



financial information

- NIWA Group exceeded its financial targets
- record revenue of \$106 million
- net surplus of \$10 million
- return on average equity of 24.4%
- acquired 50% of CRL Energy Ltd

70M

68

66

64

62

60M

58

56

54

52

50M

48

NIWA Directors



Sue Suckling

Carolyn Burns

Miranda Cassidy

John Hercus

Graham Hill



Ed Johnson

Troy Newton

David Sharp

John Spencer

Sue Suckling (*Chair*), OBE, BTech (Hons), MTech, is a Christchurch-based director and strategic business consultant. She is Chair of The New Zealand Qualifications Authority and a number of private companies, a director of Restaurant Brands, and a member of the Takeovers Panel. Previously, she was Chair of AgriQuality Ltd and Deputy Chair of the Institute of Geological and 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, has a BA in sociology, an MSc (Hons) in resource management, and is an Auckland-based company director and consultant. She is a former customary fisheries manager of Ngāi 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 in astronomy at the University of Auckland. 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 and collaborator with colleagues at 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 and Goldpine Industries Ltd, and a director of several entities, including the Bank of New Zealand, Port Otago Ltd, MDC Holdings Ltd, and Marlborough Airport 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 Chairman of Tainui Group Holdings Limited and Telfer Young Ltd. He is Deputy Chairman of Solid Energy and a Director of Tower Limited, Waikato Regional Airport Ltd, and WEL Networks Ltd. He was the Chief Executive of New Zealand Dairy Group prior to the formation of Fonterra, and 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 2006.

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 \$10.3 million (2005: \$6.4 million), against a budgeted net surplus of \$5.8 million. This was achieved on a turnover of \$106.4 million (2005: \$91.1 million), against budgeted revenue of \$100.6 million.

Shareholders' equity at 30 June 2006 totalled \$41.2 million (2005: \$43.7 million). Total assets were \$68.8 million at 30 June 2006 (2005: \$66.9 million). Shareholders' equity declined against the previous year as a result of the payment of dividends.

Donations

No donations were made during the year.

Dividends

Dividend payments of \$13.0 million were made to the Government of New Zealand (the Crown), as the sole shareholder.

Directors

The retirement of Dr Carolyn Burns on 30 June 2006 was the only change to the Board of Directors for the year ended 30 June 2006. Dr Wendy Lawson was appointed to the Board of Directors from 1 July 2006.

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 Group Financial Statements'.

Group actual performance versus Statement of Corporate Intent (SCI)

Years ended 30 June	Actual 2006 \$'000	SCI 2006 \$'000	Actual 2005 \$'000
Revenue	106,414	100,647	91,137
Operating expenses and depreciation	90,348	91,481	81,627
Operating surplus before tax	15,707	8,366	9,654
Net surplus	10,342	5,763	6,434
Average total assets	67,804	69,490	69,558
Average shareholders' funds	42,461	40,475	47,817
Profitability			
EBIT margin (%) (EBIT/revenue)	14.5	8.84	10.2
Return on average equity after tax (%) (net surplus/average equity)	24.4	14.24	13.5
Return on assets (%) (EBIT/average total assets)	22.7	12.76	13.4
Liquidity and efficiency			
Current ratio	0.9	0.81	1.0
Quick ratio	1.2	0.87	1.3
Financial leverage			
Debt to average equity (%)	65	77	48
Gearing (%)	2	22	5
Proprietorship (%) (shareholders' funds/total assets)	63	58	69

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.

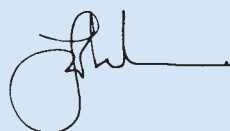
The Directors are pleased with the state of affairs of the NIWA Group.

For and on behalf of the Board:



Sue Suckling

Chair



Troy Newton

Director

23 August 2006

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 2006.



Sue Suckling

Chair

23 August 2006



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 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:

- periodic letter of expectation 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 are 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 2006. 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, EcoConnect 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;
- 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 Officer must operate.

Board composition and activity

During the financial year ended 30 June 2006 the Board comprised nine independent non-executive Directors (including the Chair). The Director's profiles are presented on page 64. Board meetings are held monthly. The Board formally met twelve times during the year.

