SAMOA PITCAIRN ISLAND
GALAPAGOS ISLANDS
CHICAGO NEW YORK
GALWAY LONDON
VALENCIA GERMANY DUBAI
HONG KONG SINGAPORE
WELLINGTON

WEATHER AND PRESENTATION SERVICES ANYWHERE IN THE WORLD

Weather is a global phenomenon. At any time and in any place around the world many people rely on MetService to assist them in business or in their day to day lives.

We started life in 1861 as a storm-warning service. Today MetService is a dynamic and profitable company with a strong reputation for providing weather and presentation services to customers around the globe.

We are proud of our achievements including being the first National Meteorological Service operation to be awarded ISO 9001 quality certification; developing a leading edge 3D weather presentation system and in-house fine scale weather modelling; and building a strong subsidiary company – Metra – that is wholly focused on providing international services.

SAMOA
6:06 AM

The MetDisplay system, designed and installed by MetService, at Samoa's Faleolo International Airport displays crucial weather information to air traffic control to monitor and assist flights in and out of the country.

PITCAIRN ISLAND
9:06 AM

The automatic weather stations installed and maintained by MetService are measuring temperature, rainfall, humidity, pressure, wind speed and direction, and solar radiation. This information is then used by the global weather models generated out of the USA and UK.

GALAPAGOS ISLANDS
11:06 PM

A technician prepares to launch an upper air weather observing balloon flight for research purposes. He uses state-of-the-art hydrogen generating equipment recently installed by a MetService electronics engineer.

CHICAGO
12:06 PM

A hedge fund operator reviews the latest run of Metra's multi-model generated forecasts to help the company make important decisions on weather derivatives for the energy sector.

In New York it's 1.06pm, and an energy trader on the 25th floor of a Manhattan skyscraper has just received the latest forecasts from Metra for temperatures in major locations in the USA and Europe for the next ten days.

Our information is critical to her success. She will use it to input into the company's own modelling systems and combine it with actual observations. The forecasts signal an end to the recent heatwave in Europe in the next few days, which will mean less electricity demand and a potential for lower natural gas prices. She can use this information to make a well-informed decision on how to proceed.

Over the years MetService has invested resources into developing its modelling systems. Today we have a sophisticated modelling programme employing 12 people. It produces model output for regions around the world including New Zealand, Australia, Asia, the Middle East, UK/Europe and North America. The MetService modelling programme is used in a diverse range of applications from guidance for New Zealand forecasting, to America's Cup syndicates racing in Valencia, and for energy and television companies around the world. The latest investment is the project to develop a novel multi-model forecast system that will provide a consistent suite of probabilistic forecasts spanning all time scales up to fifteen days, with an emphasis on services to the energy sector.

It's 6.06pm in Galway, and at the Gaelic language television station TG4 employees are reviewing the scripts and information provided by Metra, translating them into Gaelic and checking the graphics prior to going to air for the 7.20pm weather presentation.

TG4 engaged Metra in 2005 to help them provide their viewers with weather bulletins that were accurate and looked distinctive and interesting. They now use Weatherscape XT with data generated from models that operate in New Zealand. The feedback they have received from the station presenters, and the viewers themselves, has been overwhelmingly positive.

TG4's director of television Alan Esslemont said that he has been delighted with the service. "Facing the Atlantic, weather forecasting is very important to Irish people's daily lives and the accuracy of the service is remarkable. Feedback from both the viewers and presenters since we went on air with Metra has been superb."

LONDON
6:06PM

The BBC prepares for the weather slot on the evening news using Weatherscape XT. Those not able to watch the TV weather can access Weatherscape XT products on the BBC website.

VALENCIA
7:06PM

Metra's high resolution weather models are being run over the race courses in Valencia to give yachting syndicates the vital competitive edge in pre-regatta competitions and tests.

GERMANY
7:06PM

Metra provides ensemble model generated rainfall forecasts for the Danube basin. These models assist our customer, an energy generator, to determine what the demand for coal powered generation will be over the next few days in relation to how much power will be created by hydro generators.

DUBAI
9:06PM

In Dubai, Weatherscape XT is being used to present on-the-hour weather forecasts on CNBC Arabiya.

HONG KONG
1:06AM

The latest edition of the South China Morning Post is going to press using camera ready weather graphics produced in the forecast operations facility at Kelburn in Wellington, New Zealand.

SINGAPORE
1:06AM

A weary traveller in transit in Singapore checks out the latest weather information at his destination, on CNBC Asia. CNBC Asia relies on Metra to supply accurate and accessible weather information for all their viewers.

WELLINGTON 05:06 AM NZ

It's 5.06am and, while many New Zealanders are still sleeping, the night shift at MetService is just coming to an end. It's business as usual with MetService experts focused on providing accurate and meaningful information to a range of customers who rely on MetService to help them do their jobs better.

The first forecasts of the day have been prepared. Radio packages have been delivered to the 5am deadline so that the announcers can view latest forecasts on the web. Television New Zealand presenters for the breakfast programme will have a full forecast complete with scripts all provided by MetService.

Through the night marine forecasters have been reviewing QuikScat satellite data, surface observations from the New Zealand coastline, and evaluating and interpreting model information. By the early hours of the morning they will have sent out the second issue of the marine forecasts and warnings for the international shipping community that will be broadcast on National Radio at 5:30am.

Airlines can't operate without weather forecasts and the night shift is completing the forecasts to support the first domestic flights of the day. They are also monitoring and updating conditions at airports for the early morning long-haul flights that start to arrive around 5:30am.

New Zealanders and those visiting or working in New Zealand rely on the information we supply to help them plan and prepare for their day, their safety and even their success. We know this and it makes us passionate about what we do every single day.

Our services

MetService's weather and presentation services range from general forecast services to more specialised products designed to meet the needs of specific industries. A summary of our services is provided below. For more detailed information on international business services go to www.metra-info.com; for New Zealand weather and business information visit www.metservice.com

Television and Radio: Weatherscape XT combines the latest advances in 3D rendering technology and graphics animation, computer technology and meteorology to provide state of the art weather presentations that will change the way that people experience weather reporting. Weather information can also be supplied to radio stations via web browsers or fax.

Print Media: MetService can provide weather, financial and stock market information, TV listings, sports betting and racing fields and form pages in camera ready format and with customised graphics.

Energy: We produce forecasts for the energy industry that combine statistical and numerical weather modelling. These can be tailored to the requirements of individual users.

Aviation Services: A range of services can be provided to help airlines around the world to operate more safely and efficiently.

Marine Services: We provide government-funded and freely available basic marine services and can also create tailored forecasts designed to meet specific requirements for a range of industries from oil exploration to individual voyages.

Meteorological Systems: MetService is able to provide meteorological instrumentation systems to customers which include a range of automatic weather stations and innovative display systems.

Internet: Real time weather information can be provided directly to your server for inclusion on your website or delivered via your own in-house applications.

Advertising: Promote your products and services on the number one weather website in New Zealand. www.metservice.com

Business Services: We can provide a range of general business services ranging from short-term specialist forecasts, interactive weather maps, and detailed forecasts to swell forecasts and avalanche warnings. If your industry is weather dependent then we have a range of services that can be tailored to suit your needs.

