No shares in subsidiaries were acquired or disposed of during the year ended 30 June 2005.

Notes to the Financial Statements

21 Investments in associates

ENSID Investments Ltd and ENSID Technologies Ltd were both incorporated on 9 March 2005.

Name	Principal activities	Group Ownership and Voting interest		Group Carrying Amount	
		2005 %	2004 %	2005 \$'000	2004 \$'000
ENSID Investments Ltd	Intellectual property investments	50	–	34	–
ENSID Technologies Ltd	Commercialisation of intellectual property	50	–	13	–
				47	–

The reporting dates of all associates are 30 June, and the Group's share of the results of operations for the year ended on that date have been included in the Group financial statements. Both companies are incorporated in New Zealand.

	Group 2005 Actual \$'000	Group 2004 Actual \$'000
Carrying value of associates		
Carrying value at beginning of year	–	–
Shares purchased on incorporation	107	–
Share of net loss	(60)	–
Carrying value at end of year	47	–

The associates did not have contingent liabilities or other commitments contracted for as at 30 June 2005, other than for supply of inventories. The Group is not jointly or severally liable for any liabilities of the associate companies.

22 Intercompany

	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
NIWA non-current liability	14,285	8,015

An amount of \$16.0 million is held by the Parent Company (NIWA) on behalf of NIWA Vessel Management Ltd. This is consistent with the Group policy that all surplus funds are managed by NIWA. This amount is offset by Parent Company receivables and advances to NIWA Australia Pty Ltd of \$1.4 million, NIWA Environmental Research Institute of \$537,000, NIWA (USA), Incorporated of \$303,215, NIWA Natural Solutions Ltd of \$995,000, and Unidata Pty Ltd of \$832,000, resulting in a net non-current liability of \$11.9 million. All balances are unsecured and have no set repayment terms but are not expected to be repaid within one year of balance date.

The Directors considered it prudent to raise a provision of \$2,332,000 in the Parent Company against the value of advances to subsidiaries that currently have a negative net asset position. The advances were used to fund the establishment of the subsidiaries. The Directors still expect the advances to be fully recovered, but not in the short term. The provision is included in the NIWA Intercompany non-current liability of \$14,285,000.

During the year NIWA contracted vessel charters from its subsidiary NIWA Vessel Management Ltd totalling \$9.4 million (2004: \$9.1 million) and purchased workshop services totalling \$37,851 (2004: \$3,962). NIWA subcontracted revenue of \$250,719 from NIWA Vessel Management Ltd during the financial year (2004: \$102,423).

During the year NIWA contracted scientific research from its subsidiary NIWA Australia Pty Ltd totalling \$135,489 (2004: \$0) and provided research services to NIWA Australia Pty Ltd of \$258,800 (2004: \$263,758).

NIWA earned revenue of \$102,000 (2004: \$84,000) from research subcontracts with NIWA Environmental Research Institute.

NIWA Natural Solutions Ltd purchased products from NIWA for \$454,000 (2004: \$747,000)

NIWA charged its subsidiaries for administration expenses and management services totalling \$1.3 million for the financial year (2004: \$1.1 million).

There were no other significant transactions between any of the companies in the Group. All transactions with subsidiaries are carried out on an arms-length basis.

23 Joint Ventures

The Group has a 50% equity interest in EcoConnect Ltd, a joint venture company set up with the United Kingdom Met Office to develop environmental forecasting. The company was formed during June 2004 and had not commenced trading by 30 June 2005.

The Group has a 50% participating interest in Riskscape NZ, an unincorporated joint venture of equal interests with Geological Risk Limited (a wholly owned subsidiary company of the Institute of Geological & Nuclear Sciences Limited). Riskscape NZ commenced operations in April 2005 and had a first balance date of 30 June 2005. The Group's interests in this joint venture had an immaterial effect on the financial statements.

Notes to the Financial Statements

24 Related party transactions

The Government of New Zealand (the Crown) is the ultimate shareholder of the NIWA Group. All transactions with other Government-owned entities are carried out on an arms-length basis.

Research activities revenue includes amounts received from the Crown or Crown owned entities as follows:

	Group 2005 Actual \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Public Good Science and Technology				
– Contract funding	39,469	35,881	39,469	35,881
– Non-Specific Output Funding (NSOF)	4,260	3,710	4,260	3,710
Ministry of Fisheries	16,626	14,602	16,626	14,602
Ministry for the Environment	505	396	505	396
Department of Conservation	755	1,334	726	1,334
Land Information New Zealand	1,507	5,553	926	5,553
Genesis Energy	968	1,029	968	1,029
Meridian Energy	1,050	573	1,050	573
Mighty River Power	834	499	834	499

No related party balances were written off or forgiven during the year.

25 Segment information

The Group operates predominantly in New Zealand in two industries – Research and Vessel Charter.