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:

Parent	2006 \$'000	2005 \$'000
<i>Directors of the National Institute of Water & Atmospheric Research Ltd</i>		
S H Suckling (Chair)	52	52
C W Burns	26	26
M K Cassidy	26	26
J D Hercus	26	26
G Hill	26	26
E Johnson	26	–
T W Newton	26	26
D C Sharp	26	26
J Spencer	33	33
Group		
<i>Directors of NIWA Natural Solutions Ltd</i>		
J Baird	16	8
<i>Directors of NIWA Australia Pty Ltd</i>		
P Twynham	–	1

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, EcoConnect 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 Crown Entities Act 2004, 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 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 lawful actions undertaken by them as Directors. Certain actions are specifically excluded; for example, incurring 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:

Group \$	2006	2005
100,000–109,999	21	23
110,000–119,999	7	10
120,000–129,999	5	4
130,000–139,999	2	2
140,000–149,999	2	2
150,000–159,999	4	2
160,000–169,999	–	2
170,000–179,999	1	–
180,000–189,999	–	2
190,000–199,999	1	–
200,000–209,999	1	1
330,000–339,000*	–	1
350,000–359,000*	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, with practices such as business planning and budgeting, operational management, and project management.

The Board annually reviews the delegations authority framework. The delegations authority framework sets authorities for operational and expenditure delegations, including authority for undertaking treasury activities of the company.

The Audit and Legislative Compliance Committee receives reports on internal risk management

reviews, and also meets with the external auditors to discuss findings from the annual audit.

Auditor independence

The 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 (Chair)	1 March 2001	30 June 2007	10	3*	1
Carolyn Burns	31 October 2000	30 June 2006	12		
Miranda Cassidy	28 June 2001	30 June 2007	11		
John Hercus	27 October 2000	30 June 2007	9		
Graham Hill	27 May 2002	30 June 2008	11		
Ed Johnson	9 June 2005	30 June 2008	10	1	
Troy Newton (Audit Committee Chair)	18 June 2002	30 June 2008	10	3	
David Sharp	4 July 2001	30 June 2007	11		
John Spencer (Deputy Chair)	16 June 2003	30 June 2007	11	3	1
Wendy Lawson	1 July 2006	30 June 2009	–		

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

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 ¹		✓*			
Carolyn Burns			✓*	✓*	
Miranda Cassidy			✓		
Bryce Cooper ²		✓			✓
John Hercus	✓				
Graham Hill				✓	
Ed Johnson	✓			✓	
Troy Newton		✓			
Rick Pridmore ²	✓	✓	✓	✓	✓
David Saunders ³					✓
David Sharp	✓*				
John Spencer		✓			✓*
Paul Twynham ¹			✓		

* Chair.

¹ Independent Directors.

² Executive members of the parent company.

³ Director representing minority interest.

Statement of Financial Performance

for the year ended 30 June 2006

	Note	Group 2006 Actual \$'000	Group 2006 Budget \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Revenue	3	106,414	100,647	91,137	108,512	86,807
Operating surplus before taxation	4	15,706	8,366	9,654	19,874	4,765
Taxation expense	6a	5,364	2,603	3,220	4,121	2,357
Net surplus		10,342	5,763	6,434	15,753	2,408
Net surplus comprises:						
Parent interest		10,422	5,731	6,437		
Minority interest	9	(80)	32	(3)		
		10,342	5,763	6,434		

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 2006

	Note	Group 2006 Actual \$'000	Group 2006 Budget \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Net surplus for the year:						
Parent interest		10,422	5,763	6,437	15,753	2,408
Minority interest		(80)	32	(3)	–	–
Foreign currency translation reserve movement	7b	200	–	312	–	–
Total recognised revenues and expenses		10,542	5,795	6,746	15,753	2,408
Distributions to owners						
Dividends	8	(13,000)	(13,000)	(15,000)	(13,000)	(15,000)
Movements in equity for the year		(2,458)	(7,205)	(8,254)	2,753	(12,592)
Equity at the beginning of the year		43,690	44,077	51,944	28,778	41,370
Equity at the end of the year		41,232	36,872	43,690	31,531	28,778