EXECUTIVE FROM LEFT:

Chief Information Officer Russell Turner, russell.turner@metservice.com

Chief Corporate Services and Company Secretary Ian McEwan, mcewan@metservice.com

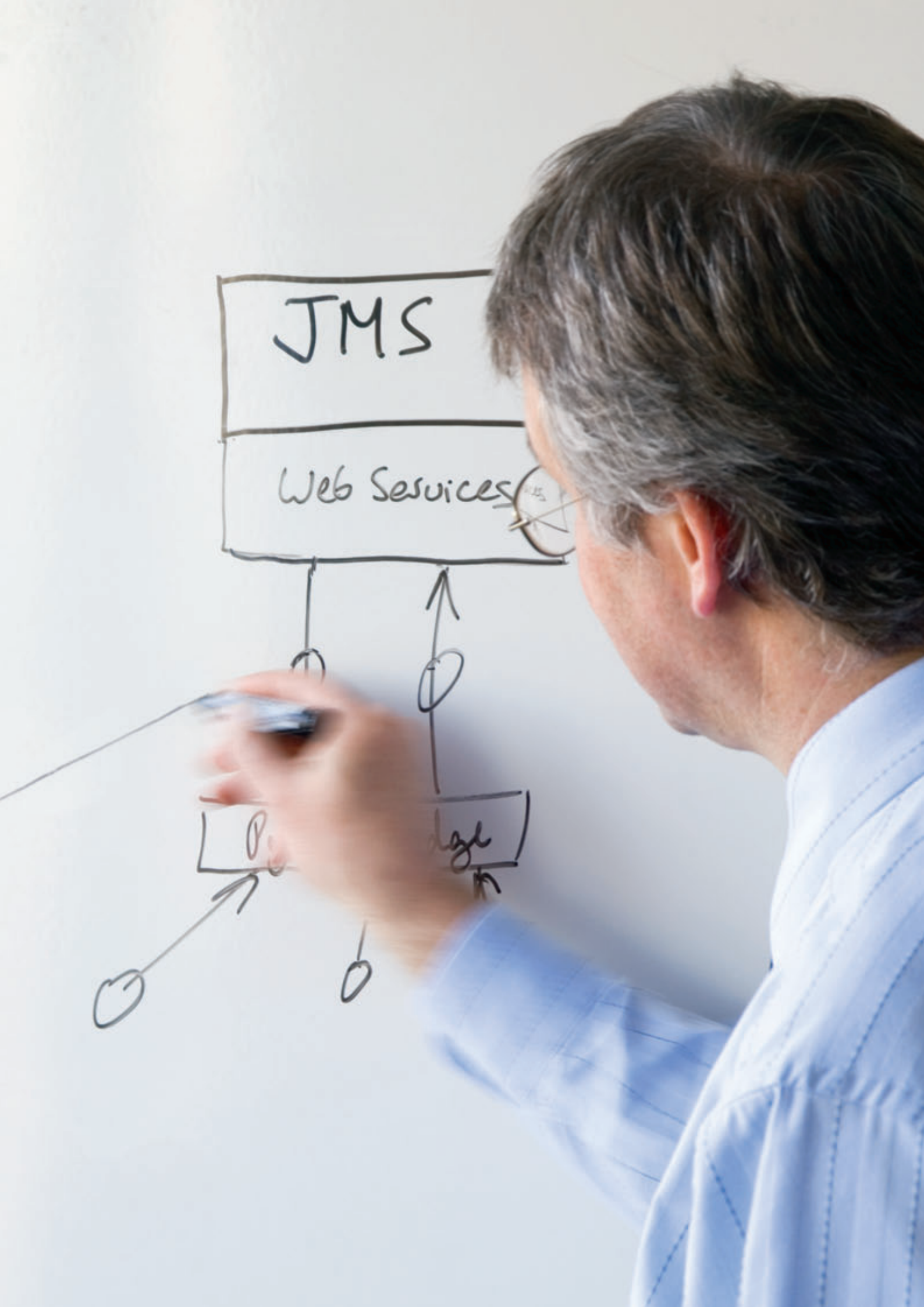
Chief Advanced Technology and Chief Meteorologist Neil Gordon, gordon@metservice.com

Chief National Weather Services Rod Stainer, stainer@metservice.com

Chief Metra Paul Linton, linton@metservice.com

Chief Executive John Lumsden, lumsden@metservice.com

Weatherscape Director Marco Overdale, overdale@metservice.com


JMS
Web Sesuices

The year in review 2005/2006

It has been another successful year for MetService. We are on track with our strategy for growth which is driven by our focus on innovative solutions, operational excellence, high value products and services, and response to customers' needs.

Financial Overview

The MetService group achieved a tax paid profit of $2.793 million, which represents a 39.3% after tax return on average shareholders' funds. This was $0.342 million greater than the financial target forecast in the Statement of Corporate Intent. This return is the result of stronger than anticipated domestic revenue and tight control of international marketing expenditure to offset lower than expected growth in the international energy sector. During the year there were significant investments in infrastructure. Dividends of $3.137 million were paid during the year, consisting of a final dividend for 2005 of $2.287 million and an interim dividend of $0.850 million for 2006.

Our Customers

We have a broad customer base across a range of industries; all of them rely on us to provide the information they need to improve their business performance.

Emergency Management and Severe Weather Warnings: Despite a challenging year with many severe weather events throughout the country, MetService's Probability of Detection (POD) and False Alarm Ratios (FAR) continued to exceed the targets set in the Statement of Corporate Intent. The performance for heavy rain has been particularly notable with the Probability of Detection consistently above 90% and no events were missed in five of the last twelve months.

Television: During the year Metra installed Weatherscape XT weather graphics software at Galway based Irish language channel TG4. We replaced Nine Network Australia's older version of Weatherscape with Weatherscape XT and installed it at their Brisbane, Sydney and Melbourne broadcast centres. We continued working with Australia's FOXTEL owned The Weather Channel. Later this year Metra will also be installing our software at a television station in Northern Europe. In February, Metra carried out the first major Weatherscape XT upgrade at the BBC.

Energy: This year, Metra provided new services for energy companies in the United Kingdom and Germany. The project for the German energy market involved provision of rainfall data for the Danube basin, to a local company running a hydrological model for the specific area. Our UK work involved providing complex ensemble information to major UK energy generators and traders on a daily basis.

Film Companies: MetService continued to provide weather forecast services to the film industry. Some of the films that benefited from our services included Power Rangers, Aramoana Massacre, Waterhorse, The Ferryman, The Bridge to Terabithia, 10,000BC, The Hop House and The Insiders.

Weather to Tourism i-SITES: In New Zealand, MetService introduced a new product 'Weatherscape CLIP' which distributes images and movies direct to mobile applications, web sites, and television. VC Media are using Weatherscape CLIP to provide a new service, branded WeatherTrek, that will be located at New Zealand's many tourism i-SITE information centres. It is expected that more than one million visitors to New Zealand and over two million New Zealanders will view WeatherTrek throughout the year.

Road Weather Hazards: MetService designed and engineered mSTAR weather stations were deployed at several key locations within Transit New Zealand's road network. mSTAR weather stations are stand alone units that don't require mains power or communications connection. They can run from mains or battery feeds, use GPRS cellular communication networks and routinely operate by drawing power from solar panels.

MetService uses high quality instrumentation to supply top quality, dependable observations in real time to our customers. We also use these observations to fine tune forecasts to Transit New Zealand sites where mSTARs are located in order to provide better information related to hazardous road weather.

Aviation: Forecast services for very high latitudes were successfully trialled with the Royal New Zealand Air Force to support flights operating out of McMurdo Sound in the Antarctic. The service will be fully implemented next summer.

MetService Awards

We have received a number of awards and endorsements this year which publicly recognise MetService's culture of innovation and commitment to high standards of service.

New Zealand's Prime Minister the Rt Hon Helen Clark presented us with Exporter of the Year 2006 at the Export New Zealand ANZ Wellington Region Export Awards. This recognised the rapid international growth that Metra has experienced over the last three years.