Industry Segments	Total		Research		Vessel Charter		Eliminations	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue:								
From Customers outside the Group	91,137	84,631	87,469	82,378	3,668	2,253	–	–
Inter-segment	–	–	225	102	9,481	9,136	(9,706)	(9,238)
Total revenue	91,137	84,631	87,694	82,480	13,149	11,389	(9,706)	(9,238)
Surplus before taxation	9,654	7,006	6,502	4,548	3,272	2,458	(120)	–
Unallocated expenses	–	30						
Total surplus before taxation	9,654	7,036						
Segment assets	66,850	72,284	52,158	56,061	14,692	16,223	–	–
Total Assets	66,850	72,284						

The major products/services from which the above segments derive revenue are:

Segment	Products and services
Research	Atmospheric and aquatic research, consultancy and associated products and services
Vessel Charter	Charter of vessels for scientific research

All inter-segment pricing is on an arms-length basis.

26 Financial instruments

26a. Currency and interest rate risk

Nature of activities and management policies with respect to financial instruments:

(i) Currency

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group undertakes transactions denominated in foreign currencies from time to time, and resulting from these activities, exposures in foreign currency arise. It is the Group's policy to hedge foreign currency trading transaction risks as they arise, unless explicitly authorised by the Board. To manage these exposures, the Group uses forward foreign exchange contracts. At balance date the Group had no forward foreign exchange arrangements in place.

(ii) Interest rate

Interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates. This could particularly affect the cost of borrowing and the return on investments.

The interest rates on NIWA's borrowings during the year were:

	2005	2004
On Call	7.0–10.9%	5.7–6.4%
Short term	–	6.3–6.4%

The interest rates on NIWA's investments during the year were:

	2005	2004
Cash (on call)	6.0–6.75%	5.0–5.8%

Notes to the Financial Statements

26 Financial instruments (continued)

Short-term deposits have maturity dates less than 6 months. The Directors do not consider there is any significant exposure to interest rate risk on its investments. All investments are managed by NIWA on behalf of the Group.

NIWA has a regularly reviewed Treasury Policy in place which ensures the appropriate management of currency and interest rate risk.

(iii) Credit risk

Credit risk is the risk that a third party will default on its obligations to NIWA and the Group, causing a loss.

In the normal course of business, the Group incurs credit risk from trade receivables and transactions with financial institutions (cash and short-term deposits). The Group has a credit policy that is used to manage this risk. As part of this policy, limits are placed on the amounts of credit extended to third parties, and care is taken to ensure the credit worthiness of third parties dealt with. All credit risk exposures are monitored regularly.

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

There are no significant concentrations of credit risk. The maximum exposure to credit risk is \$17,178,000 (total exposed to credit risk which is bank, short term investments and debtors, net of provisions).

26b. Fair values

The estimated fair values of the Group's financial instruments approximate their carrying values as disclosed in the Statement of Financial Position.

27 Foreign currency denominated monetary assets and liabilities

	Group 2005 Actual \$'000	Group 2004 Actual \$'000	Parent 2005 Actual \$'000	Parent 2004 Actual \$'000
Current assets not hedged:				
Australian dollars	1,033	685	5	24
European euro	4	11	4	11
Japanese yen	142	154	142	154
US dollars	122	342	6	6
Current liabilities not hedged:				
Australian dollars	363	192	-	-

Current assets include foreign currency bank balances, deposits and accounts receivable. Current liabilities include foreign currency accounts payable and accrued expenses.

28 Commitments

28a. Operating lease obligations

Obligations payable after balance date on non-cancellable operating leases:

Within 1 year	938	704	822	694
Between 1 and 2 years	786	279	786	279
Between 2 and 5 years	2,175	632	2,175	632
Over 5 years	4,271	2,503	4,271	2,503
	8,170	4,118	8,054	4,108

28b. Capital commitments

Commitments for future capital expenditure:

Contracted, but not provided for	119	428	79	428
	119	428	79	428

29 Contingent liabilities

New Zealand Companies have a contingent liability in respect of the Accident Compensation Commission's residual claims levy. The levy will be payable annually from May 1999 for up to 15 years. Each Company's future liability depends upon ACC's unfunded liability for past claims and future payments to employees by these Companies. There are no other significant contingent liabilities that require disclosure in the Financial Statements.

30 Subsequent events

There were no subsequent events.

TO THE READERS OF

NATIONAL INSTITUTE OF WATER AND ATMOSPHERIC RESEARCH LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

The Auditor-General is the auditor of National Institute of Water and Atmospheric Research Limited (the company) and group. The Auditor-General has appointed me, Andrew Burgess, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the company and group, on his behalf, for the year ended 30 June 2005.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 66 to 78:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company and group's financial position as at 30 June 2005; and
 - the results of operations and cash flows for the year ended on that date.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 24 August 2005, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in the opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;

- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support the opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company and group as at 30 June 2005. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors responsibilities arise from the Crown Research Institutes Act 1992, the Public Finance Act 1989 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001, section 21(1) of the Crown Research Institutes Act 1992 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit we have carried out assignments in the areas of taxation and other assurance services, which are compatible with those independence requirements. Other than the audits of the company, group and subsidiary companies, we have no relationship with or interests in the company or any of its subsidiaries.



A G Burgess
DELOITTE
On behalf of the Auditor-General, Auckland, New Zealand