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 2006

	Note	Group 2006 Actual \$'000	Group 2006 Budget \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Equity						
Share capital	7a	24,799	24,799	24,799	24,799	24,799
Equity reserves	7b	16,452	12,026	18,830	6,732	3,979
Shareholders' interest		41,251	36,825	43,629	31,531	28,778
Minority shareholders' interest	9	(19)	47	61	-	-
Total equity		41,232	36,872	43,690	31,531	28,778
Non-current liabilities						
Unsecured loans	10	452	404	403	-	-
Employee entitlements	11	1,551	1,620	1,598	1,468	1,522
Intercompany	24	-	-	-	12,119	14,285
Total non-current liabilities		2,003	2,024	2,001	13,587	15,807
Current liabilities						
Payables and accruals	12	17,192	13,334	13,163	15,847	12,599
Short-term advance facility	13	600	10,500	1,700	600	1,700
Employee entitlements	11	7,705	3,625	6,278	7,115	5,498
Taxation payable		26	-	18	-	-
Total current liabilities		25,523	27,459	21,159	23,562	19,797
Total equity and liabilities		68,758	66,355	66,850	68,680	64,382
Non-current assets						
Property, plant, & equipment	14	42,740	43,072	43,295	30,770	30,580
Identifiable intangibles	16	117	44	59	-	-
Investments	20	491	272	47	13,246	12,746
Future income taxation benefit	6b	1,816	725	1,460	3,476	3,338
Receivables and prepayments	17	765	-	208	765	208
Loans to associates	23	106	-	-	26	-
Total non-current assets		46,035	44,113	45,069	48,283	46,872
Current assets						
Cash and short-term deposits		1,143	4,770	1,357	488	923
Receivables and prepayments	17	17,539	13,589	15,721	16,777	13,290
Taxation receivable		-	498	109	138	107
Uninvoiced receivables		2,217	1,915	2,313	2,203	2,303
Inventories	18	1,824	1,470	2,281	791	887
Total current assets		22,723	22,242	21,781	20,397	17,510
Total assets		68,758	66,355	66,850	68,680	64,382

For and on behalf of the Board:


Sue Suckling
Chair

23 August 2006


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 2006

	Note	Group 2006 Actual \$'000	Group 2006 Budget \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Cash flows from operating activities						
Cash was provided from:						
Receipts from customers		105,215	100,485	90,442	105,543	86,702
Interest received		386	131	355	373	351
		<u>105,601</u>	<u>100,616</u>	<u>90,797</u>	<u>105,916</u>	<u>87,053</u>
Cash was disbursed to:						
Payments to employees and suppliers		(76,925)	(80,816)	(71,048)	(77,226)	(72,456)
Interest paid		(50)	(798)	(1)	(50)	(1)
Taxation paid		(5,606)	(2,641)	(3,000)	(4,290)	(2,060)
		<u>(82,581)</u>	<u>(84,255)</u>	<u>(74,049)</u>	<u>(81,566)</u>	<u>(74,517)</u>
Net cash inflow from operating activities	19	23,020	16,361	16,748	24,350	12,536
Cash flows from investing activities						
Cash was provided from:						
Sale of property, plant, & equipment		76	300	169	75	161
Loans advanced from subsidiary company		-	-	-	-	3,937
Cash was applied to:						
Purchase of property, plant, & equipment		(8,480)	(7,596)	(7,348)	(7,485)	(6,974)
Purchase of intangible assets		(95)	(300)	-	-	-
Investment in associates	22	(535)	-	(107)	(500)	(37)
Net cash outflow in investing activities		(9,034)	(7,596)	(7,286)	(7,910)	(2,913)
Cash flows from financing activities						
Cash was applied to:						
Dividends paid to shareholders	8	(13,000)	(13,000)	(15,000)	(13,000)	(15,000)
Short-term advance facility received/(repaid)	13	(1,100)	4,500	1,700	(1,100)	1,700
Associate loan proceeds/(payment)		(100)	-	-	-	-
Subsidiary loan proceeds/(repaid)		-	-	-	(2,775)	-
Net cash outflow from financing activities		(14,200)	(8,500)	(13,300)	(16,875)	(13,300)
Net increase/(decrease) in cash held		(214)	265	(3,838)	(435)	(3,677)
Add opening cash balance		1,357	4,505	5,195	923	4,600
Closing cash balance		1,143	4,770	1,357	488	923
Made up of:						
Cash		1,135	4,770	1,350	488	923
Short-term deposits		8	-	7	-	-
Closing cash balance		1,143	4,770	1,357	488	923

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 2006

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 Crown Entities Act 2004, 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 are 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, but not control, 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 liabilities 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 is 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 'uninvoiced receivables', 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;
- 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 likely to be recovered from related future economic benefits.