Peter Hollingsworth, Metra's UK/Northern Europe Market Manager, was invited to Buckingham Palace in November, as part of a UK Trade & Industry event for 'Captains of Industry'. Metra's invitation to meet the Queen celebrated the continued success in providing weather forecasts to the UK energy market and being selected by the BBC as their weather graphics supplier.

MetService won the 2006 Computerworld Excellence Awards "Excellence in the Use of IT for Customer Service" category. Our entry was the Weather Information Service Engine (WISE) that is behind MetConnect, MetraWeather and the MetService website. The WISE engine allows us to provide customised, rapid and simple changes to web sites with minimal overhead and lead time.

The Chartered Institute of Logistics and Transport 2004/05 award for Safety Innovation was awarded to MetService for the high resolution forecast model that was developed for Dunedin Airport. The model driven system issues alerts when wind conditions are likely to cause difficulties for planes landing or taking off, and is recognised as an innovation that enhances safety at a reasonable cost.

New Services

Improved Resolution for Mesoscale Model: In July 2005, MetService commissioned a new 20 processor SGI Altix 350 high performance computer system to support high resolution modelling for customers in New Zealand and internationally.

In the UK, we improved the resolution of our mesoscale model from a horizontal grid spacing of 20 km down to 12 km and plan to extend this Europe-wide. In January 2006 the new SGI Altix 350 enabled us to improve the resolution of our operational mesoscale model over New Zealand to 8 km horizontal grid spacing and 50 vertical levels.

SMS: MetService launched an SMS text service TXT4SNOW that enables skiers and snow boarders to receive a snow report and a MetService forecast direct to their mobile phone.

Severe Convection Trial: MetService continued to develop its expertise in forecasting intense local weather. A Severe Thunderstorm Watch system was trialled with the Thames-Coromandel District Council during the first half of 2006 and further trials are planned for the coming summer with a view to offering a new service from mid 2007.

Newspaper Race Fields and Form: Over the last year, there has been significant growth in MetService's production of print-ready pages for newspapers in New Zealand as media look to outsource the production of their non-editorial pages. In partnership with the New Zealand Racing Board, MetService under the Metra brand commenced the routine production of race field and form pages for the major metropolitan newspapers in New Zealand. The racing pages complement our ongoing production of the weather, television and financial pages for newspapers.

Research & Technology Projects

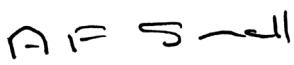
We undertook a number of important projects this year all of which helped improve the services we offer.

Unified 15 Day Probabilistic Forecasts: In October the Advanced Technology Division commenced work on a major research and development project to implement probabilistic forecasts of spot weather elements. This project will provide the capability for probability forecasts, at all time ranges out to 15 days, based on a unified approach employing multiple weather models. The project is oriented to satisfying worldwide energy industry requirements and is supported by Technology New Zealand's Technology for Business Growth programme.

Upgrade of Weather Observing Equipment: Over the last year there has been significant investment in the observation network infrastructure. Doppler weather radars in North Auckland, Wellington and Canterbury

"Looking back over the year there have been many triumphs. We have delivered on a range of projects, developed services, won new business and worked with long-standing customers. I am looking forward to another successful year ahead."

Francis Small, Chairman



were fitted with modern processors and the Invercargill radar was upgraded to full Doppler capability. New software has provided forecasters with state-of-the-art tools for analysing mesoscale weather systems.

Whenuapai and Chatham Island upper air stations were equipped with new processing systems, and the remaining stations at Raoul Island, Paraparaumu, and Invercargill will be upgraded over the coming 12 months. The new systems provide significantly improved data accuracy and resolution.

New Automatic Weather Stations: New automatic weather stations were installed at Slipper Island in the western Bay of Plenty, Stephens Island in Cook Strait, and Takapau in southern Hawke's Bay. These new stations improve observation coverage in important marine and agricultural areas.

Major IT Projects: Major projects this year included a review of MetService's communication requirements and migration of older data networks to IP based technology. This underpins implementation of Voice over IP technology, including the consolidation of voice and data services onto one resilient network and the upgrade of the infrastructure supporting the MetPhone/MetFax products.

Another project to implement systems and processes to support remote forecasting operations has also been introduced. This project is a key component of the strategies that are designed to further improve the disaster recovery capabilities of the National Meteorological Service operation.

GUAN GCOS Upper Air Bauerfield Vanuatu: After 10 years without upper air reports from Vanuatu, MetService engineers with funding support from the UK Met Office and the US GCOS programme upgraded the Global Upper Air Network station at Bauerfield Airport and restored daily operations in June 2006.

Emergency Communications Niue: In May 2006 Niue suffered total loss of power to the island following a devastating fire at its only power station. MetService's International Operations Manager helped the Niue Meteorological Service deploy a solar powered emergency email communications system to send and receive weather information, forecasts and warnings during a week long power outage.

Quality Management

Surveillance audits of MetService's ISO 9001 certification were carried out and no non-conformities were found. The quality system was updated to reflect the new structure that was put in place towards the end of the 2005 financial year.

In November 2005 the Civil Aviation Authority (CAA) completed the five-yearly audit of MetService's Civil Aviation Part 174 Certification. MetService was re-certified with very high marks for a further five years. CAA also visited MetService in March 2006 with the ICAO Safety Oversight Audit team. Following the visit CAA advised MetService that "Company representatives had presented a very professional picture of MetService at the initial briefing and this was backed up thoroughly during the subsequent tour of operations…they [the ICAO team] were both very, very impressed with

A forecaster is reviewing computer model forecasts and observations.

the professional nature of MetService, its people and the level and breadth of meteorological services provided…"

The Information Services Group is well on the way to adopting the ITIL framework as best-practice for IT operations. This will support MetService's recent investment in service management systems to enable us to improve the traceability of service levels that we agree with our customers.

Events

Metra exhibited at IBC, Europe's major television broadcast trade show held in Amsterdam. We demonstrated Weatherscape XT to current and potential customers and took the opportunity to learn about new developments in the broadcast industry.

MetService successfully hosted a symposium on "Enhanced Weather Services for Decision Making" which was attended by more than 40 flood and emergency managers from around the country. Participants were briefed on new capabilities being developed by MetService, in particular a watch and warning service for severe thunderstorms.

In February 2006, Peter Hollingsworth, Zander Tripp and Brian Peters attended the 2006 European Wind Energy Conference in Athens, Greece. The event was a great opportunity to network, meet new contacts and keep abreast of new ideas in the industry.

Other News

International Visits: We were visited by a University of California Los Angeles MBA group that had analysed MetService and some of its products and markets, as a market strategy exercise. New Zealand Trade & Enterprise supported the project. A Massachusetts Institute of Technology MBA group also visited as part of a similar exercise; this visit was supported by Technology New Zealand.

www.metservice.com: The MetService website is one of the most visited websites in New Zealand, and growing fast. It is also the No.1 weather information website in New Zealand. In June 2006 over 265,000 unique visitors generated over 3.4 million page impressions. We have added new features to the website. Last year ski field conditions were added to metservice.com and this year it was the No.1 ski field and mountain forecast website in New Zealand. Website advertising revenue has grown substantially with specific sponsorship being a major part of this growth. Main sponsors included AMI Insurance (weather watch), GlaxoSmithKline (pollen) and Jeep (ski-field sections). Major weather related advertising campaigns included MAF – Didymo/Sea Squirt and the Land Transport Safety Authority.

Our People

Training Course: Nine new trainee forecasters successfully completed the 2005 professional meteorologist course, and all now work in our forecast room. Three further forecasters are being trained on the 2006 course.

World Meteorological Organization (WMO): Neil Gordon is nearing the end of his second four-year term as President of the WMO Commission for Aeronautical Meteorology. He delivered his final report as President to the WMO Executive Council session in Geneva in June 2006.

Our Chief Executive, John Lumsden, continued to serve as a member of the WMO Executive Council, a position he will retain until the 15th Congress in 2007. During the year he participated in the Council's advisory group on the Evolution of WMO and National Meteorological Services.

MetService represented New Zealand at the second session of the Joint WMO/IOC Commission for Oceanography and Marine Meteorology held in Halifax, Canada in September 2005. This is a technical commission that oversees international cooperation for marine forecasting services and research activities.

THORPEX: MetService continued active and enthusiastic involvement in THORPEX, the WMO's major research programme designed to accelerate improvements in high impact weather forecasts out to ten days. Neil Gordon was a co-author of the Southern Hemisphere THORPEX Science Plan, taking the lead on societal and economic impacts. In June 2006 Neil was elected as co-chair of a newly formed THORPEX Southern Hemisphere Committee.

Zander Tripp was employed as Market Manager Southern/Central Europe and relocated to Barcelona to set up Metra's second European office.

During the year we said farewell and most sincere thanks to Keith Mackersy and David Knott. Both had long service as members of the management committee since 1992, and in Keith's

"There have been many occasions during my time here when I have felt honoured to be part of the success of MetService. It's fantastic to see it go from strength to strength and that is thanks largely to the hard work and dedication of a fantastic team of people."

John Lumsden, Chief Executive

case a total of 46 years in MetService and its predecessor organisation. They are missed.

There were no changes to the composition of the Board during the year in review and we would like to record our appreciation for the contribution of the directors. We would also like to thank all of the employees, that at year end numbered 196, for another year of hard work, innovation and enthusiasm.

We thank all our customers and suppliers, in New Zealand and internationally, for supporting the Company during the year. We value the positive relationships that we have with the many individuals and organisations that have an interest in MetService and acknowledge the contribution that they make to the success of the Company.

Reflections of the Chief Executive

I was hired in 1992 to create a commercially successful company from the weather forecast and warnings service run by the New Zealand Ministry of Transport. At that time many around the world said that it could not, or should not, be done.

Fourteen years on, MetService has returned dividends and capital of over $40 million to the taxpayers, and built a company with a worth evaluated at $55 million through the provision of weather and presentation services to an array of customers in New Zealand and around the world. This is a tribute to both our commercial structure as a State Enterprise, and the enthusiastic and innovative application of science, technology, and marketing by our MetService people.

These have been the most rewarding years of my career, encompassing a breadth and depth of fascinating issues. Highlights include seeing our first international sales of weather services to the media; MetService people developing entirely new services for customers based on the way we decided to do weather modelling; the recognition of our severe weather warnings service by emergency managers; the launch of Weatherscape by the BBC; and the international meteorological community accepting the integrity of our involvement and electing me to the Executive Council of WMO.

I am stepping down from the leadership of a Company that is in good health, with a strong heart and vibrant spirit. I thank everyone involved, particularly our enthusiastic employees who have succeeded at being roughly right at the expense of precisely irrelevant, time and time again. MetService has a bright future, and it is my hope that our Government owners continue to support our approach to making a helpful and successful business out of advanced weather forecast services.

John

Weatherscape XT forecast for TG4, Ireland's Gaellic language channel.

METSERVICE NOTABLE ACHIEVEMENT AWARD 2006 RECIPIENTS:

Top row from left: Gabi Thomspson, John Crouch, Peter Lowe, Nick Read, Lee Wilson, Chris Webster, Kevin Hunter.

Middle row from left: Tom Sutherland, David Frampton, David Norman, Bill Witham, Belinda Gilkison, Humphrey Elton, Mark Schwarz, Matthew Huck, Neil Urbahn, Liz McLaughlin, Mary Hogben, Peter Hollingsworth, Peter Kreft.

Bottom row from left: Karen Kingswood, Louise Murrell, Megan Wheeler, Greg Allan, Dirk Heinsius, Don Hogben, Amanda Rathod, Hamish Skinner, Jodi Taylor, Trevor Davie, Colin Brown.

Karen Kingswood, Belinda Gilkison, Amanda Rathod, Megan Wheeler, Jodi Taylor, Mary Hogben

The team identified Kypera Financials as the preferred replacement for the existing DOS based accounting software. Having identified Kypera, they developed a business case and obtained Management Committee approval.

The implementation timetable was very aggressive with the changeover to the new system only taking two months.

Despite some teething problems, often associated with this type of project, the team continued to meet tight month-end reporting deadlines and maintained the payables and receivables ledgers to a high standard.

Bill Witham, Hamish Skinner, Neil Urbahn, Nick Read, Trevor Davie

Bill was the project manager for the radar upgrade project which involved converting 1980s technology radars to use modern processors. This was a challenging project that required hours of problem solving both on-site and in the workshops.

Bill successfully managed the project from start to finish, which involved developing technical requirements, preparing RFPs, evaluating suppliers' responses, appointing a preferred supplier, and successfully managing the project day to day. Bill also had hands-on involvement at each site.

Hamish, Neil, Nick and Trevor worked with Bill on the upgrades of the four weather radars.

The importance of collecting weather radar data means that the upgrades had to be completed with minimal disruption.

The team undertook on-site hardware modifications and also dealt with demanding technical issues to ensure that the job was completed successfully.

Kevin Hunter, John Crouch

Kevin and John undertook significant work on software and meteorology to enable MetService to take full advantage of its new radar technology.

SIGMET provided introductory courses to enable familiarisation with the operation and use of the IRIS system. The process of getting new products from radars to the forecast room was something that MetService had to work on itself.

Kevin and John spent many hours teaching themselves how to use the IRIS system, troubleshooting, and reporting any bugs they found. Both showed a high level of determination during the testing phase of the project, and worked closely with SIGMET on implementing the application software.

MetService's forecasting operations and many customers now enjoy the benefits of Kevin and John's dedication and knowledge.

Peter Hollingsworth

Peter spearheaded Metra's expansion into the United Kingdom and Europe. From 2001 to 2004 he was Metra's sole representative in Europe and had minimal in-country support. Peter has shown great commitment to building and maintaining positive relationships with Metra's customers and to building our presence in those countries.

Don Hogben

Don was the technical lead on the implementation of Microsoft Exchange within MetService. The project went very smoothly and was completed on budget, primarily due to Don's effort. The project involved nearly 200 people being migrated from their old applications, with multiple email accounts and historical email changes being addressed.

Don Hogben visited almost every person and took them through the changes, as well as answering hundreds of questions and emails.

Louise Murrell, Greg Allan, Colin Brown, Humphrey Elton, Karen Grandy, Lee Wilson, Liz McLaughlin, Tom Sutherland, Peter Lowe, David Frampton, David Norman, Matthew Huck, Dirk Heinsius

Australia's Channel Nine was the first international customer for Weatherscape, and started using it for broadcast in 1998. In November 2005 Channel Nine requested that we upgrade their system to Weatherscape XT with a go live date of 30 January 2006.

This was a major project and a big undertaking as it required the creation of shows, sourcing and delivery of data, and installation at three broadcast centres using a new release of Weatherscape. This installation coincided with the first major upgrade of Weatherscape XT at the BBC. The project was completed on time thanks to the hard work and skill of the team involved.