When the criteria above no longer apply, 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.

Notes to the Financial Statements

(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:

RV <i>Tangaroa</i> hull	26 years
RV <i>Kaharoa</i> hull	16 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
Small boats	5 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

New Zealand reporting entities are required to comply with the New Zealand equivalents of International Financial Reporting Standards ('NZ IFRS') for reporting periods commencing on or after 1 January 2007, with optional adoption for reporting periods commencing on or after 1 January 2005.

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 its 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.

During the year ended 30 June 2006 NIWA completed a preliminary review of its accounting policies and financial reporting against the requirements of NZ IFRS. NIWA recognises that it 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 there may be further changes to the information disclosed. It should therefore be noted that the actual impact of adopting NZ IFRS may vary from the information presented, and this variation may be material.

NIWA has compiled an opening balance sheet based on the current version of NZ IFRS as at 1 July 2006. Based on the results of the information gathered in this process and the review of policies, NIWA does not expect its financial results or financial position to be materially different under NZ IFRS from that currently reported, other than in the format and level of disclosure as presented in this report.

Set out below are the key areas where accounting policies may change and have an impact on the financial reports of NIWA.

(i) 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.

Adoption of NZ IFRS is not expected to impact significantly on the tax expense reported.

(ii) Carrying value of land and other assets

On first time adoption of NZ IFRS, entities are permitted to adjust the carrying value of selected fixed assets to the current fair value without creating a need for ongoing revaluations.

NIWA is currently reviewing its assets to determine which, if any, should be revalued as one-off adjustments.

(iii) 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.

Adoption of NZ IFRS will require additional procedures to perform the impairment testing required, but is not expected to impact significantly on the carrying values currently reported.

(iv) Financial instruments: recognition and measurement

NZ IFRS requires NIWA to recognise the derivatives held 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.

NIWA has elected not to hedge account. Therefore, any derivatives held will be recognised at fair value in each period. 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.

(v) Intangible assets

NZ IFRS requires computer software that is not an integral part of the related computer hardware to be treated as an intangible asset, provided certain criteria are met.

On conversion to NZ IFRS, such items will be reclassified from tangible to intangible fixed assets. There will be no net impact on equity.

(vi) Foreign currency translation reserve

On translation of a foreign operation, certain exchange differences are recognised as a separate component of equity, in the foreign currency translation reserve. A first-time adopter may elect to reset these cumulative translation differences to zero.

On transition to NZ IFRS, these cumulative translation differences will be transferred to opening retained earnings. There will be no net impact on opening equity or earnings as a result of this adjustment.

Translation differences in operating activities are currently recognised in the currency translation reserve.

Notes to the Financial Statements

3 Revenue

	Group 2006 Actual \$'000	Group 2006 Budget \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Public Good Science and Technology:					
Contract funding	42,895	41,142	39,469	42,845	39,469
Capability Fund	7,479	7,506	4,260	7,479	4,260
Ministry of Fisheries	16,060	16,746	16,626	16,060	16,626
Commercial	39,685	34,956	30,487	33,755	26,101
Share of associate's net deficit	(91)	166	(60)	–	–
Dividends from subsidiaries	–	–	–	8,000	–
Interest income	386	131	355	373	351
	106,414	100,647	91,137	108,512	86,807

All revenue was derived from continuing activities.

4 Operating surplus before taxation

	Note	Group 2006 Actual \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
The operating surplus before taxation is stated after charging/(crediting):					
Depreciation	5	8,743	9,204	7,189	7,282
Amortisation of identifiable intangible assets		39	9	–	–
Rental and operating lease costs		973	1,093	883	997
Remuneration of Directors		284	260	268	248
Net (gain)/loss on sale of property, plant, & equipment		310	(147)	32	(140)
Bad debts written off		3	92	3	82
Movement within doubtful debt provision		(59)	–	(59)	–
Provision for doubtful debts		–	76	–	76
Net realised foreign currency (gain)/loss		15	(338)	(35)	(320)
Interest expense		50	1	50	1
Remuneration of the auditors of these Financial Statements:					
Audit fees		109	104	93	88
Other services		–	15	–	15
Provision for intercompany advances		–	–	584	2,332

5 Depreciation

Buildings & improvements	1,225	1,289	1,203	1,265
Vessels	756	758	–	–
Plant & equipment	3,816	3,995	3,503	3,249
Electronic data processing equipment	1,796	1,933	1,398	1,653
Office equipment	459	477	438	462
Furniture & fittings	43	90	43	52
Motor vehicles	545	536	532	516
Small boats	103	126	72	85
Total	8,743	9,204	7,189	7,282

6 Taxation

6a. Taxation expense

Operating surplus before taxation	15,707	9,654	19,874	4,765
Prima facie tax @ 33%	5,183	3,186	6,558	1,573
Add/(less) tax effect of permanent differences	8	14	(2,440)	783
Share of associate's net deficit	30	20	–	–
Tax losses (recognised)/carried forward	117	(1)	–	–
Under/(over) provision in previous year	26	1	3	1
Income taxation expense	5,364	3,220	4,121	2,357
The income taxation expense is represented by:				
Current taxation	5,720	3,701	4,259	2,477
Deferred taxation/(future income taxation benefit)	(356)	(481)	(138)	(120)
	5,364	3,220	4,121	2,357

Notes to the Financial Statements

6 Taxation (continued)

	Group 2006 Actual \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
6b. Future income taxation benefit				
Balance at the beginning of the year	1,460	979	3,338	3,218
Prior period adjustment	85	39	(22)	23
Current year movement	271	442	160	97
Balance at the end of the year	1,816	1,460	3,476	3,338
6c. Tax losses carried forward				
Balance at the beginning of the year	–	–	–	–
Current year movement	117	–	–	–
Balance at the end of the year	117	–	–	–

All tax losses available to be carried forward and offset against future taxable income are held in Unidata Pty Ltd.

7 Equity

7a. Share capital

Issued and fully-paid capital 24 798 700 ordinary shares	24,799	24,799	24,799	24,799
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All shares carry equal voting and distribution rights.

7b. Equity reserves

Equity reserves include:

Retained earnings	16,188	18,766	6,732	3,979
Foreign currency translation reserve	264	64	–	–
Total equity reserves	16,452	18,830	6,732	3,979

Movements in reserves during the year were:

Retained earnings

Balance at the beginning of the year	18,766	27,329	3,979	16,571
Add net surplus	10,422	6,437	15,753	2,408
Less dividend paid	(13,000)	(15,000)	(13,000)	(15,000)
Balance at the end of the year	16,188	18,766	6,732	3,979

Foreign currency translation reserve

Balance at the beginning of the year	64	(248)	–	–
Add foreign exchange gain (loss) on translation of independent foreign operations	200	312	–	–
Balance at the end of the year	264	64	–	–

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).

8 Dividend payments

Payments were made on:

5 January 2005	–	(7,500)	–	(7,500)
28 June 2005	–	(7,500)	–	(7,500)
9 January 2006	(6,500)	–	(6,500)	–
30 June 2006	(6,500)	–	(6,500)	–
	(13,000)	(15,000)	(13,000)	(15,000)

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

9 Minority shareholders' interest

Balance at the beginning of the year	61	64	–	–
Share of surplus/(deficit) for the year	(80)	(3)	–	–
Balance at the end of the year	(19)	61	–	–

Notes to the Financial Statements

10 Unsecured loan

	Group 2006 Actual \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Shareholder loan	452	403	–	–

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.

11 Provision for employee entitlements

Balance at the beginning of the year	7,876	6,577	7,020	6,258
Additional provision recognised	5,134	3,665	4,250	3,101
Amount utilised	(3,754)	(2,366)	(2,687)	(2,339)
Balance at the end of the year	9,256	7,876	8,583	7,020
Classified as:				
Non-current	1,551	1,598	1,468	1,522
Current	7,705	6,278	7,115	5,498

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.