Peter Kreft, Chris Webster, Gabi Thompson, Mark Schwarz

The Professional Development team of Peter, Chris, Gabi, and Mark provided a huge amount of training during the 2005 calendar year. In addition to a trainee meteorologists' course with ten trainees they also provided training for Aviation Monitoring staff, Control Room Operators, and MetService's Paraparaumu based technical staff.

The training was delivered to an extremely high standard even though the team were under significant pressure because additional resources for assistance with training could not be made available.

Henry Hill Award

John Crouch has demonstrated outstanding enthusiasm for and dedication to weather forecasting in his role as an Expert Meteorologist.

Over the past years John has displayed the curiosity and tenacity to understand atmospheric processes and then apply his knowledge in a practical way for the benefit of his fellow forecasters and MetService as a whole.

John's work on convection processes has introduced a new dimension to forecasting in New Zealand. He has backed this up with work on radar imagery which enables us to see convection processes happening in real time.

Report of the Directors to the Shareholders

The Directors have pleasure in presenting the Annual Report, together with the audited financial statements of Meteorological Service of New Zealand Limited for the year ended 30 June 2006.

DIRECTORS FROM LEFT:

Dr Francis Small (Chairman), Polly Schaverien, John Hercus, Joanne Keestra, Shale Chambers, Dr Margo Buchanan-Oliver (Deputy Chair), Thomas Jamison, Dr Graham Hill.

Business Activities

The principal activity of the Company is the provision of weather services in New Zealand and internationally, including data acquisition, forecasts and warnings, dissemination and consultation.

Related to the core business is the acquisition, processing, interpretation, presentation and dissemination of near real-time non-weather information.

Results of Operations	2006 $000	2005 $000
Net Surplus attributable to Shareholders	2,793	4,152
Interim Dividends Paid	(850)	(3,050)
Special Dividends Paid	-	(3,000)
Final Dividend Paid	(2,287)	(1,040)
Retained Earnings at beginning of the year	2,287	5,225
Retained Earnings at end of year	1,943	2,287

Changes in Capital

There were no changes in capital during the year under review.

Auditor

In accordance with Section 19 of the State Owned Enterprises Act 1986, the Office of the Auditor-General is the Auditor for the Company. PricewaterhouseCoopers audit Meteorological Service of New Zealand Limited on behalf of the Auditor-General.

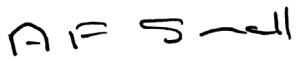
During the year, amounts received or due and receivable by PricewaterhouseCoopers were: Meteorological Service of New Zealand Limited – Audit $35,359 ($27,500 2005) and - Other Services $Nil ($20,840 2005), and Metra Information Limited – Audit $9,000 ($3,500 2005)

Remuneration of Employees

The number of employees (not including directors) whose remuneration and benefits during the accounting period were within specified bands is as follows:

$000	Number	$000	Number
100 – 109	7	170 – 179	1
110 – 119	6	180 – 189	1
140 – 149	1	200 – 209	1
150 – 159	2	360 – 369	1
160 – 169	1		

For, and on behalf of the Board, which authorised the issue of the financial report on 15 August 2006.



A F Small, Chairman

T Jamison, Director

Directors

In accordance with the Constitution of the Company, directors are appointed by the shareholders.

Directors' Remuneration

Directors' remuneration and benefits received, or due and receivable during the accounting period, are as follows. No remuneration was paid to directors in their capacity as directors of Metra Information Limited. Remuneration totalling $20,000 has been provided but not allocated at 30 June 2006:

F Small	38,000	M Buchanan-Oliver	23,750
J Hercus	21,500	T Jamison	23,250
G Hill	21,500	J Keestra	21,500
P Schaverien	21,500	S Chambers	23,250

Directors' Interests

Interests Register
F Small: Director Antarctica New Zealand Ltd;
Chairman Centre for Advanced Engineering;
Shareholder/Director Murray King & Francis Small Consultancy;
Councillor WelTec.
S Chambers: Deputy Chairman Auckland Energy Consumer Trust.
T Jamison: Director Sustema Consulting.
J Keestra: Shareholder/Director Keestra & Co.
P Schaverien: Trustee Correspondence School of New Zealand;
Director Michael Bird & Associates.
J Hercus: Director NIWA; Commissioner New Zealand Fire Service Commission.
G Hill: Director NIWA; Council Member UNITEC.

Directors' Loans
There were no loans by the Company to directors.

Directors' Insurance
The Company has arranged policies for Director's Liability Insurance, which 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.

Donations

The Company has made no donations in the latest financial year.

Changes in Accounting Policies

There have been no material changes in accounting policies in the latest financial year.

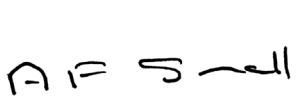
Meteorological Service of New Zealand Limited Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2006	Note	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
REVENUE					
Operating Revenue		29,572	30,762	27,279	27,130
Interest Revenue		162	156	146	146
Total Revenue		**29,734**	**30,918**	**27,425**	**27,276**
OPERATING EXPENSES					
Audit Fees		44	31	35	28
Fees for Other Services Provided by Auditor		-	21	-	21
Costs of Operating Leases and Renting Items		483	160	473	146
Directors' Fees		214	184	214	184
Loss (Gain) on Sale of Fixed Assets		4	(6)	6	(6)
Bad Debts Written Off		2	2	2	2
Bad Debts Recovered		(6)	-	(6)	-
Movement in Doubtful Debt Provision		40	-	40	-
Software Development Expenditure		110	30	99	29
Depreciation – Buildings		50	50	50	50
Depreciation – Computer Equipment		2,716	2,539	2,260	2,242
Depreciation – Furniture and Fittings		46	48	45	47
Depreciation – Buildings on Leasehold Land		22	23	22	23
Depreciation – Meteorological Equipment		218	219	218	219
Depreciation – Motor Vehicles		35	32	35	32
Depreciation – Office Equipment		20	18	17	16
Depreciation – Plant and Equipment		41	42	41	42
Interest Expense		314	73	308	72
Other Operating Expenses		21,182	21,247	19,797	18,863
Total Operating Expenses		**25,535**	**24,713**	**23,656**	**22,010**
Surplus before Taxation		**4,199**	**6,205**	**3,769**	**5,266**
Taxation Expense	3	(1,406)	(2,053)	(1,261)	(1,737)
NET SURPLUS		**2,793**	**4,152**	**2,508**	**3,529**

Meteorological Service of New Zealand Limited Statement of Financial Position

AS AT 30 JUNE 2006	Note	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
EQUITY					
Capital	6	5,000	5,000	5,000	5,000
Retained Earnings	17	1,943	2,287	618	1,247
Total Equity		**6,943**	**7,287**	**5,618**	**6,247**
LIABILITIES					
Accounts Payable and Accruals	7	4,869	4,079	4,510	4,010
Provisions	19	436	431	436	431
Directors' Fees Payable		57	37	57	37
Income Taxation Payable		-	98	-	129
Total Current Liabilities		**5,362**	**4,645**	**5,003**	**4,607**
Loan	11	4,000	4,000	4,000	4,000
Total Non Current Liabilities		**4,000**	**4,000**	**4,000**	**4,000**
TOTAL LIABILITIES AND EQUITY		**16,305**	**15,932**	**14,621**	**14,854**
ASSETS					
Cash on Hand at Bank		614	392	120	70
Accounts Receivable – Trade		3,218	2,797	2,785	2,461
Accounts Receivable – Other		647	875	547	459
Amounts Owing from Subsidiary	14	-	-	527	554
Deposits		1,955	2,880	1,955	2,880
Inventories		373	573	373	573
Income Taxation Receivable		643	-	492	-
Total Current Assets		**7,450**	**7,517**	**6,799**	**6,997**
Deferred Taxation	3	695	517	683	544
Fixed Assets	4	8,160	7,898	7,139	7,313
Total Non Current Assets		**8,855**	**8,415**	**7,822**	**7,857**
TOTAL ASSETS		**16,305**	**15,932**	**14,621**	**14,854**

The Board of Directors of Meteorological Service of New Zealand Limited authorised these financial statements for issue on 15 August 2006.