12 Payables and accruals

Trade payables	9,125	6,519	7,900	5,986
Revenue in advance	8,067	6,644	7,947	6,613
Total	17,192	13,163	15,847	12,599

13 Short-term advance facility

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

Advance facility	600	1,700	600	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 7.45% (2005: 6.95%).

14 Property, plant, and equipment

	2006 Cost \$'000	2006 Accum depn \$'000	2006 Book value \$'000	2005 Cost \$'000	2005 Accum depn \$'000	2005 Book value \$'000
Group						
Land	2,206	–	2,206	2,217	–	2,217
Buildings & leasehold improvements	24,120	9,070	15,050	23,410	7,873	15,537
Vessels	18,423	8,042	10,381	18,869	7,464	11,405
Plant & equipment	50,312	38,349	11,963	45,881	35,270	10,611
Electronic data processing equipment	20,859	19,281	1,578	19,863	18,045	1,818
Office equipment	6,626	6,317	309	6,268	5,992	276
Furniture & fittings	1,971	1,826	145	1,979	1,793	186
Motor vehicles	3,252	2,302	950	3,066	2,054	1,012
Small boats	1,283	1,125	158	1,273	1,040	233
Total	129,052	86,312	42,740	122,826	79,531	43,295
Parent						
Land	2,206	–	2,206	2,217	–	2,217
Buildings & leasehold improvements	23,925	8,949	14,976	23,190	7,746	15,444
Plant & equipment	43,963	33,151	10,812	39,660	29,710	9,950
Electronic data processing equipment	19,551	18,234	1,317	18,677	17,287	1,390
Office equipment	6,456	6,172	284	6,066	5,804	262
Furniture & fittings	1,540	1,428	112	1,548	1,397	151
Motor vehicles	3,134	2,204	930	2,935	1,951	984
Small boats	1,053	920	133	1,029	847	182
Total	101,828	71,058	30,770	95,322	64,742	30,580

Notes to the Financial Statements

14 Property, plant, and equipment (continued)

14a. Property, plant, and equipment valuation

Independent valuers, DTZ New Zealand Limited, undertook a valuation of land and buildings in June 2006. This valuation totalled \$45.9 million, and, while the Directors consider this value to be relevant, they have elected not to revalue for reporting purposes.

14b. Vessels

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

15 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 invertebrates.
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.

16 Identifiable intangibles

	Group 2006 Actual \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Copyrights and trademarks				
At cost	165	68	-	-
Accumulated amortisation	(48)	(9)	-	-
Book value	117	59	-	-

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

17 Receivables and prepayments

Trade receivables	17,783	15,520	17,044	13,174
Provision for doubtful debts	(41)	(100)	(41)	(100)
Prepayments	562	509	539	424
Total	18,304	15,929	17,542	13,498
Classified as:				
Non-current	765	208	765	208
Current	17,539	15,721	16,777	13,290

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

18 Inventories

Consumables	269	391	-	-
Finished goods	1,420	1,550	731	797
Work in progress	135	340	60	90
Total	1,824	2,281	791	887

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

Notes to the Financial Statements

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

Note	Group 2006 Actual \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Net surplus	10,342	6,434	15,753	2,408
Add/(less) items classified as investing activities				
Net loss/(gain) on disposal of property, plant, & equipment	310	(147)	32	(140)
Add/(less) non-cash items				
Share of associate's deficit for the year	91	60	-	-
Depreciation	8,743	9,204	7,189	7,282
(Surplus)/deficit attributable to minority interests	80	3	-	-
Amortisation of identifiable intangibles	39	9	-	-
Unrealised changes in the value of subsidiaries	200	313	-	-
(Gain)/loss on foreign currency loan	(115)	(21)	-	-
Increase/(decrease) in employee entitlements	(47)	(154)	(54)	(154)
Increase/(decrease) in provisions	-	-	584	2,332
(Increase)/decrease in future income taxation benefit	(356)	(481)	(138)	(120)
	8,635	8,933	7,581	9,340
Add/(less) movements in working capital items				
Increase/(decrease) in payables and accruals	4,029	(177)	3,247	(363)
Increase/(decrease) in employee entitlements	1,427	1,453	1,617	916
(Increase)/decrease in receivables and prepayments	(2,377)	(361)	(4,046)	172
(Increase)/decrease in inventory and un invoiced receivables	553	(87)	196	(215)
(Increase)/decrease in taxation receivable	101	700	(31)	418
	3,733	1,528	983	928
Net cash inflow from operating activities	23,020	16,748	24,350	12,536

20 Investments

Investment in subsidiaries	21	-	-	12,709	12,709
Investment in associates	22	491	47	537	37
		491	47	13,246	12,746

21 Investments in subsidiaries

Name	Principal activities	Ownership and voting interest	
		2006 %	2005 %
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
EcoConnect Ltd	Real-time environmental forecasting services	100	50

All subsidiaries have a balance date of 30 June.

NIWA Vessel Management Ltd, NIWA Natural Solutions Ltd, and EcoConnect 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.

NIWA acquired the remaining 50% of the shares in EcoConnect Ltd during the year for \$nil. EcoConnect Ltd has an authorised share capital of \$300,000, divided into 300 000 ordinary shares of \$1.00 each, all of which have been issued, are unpaid, and are beneficially owned by NIWA at 30 June 2006. EcoConnect Ltd had not commenced trading by 30 June 2006.

No shares in subsidiaries were disposed of during the year ended 30 June 2006.

Notes to the Financial Statements

22 Investments in associates

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

The NIWA Group acquired 50% ownership in CRL Energy Ltd on 1 April 2006.

Name	Principal activities	Group ownership and voting interest		Group carrying amount	
		2006 %	2005 %	2006 \$'000	2005 \$'000
Ensid Investments Ltd	Intellectual property investments	50	50	24	34
Ensid Technologies Ltd	Commercialisation of intellectual property	50	50	(30)	13
CRL Energy Ltd	Energy & environmental research	50	-	497	-
				491	47

The reporting dates of all associates are 30 June, except for CRL Energy Ltd, which has a reporting date of 31 March. The Group's share of the results of operations for the periods ended 30 June 2006 has been included in the Group Financial Statements. All associates are incorporated in New Zealand.

	Group 2006 Actual \$'000	Group 2005 Actual \$'000
Carrying value of associates		
Carrying value at the beginning of the year	47	-
Shares purchased	535	107
Share of net loss	(91)	(60)
Carrying value at the end of the year	491	47

The associates did not have contingent liabilities or other commitments contracted for as at 30 June 2006, other than for the supply of inventories. The Group is not jointly or severally liable for any liabilities of the associate companies. The value of investments in associates is carried in the Parent Company at cost.

23 Loans to associates

	Group 2006 Actual \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Ensid Investments Ltd	26	-	26	-
Ensid Technologies Ltd	80	-	-	-
	106	-	26	-

The loan to Ensid Investments Limited is unsecured, has an interest rate of 0%, and is repayable on 30 September 2006.

The loan to Ensid Technologies Limited is unsecured and is repayable on 30 September 2006. This loan has an effective interest rate of 30% p.a.

24 Intercompany

	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
NIWA non-current liability	12,119	14,285

An amount of \$13.6 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 \$310,000, NIWA Environmental Research Institute of \$122,000, NIWA (USA), Incorporated of \$18,000, NIWA Natural Solutions Ltd of \$247,000, and Unidata Pty Ltd of \$806,000, resulting in a net non-current liability of \$12.1 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 further provision of \$584,000 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. During the year the Parent Company agreed to a partial defeasance of the loans advanced to NIWA (USA), Incorporated, to the value of US\$97,000 (NZ\$145,101). The Directors still expect the remaining advances to subsidiaries to be fully recovered, but not in the short term. The provision is included in the NIWA intercompany non-current liability of \$12,093,000.

During the year NIWA contracted vessel charters from its subsidiary NIWA Vessel Management Ltd totalling \$9.4 million (2005: \$9.4 million) and purchased workshop services totalling \$38,224 (2005: \$37,851). NIWA Vessel Management Ltd contracted services from its Parent, NIWA Science, totalling \$1.2 million (2005: \$250,719).