A F Small, Chairman

T Jamison, Director

Meteorological Service of New Zealand Limited Statement of Movements in Equity and Statement of Cash Flow

STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006	Note	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
EQUITY AS AT 1 JULY		**7,287**	**10,225**	**6,247**	**9,808**
Net Surplus		2,793	4,152	2,508	3,529
Total Recognised Revenues and Expenses		**2,793**	**4,152**	**2,508**	**3,529**
DIVIDENDS PAYABLE IN CASH					
Interim Dividends	16	(850)	(3,050)	(850)	(3,050)
Final Dividend	16	(2,287)	(1,040)	(2,287)	(1,040)
Special Dividend	16	-	(3,000)	-	(3,000)
Total Dividends		**(3,137)**	**(7,090)**	**(3,137)**	**(7,090)**
Movement in Equity for the year		**(344)**	**(2,938)**	**(629)**	**(3,561)**
EQUITY AS AT 30 JUNE		**6,943**	**7,287**	**5,618**	**6,247**
STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2006					
CASH FLOW FROM OPERATING ACTIVITIES					
Cash was Provided from: Receipts from Customers		30,210	30,256	27,539	27,192
Interest Received		162	144	146	132
Cash was Applied to: Payments to Suppliers & Employees		(21,915)	(21,335)	(20,598)	(18,983)
Interest Paid		(284)	(72)	(284)	(71)
Income Taxation Paid		(2,325)	(1,806)	(2,021)	(1,479)
Net Cash Inflows from Operating Activities	5	**5,848**	**7,187**	**4,782**	**6,791**
CASH FLOW FROM INVESTING ACTIVITIES					
Cash was Provided from: Proceeds from Liquidated Deposits		925	-	925	-
Proceeds from Borrowings		-	-	-	-
Proceeds from Sale of Fixed Assets		-	14	-	14
Cash was Applied to: Repayment of Borrowings		-	-	-	-
Investment in Deposits		-	(490)	-	(490)
Purchase of Fixed Assets		(3,414)	(2,420)	(2,520)	(2,196)
Net Cash Outflows from Investing Activities		**(2,489)**	**(2,896)**	**(1,595)**	**(2,672)**
CASH FLOW FROM FINANCING ACTIVITIES					
Cash was Provided from: Long Term Debt		-	3,000	-	3,000
Cash was Applied to: Dividends		(3,137)	(7,090)	(3,137)	(7,090)
Net Cash Outflows from Financing Activities		**(3,137)**	**(4,090)**	**(3,137)**	**(4,090)**
Net Increase in Cash Held		**222**	**201**	**50**	**29**
Add Opening Cash brought forward		392	191	70	41
ENDING CASH CARRIED FORWARD		**614**	**392**	**120**	**70**

Meteorological Service of New Zealand Limited Notes to the Financial Statements

1 STATEMENT OF ACCOUNTING POLICIES

The financial statements presented here are for the reporting entity Meteorological Service of New Zealand Limited and the consolidated financial statements of the group comprising Meteorological Service of New Zealand Limited and the wholly owned subsidiary Metra Information Limited. The financial statements are prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993, and the State Owned Enterprises Act 1986.

A. General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, cash flows and the financial position under the historical cost method are followed in the preparation of the financial statements.

B. Particular Accounting Policies

The following particular accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows, are applied.

Revenue
Revenue shown in the Statement of Financial Performance comprises the amounts received or receivable for goods and services supplied to customers in the ordinary course of business.

Accounts Receivable
Accounts receivable are carried at their expected net realisable value. An estimate is made for doubtful debts based on a review of all outstanding accounts at year end. Bad debts are written off during the year in which they are identified.

Inventories
Inventories are valued at the lower of cost, on a weighted average cost basis of inventory on hand calculated at the time of the last purchase, and net realisable value.

Fixed Assets
The cost of purchased property, plant and equipment is valued at the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service. The cost of self constructed assets includes the cost of all materials used in construction, direct labour on the project and an appropriate portion of variable and fixed overheads.

Distinction between costs that are Capitalised and Expensed
Capital expenditure is defined as all expenditure on the creation of a fixed asset, and any expenditure which results in a significant improvement in the formation of a fixed asset. Computer software, either purchased or developed by the Company for its own use, is capitalised in the year in which the expenditure is incurred.

Expenditure which restores an asset to its original condition and all expenditure incurred on maintenance and operating the Company is expensed in the period in which it is incurred.

Depreciation
Depreciation of fixed assets, other than freehold land, is calculated using the straight-line method to allocate the historical cost or valuation over the estimated useful life of the asset, after due allowance has been made for the expected residual value. Leasehold land is depreciated over the life of the lease. The cost of improvements to leasehold property are capitalised, disclosed as buildings on leased land, and amortised over the unexpired period of the lease, or the estimated useful life of the improvements, whichever is the shorter.

The annual depreciation rates shown below are considered appropriate for each classification of asset:

Buildings	2.5%
Computer Equipment & Software	33.3%
Furniture & Fittings	20.0%
Leasehold Property	3.1%
Meteorological Equipment	10.0%
Motor Vehicles	20.0%
Office Equipment	20.0%
Plant & Equipment	10.0%

The remaining useful lives of assets are reviewed periodically, and the annual depreciation charge is adjusted where necessary.

Research and Development
Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as assets when it is probable that the project will be a success considering its commercial and technological feasibility.

Taxation
The income taxation expense charged against the surplus includes both current and deferred taxation, and is calculated after allowing for non-assessable income and non-deductible costs.

Deferred taxation resulting from timing differences is adjusted against the surplus for the year using the liability method of calculation applied on a comprehensive basis. A deferred taxation benefit relating to any taxation losses is only recognised if there is virtual certainty of realisation.

Leases
Operating lease payments, where lessors retain substantially all the risk or benefit of ownership of the leased items, are recognised as an expense in the periods the amounts are payable.

Foreign Currencies
Transactions denominated in foreign currency are converted to New Zealand dollars using the exchange rate at the date of the transaction, except for those transactions subject to forward contracts, where the forward rates specified in those contracts are applied.

At balance date, foreign monetary assets and liabilities are recorded at the closing exchange rate.

Gains or losses due to currency fluctuations, both realised and unrealised, are recognised in the Statement of Financial Performance.

Financial Instruments
Financial instruments carried on the Statement of Financial Position include cash and bank balances, accounts receivable, accounts payable and borrowings. These financial instruments are recognised at the lower of cost or net realisable value. Financial instruments with off balance sheet risk entered into as hedges of an underlying exposure to fluctuations in foreign currency exchange

rates are accounted for on the same basis as the underlying exposure. Financial instruments entered into with no underlying exposure are accounted for on a mark-to-market basis, with any reduction, gain or loss recognised in the Statement of Financial Performance.

Statement of Cash Flows
The following are definitions of the terms used in the Statement of Cash Flows:

i) Cash is considered to be cash on hand and current accounts in banks.

ii) Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and of investments. Investments can include securities not falling within the definition of cash.

iii) Financing activities are those activities which result in changes in the size and composition of the capital structure. Dividends paid in relation to the capital structure are included in financing activities.

iv) Operating activities include all transactions and other events that are not investing or financing activities.