During the year NIWA contracted scientific research from its subsidiary NIWA Australia Pty Ltd totalling \$267,523 (2005: \$135,489) and provided research services to NIWA Australia Pty Ltd of \$53,245 (2005: \$258,800).

NIWA earned revenue of \$62,410 (2005: \$102,000) from research subcontracts with NIWA Environmental Research Institute.

NIWA Natural Solutions Ltd purchased products from NIWA for \$633,910 (2005: \$454,000).

Notes to the Financial Statements

24 Intercompany (continued)

NIWA charged its subsidiaries for administration expenses and management services totalling \$1.3 million for the financial year (2005: \$1.3 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.

25 Joint ventures

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 GNS Science Ltd). 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.

26 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 2006 Actual \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Public Good Science and Technology				
Contract funding	42,895	39,469	42,845	39,469
Capability Fund	7,479	4,260	7,479	4,260
Ministry of Fisheries	16,060	16,626	16,060	16,626
Ministry for the Environment	443	505	443	505
Department of Conservation	781	755	781	726
Land Information New Zealand	6,405	1,507	973	926
Genesis Energy	1,030	968	1,030	968
Meridian Energy	1,788	1,050	1,788	1,050
Mighty River Power	832	834	832	834
Ministry of Agriculture & Forestry	1,578	474	1,578	474

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

27 Segment information

The Group operates predominantly in New Zealand in two industries – research and vessel charter.

Industry segments	Total		Research		Vessel charter		Eliminations	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue:								
From customers outside the Group	106,414	91,137	100,969	87,469	5,445	3,668	–	–
Inter-segment	–	–	1,261	225	9,403	9,481	(10,664)	(9,706)
Total revenue	106,414	91,137	102,230	87,694	14,848	13,149	(10,664)	(9,706)
Surplus before taxation	15,706	9,654	11,203	6,502	4,310	3,272	(193)	(120)
Unallocated expenses	–	–	–	–	–	–	–	–
Total surplus before taxation	15,706	9,654						
Segment assets	68,758	66,850	42,506	52,158	26,252	14,692	–	–
Total assets	68,758	66,850						

The major products or 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.

28 Financial instruments

(a) 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 (2005: \$nil).

Notes to the Financial Statements

28 Financial instruments (continued)

(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:

	2006	2005
On call	7.45–11.35%	7.0–10.9%
Short term	–	–

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

	2006	2005
Cash (on call)	6.75–7.25%	6.0–6.75%

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

NIWA has regularly reviewed its treasury policy to ensure 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 \$18,723,000 (total exposed to credit risk, which is bank, short-term investments, and debtors, net of provisions).

(b) Fair values

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

29 Foreign currency denominated monetary assets and liabilities

	Group 2006 Actual \$'000	Group 2005 Actual \$'000	Parent 2006 Actual \$'000	Parent 2005 Actual \$'000
Current assets not hedged:				
Australian dollars	979	1,033	73	5
European euro	52	4	52	4
Japanese yen	144	142	144	142
US dollars	170	122	29	6
Current liabilities not hedged:				
Australian dollars	92	363	–	–

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

30 Commitments

30a. Operating lease obligations

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

Within 1 year	984	938	923	822
Between 1 and 2 years	885	786	825	786
Between 2 and 5 years	2,237	2,175	2,237	2,175
Over 5 years	3,468	4,271	3,468	4,271
	7,574	8,170	7,453	8,054

30b. Capital commitments

Commitments for future capital expenditure:

Contracted, but not provided for	98	119	23	79
	98	119	23	79

31 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 on ACC's unfunded liability for past claims and future payments to employees by the companies. There are no other significant contingent liabilities that require disclosure in the Financial Statements.

32 Subsequent events

There were no subsequent events.

TO THE READERS OF

NATIONAL INSTITUTE OF WATER ATMOSPHERIC RESEARCH LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

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 2006.

Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 70 to 82:
 - 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 2006; 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 29 August 2006, 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 2006. 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.

Other than the audit, we have no relationship with or interest in the company or any of its subsidiaries.



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