Goods and Services Tax
All items included in the financial statements are reported exclusive of Goods and Services Tax, except for accounts payable and accounts receivable, which includes GST invoiced.

Impairment
Annually, the directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than the carrying amount, the asset is written down. The impairment loss is recognised in the Statement of Financial Performance.

Principles of Consolidation
The consolidated financial statements are prepared from the financial statements of the Parent Company and its subsidiary as at 30 June 2006 using the purchase method.

The results of any subsidiary acquired or disposed of during the year are included in the Statement of Financial Performance from the date of acquisition or disposal.

All significant transactions between Group companies are eliminated on consolidation.

When a member of the Group participates in a joint venture arrangement, that member recognises its proportionate interest in the individual assets, liabilities and expenses of the joint venture. The liabilities recognised include its share of those for which it is jointly liable.

Comparatives
Some comparatives figures have been reclassified for comparative purposes and to assist the reader of the financial statements.

Changes in Accounting Policies
Accounting policies have been applied on a basis consistent with the previous year.

2 SEGMENT INFORMATION

Meteorological Service of New Zealand Limited operates predominantly in one industry segment, meteorological services. Its operations are carried out predominantly in New Zealand and are therefore within one geographical segment for reporting purposes.

All activities are continuing.

3 TAXATION EXPENSE

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Surplus before Tax	**4,199**	**6,205**	**3,769**	**5,266**
Prima Facie Taxation thereon at 33 per cent	1,386	2,047	1,244	1,737
The Taxation Effect of Permanent Differences is as follows:				
Non-Deductible Legal Fees	8	-	-	-
Non-Deductible Expenditure	26	7	24	6
Prior Year Adjustment	(14)	(1)	(7)	(6)
Taxation Expense	**1,406**	**2,053**	**1,261**	**1,737**
Current Taxation	1,590	2,105	1,406	1,799
Deferred Tax	(184)	(52)	(145)	(62)
Taxation Expense	**1,406**	**2,053**	**1,261**	**1,737**
Deferred Taxation				
Opening balance	517	484	544	501
Transfer from Current Taxation	184	52	145	62
Prior Year Adjustment	(6)	(19)	(6)	(19)
Closing Balance	**695**	**517**	**683**	**544**
Imputation Credit Account				
Imputation Credit Account as at 1 July	1,130	2,661	564	2,459
Income Taxation Paid during the Year (net of tax refunds)	2,351	1,961	2,040	1,597
Imputation Credits attached to Dividends Paid during the Year	(1,545)	(3,492)	(1,545)	(3,492)
Imputation Credit Account as at 30 June	**1,936**	**1,130**	**1,059**	**564**

4 FIXED ASSETS		Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Land	Cost	118	118	118	118
	Accumulated Depreciation	-	-	-	-
	Book Value	118	118	118	118
Land – Leasehold	Cost	447	447	447	447
	Accumulated Depreciation	(313)	(292)	(313)	(292)
	Book Value	134	155	134	155
Buildings	Cost	470	470	470	470
	Accumulated Depreciation	(129)	(109)	(129)	(109)
	Book Value	341	361	341	361
Buildings on Leasehold Land	Cost	1,566	1,560	1,566	1,560
	Accumulated Depreciation	(567)	(537)	(567)	(537)
	Book Value	999	1,023	999	1,023
Furniture and Fittings	Cost	722	672	706	668
	Accumulated Depreciation	(597)	(553)	(591)	(553)
	Book Value	125	119	115	115
Computer Equipment and Software	Cost	17,596	15,188	15,604	14,065
	Accumulated Depreciation	(13,873)	(11,447)	(12,857)	(10,890)
	Book Value	3,723	3,741	2,747	3,175
Meteorological Equipment	Cost	7,735	7,040	7,735	7,040
	Accumulated Depreciation	(6,387)	(6,172)	(6,387)	(6,172)
	Book Value	1,348	868	1,348	868
Motor Vehicles	Cost	204	204	204	204
	Accumulated Depreciation	(122)	(87)	(122)	(87)
	Book Value	82	117	82	117
Office Equipment	Cost	209	206	197	193
	Accumulated Depreciation	(172)	(161)	(167)	(158)
	Book Value	37	45	30	35
Plant and Equipment	Cost	539	526	537	524
	Accumulated Depreciation	(369)	(336)	(369)	(335)
	Book Value	170	190	168	189
Capital Work in Progress	Internally Developed Software (note 10)	849	789	849	789
	External Purchased Software and Equipment	234	372	208	368
TOTAL NET BOOK VALUE		**8,160**	**7,898**	**7,139**	**7,313**

5 RECONCILIATION OF NET SURPLUS WITH CASH FLOW FROM OPERATING ACTIVITIES

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
NET SURPLUS	**2,793**	**4,152**	**2,508**	**3,529**
Non Cash Items				
Loss (Gain) on Disposal of Fixed Assets	4	(6)	6	(6)
Depreciation	3,148	2,971	2,688	2,671
Movement in Deferred Taxation	(178)	(33)	(139)	(43)
Total Non Cash Items	**2,974**	**2,932**	**2,555**	**2,622**
Movements in Working Capital				
(Increase) in Receivables	(193)	(260)	(385)	(154)
Increase in Accounts Payable and Accruals	815	291	525	701
(Increase) Decrease in Income Taxation	(741)	279	(621)	300
Decrease (Increase) in Inventories	200	(207)	200	(207)
Total Movement in Working Capital	**81**	**103**	**(281)**	**640**
NET CASH FLOW FROM OPERATING ACTIVITIES	**5,848**	**7,187**	**4,782**	**6,791**

6 CAPITAL

Authorised, Issued and Fully Paid Capital Consists of 5,000,000 Ordinary Shares	**5,000**	**5,000**	**5,000**	**5,000**

Share Issue Details and Rights

Ordinary shares: As at 30 June 2006 there were 5,000,000 shares issued and fully paid (2005: 5,000,000). All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

7 ACCOUNTS PAYABLE AND ACCRUALS

Sundry Creditors and Accruals	1,847	1,448	1,675	1,405
Accounts Payable, including PAYE and GST	1,299	790	1,313	820
Employee Entitlements	1,215	1,209	1,215	1,209
Income in Advance	508	632	307	576
TOTAL ACCOUNTS PAYABLE AND ACCRUALS	**4,869**	**4,079**	**4,510**	**4,010**

8 CAPITAL COMMITMENTS

There are no capital commitments outstanding at the balance date not provided for (2005: $nil).

9 LEASE COMMITMENTS

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Non-Cancellable Operating Lease Commitments are:				
0-1 Year	134	135	134	135
1-2 Years	106	113	106	113
2-5 Years	145	196	145	196
5 Years and Over	71	58	71	58

The Group leases land; operating leases over these properties give the Group the right to renew the lease subject to a redetermination of the lease by the lessor. There are no renewal options or options to purchase in respect of plant and equipment held under operating leases.

10 SOFTWARE DEVELOPMENT COSTS

Incomplete Software Projects as at 1 July	789	783	789	783
Software Development Costs Incurred During the Year	1,672	1,298	1,672	1,298
Cost of Software sold to External Parties or Written Off	(112)	(13)	(112)	(13)
Software Development Costs Capitalised to Fixed Assets	(1,500)	(1,279)	(1,500)	(1,279)
INCOMPLETE SOFTWARE PROJECTS AS AT 30 JUNE	**849**	**789**	**849**	**789**

Internally developed software costs for which there is an enduring benefit are capitalised to fixed assets and amortised over a period of three years.

11 LOAN

Unsecured Bank Loan	**4,000**	**4,000**	**4,000**	**4,000**

On 30 June 1998, Meteorological Service of New Zealand Limited entered into a term loan agreement with the Westpac Banking Corporation. This agreement was extended on 30 June 2005. The term loans mature between 30 June 2008 and 30 June 2009. The Group intends extending the loans on maturity. The interest rates are fixed. The average interest rate for the loans as at 30 June 2006 is 7.28% (2005: 7.24%).

12 FINANCIAL INSTRUMENTS

Nature of Activities and Management Policies With Respect to Financial Instruments

Forward Contract Agreements

At balance date the notional principal or contract amounts of outstanding foreign currency agreements were (NZD): nil.

Meteorological Service of New Zealand Limited undertakes transactions denominated in foreign currencies from time to time and, resulting from these activities, incurs exposures to foreign currency risks. It is Meteorological Service of New Zealand Limited's policy to hedge foreign currency risks as they arise. Meteorological Service of New Zealand Limited uses forward and spot foreign exchange contracts to manage these exposures.

Credit Risk

Financial instruments which potentially subject Meteorological Service of New Zealand Limited to credit risk principally consist of bank transactions and deposits, accounts receivable and sundry accounts receivable. Meteorological Service of New Zealand Limited has a credit policy which is used to manage its exposure to credit risk. As part of this policy, limits on exposures have been set and are monitored on a regular basis.

In the normal course of business amounts due from the Ministry of Transport represent a significant account receivable, however, it is not regarded as a significant concentration of credit risk.

Meteorological Service of New Zealand Limited does not require collateral or security to support financial instruments due to the quality of financial institutions and trade debtors dealt with.

Interest Rate Risk

Meteorological Service of New Zealand Limited's short term deposits are at fixed interest rates and mature within 30 days.

Meteorological Service of New Zealand Limited has long term fixed rate borrowings which are used to fund ongoing activities. Interest rate exposure is maintained on a fixed rate basis.

Fair Values

Forward Contract Agreements

At balance date the fair value of outstanding foreign currency agreements were (NZD): nil.

There were no other differences between the fair value and the carrying amounts of financial instruments at 30 June 2006 (2005: $nil).

Meteorological Service of New Zealand Limited has a money market facility of $1,000,000 available, of which it had drawn down $0 as at 30 June 2006 (2005: $nil).

13 RELATIONSHIP WITH THE CROWN

Meteorological Service of New Zealand Limited is a limited liability company incorporated in New Zealand, under the Companies Act 1993. The shares are held equally by the Minister for State Owned Enterprises and the Minister of Finance on behalf of the Crown. The Crown does not guarantee the liabilities of Meteorological Service of New Zealand Limited.

14 RELATED PARTY TRANSACTIONS

During the year, Meteorological Service of New Zealand Limited provided certain meteorological services to the Ministry of Transport under a significant contract.

Meteorological Service of New Zealand Limited also undertakes transactions with other State Owned Enterprises and Government Departments. All the foregoing were carried out on a commercial and arm's length basis in the normal course of business.

The Parent develops computer software products, some of which were acquired by its subsidiary, Metra Information Limited. These acquisitions were made on normal commercial terms and amounted to $812,424 (2005: $924,628). A balance owed of $241,695 (2005: $128,874) was outstanding at the year end.

During the year the Parent was reimbursed for expenses it incurred on behalf of Metra Information Limited, amounting to $597,960 (2005: $1,081,776). A balance owed of $285,762 (2005: $424,899) was outstanding at the year end.

No amounts owed by related parties have been written off or forgiven during the year.

15 INVESTMENT IN SUBSIDIARY

The Parent Company's investment in the subsidiary comprises shares at cost. Metra Information Limited, a company involved with the provision of weather and information presentation services, is a wholly owned subsidiary incorporated in New Zealand with a 30 June balance date.

16 DIVIDEND

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Interim Dividends				
Interim Dividends relating to Current Year	(850)	(3,050)	(850)	(3,050)
Final Dividends				
Final Dividend relating to Prior Year	(2,287)	(1,040)	(2,287)	(1,040)
Special Dividends				
Special Dividends relating to Current Year	-	(3,000)	-	(3,000)
TOTAL DIVIDENDS PAID	**(3,137)**	**(7,090)**	**(3,137)**	**(7,090)**

17 RETAINED EARNINGS CARRIED FORWARD

Retained Earnings				
Retained Earnings brought forward	2,287	5,225	1,247	4,808
Operating Surplus for the year	2,793	4,152	2,508	3,529
Dividends paid during the year	(3,137)	(7,090)	(3,137)	(7,090)
RETAINED EARNINGS CARRIED FORWARD	**1,943**	**2,287**	**618**	**1,247**

18 CONTINGENT LIABILITIES

Meteorological Service of New Zealand Limited has no contingent liabilities as at 30 June 2006 (2005: $nil).

19 PROVISIONS	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Campbell Island Provision				
Opening Balance as at 1 July	161	156	161	156
Movement in Provision	5	5	5	5
Closing Balance as at 30 June	166	161	166	161
Termination Leave Provision				
Opening Balance as at 1 July	270	245	270	245
Movement in Provision	-	25	-	25
Closing Balance as at 30 June	270	270	270	270
TOTAL PROVISIONS AS AT 30 JUNE	**436**	**431**	**436**	**431**

Campbell Island Provision
The Campbell Island provision is an estimate of the cost (in today's dollars) of removing the surplus buildings from Campbell Island at the expiry of the licence to occupy.

Termination Leave Provision
The termination leave provision is an actuarial assessment of the accrued termination leave liabilities for current employees of Meteorological Service of New Zealand Limited. Only those employees with 10 years service when the scheme closed are eligible for the benefit.

20 INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the Accounting Standards Review Board announced that New Zealand's reporting entities would be required to apply New Zealand equivalents to International Financial Reporting Standards for reporting periods after 1 January 2007. Meteorological Service of New Zealand Limited will adopt NZ IFRS with effect 1 July 2007; the first audited NZ IFRS financial statements will cover the period to 30 June 2008, with comparative information for the period commencing 1 July 2006.

Upon first time adoption of NZ IFRS, comparative information will be restated in NZ IFRS compliant financial statements. Details of the impacts of the adoption to comparative information will be set out in those financial statements. An initial review of the key accounting and business impacts of adopting NZ IFRS has been completed.

An overview of the most significant differences in accounting policies that are expected to impact the Group on adoption of NZ IFRS are:

Classification of Computer Software assets
Under NZ IFRS where software is not an integral part of the related hardware, computer software is treated as an intangible asset. On adoption software assets will be reclassified from fixed assets to intangible assets.

Taxation
Under NZ IFRS, deferred tax will be calculated using a "balance sheet" approach which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items rather than the accounting and tax values recognised in the Statement of Financial Performance. It is expected that on adoption of NZ additional deferred tax balances will be recognised.

However, NZ IFRS and Meteorological Service of New Zealand Limited's intended accounting treatments are subject to ongoing review. Consequently Meteorological Service of New Zealand Limited is currently unable to reliably quantify the impact on the financial performance or position at this time. As such, the actual impact of adopting NZ IFRS may vary and that variation may be material.

Audit Report to the readers of Meteorological Service of New Zealand Limited and Group's Financial Statements for the year ended 30 June 2006

The Auditor-General is the auditor of Meteorological Service of New Zealand Limited (the Company) and Group. The Auditor-General has appointed me, Karen Shires using the staff and resources of PricewaterhouseCoopers, 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 21 to 30:
  - 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 15 August 2006, and is the date at which our opinion is expressed.

The basis of our 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 the 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 our 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 our 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 State-Owned Enterprises Act 1986 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 and section 19(1) of the State-Owned Enterprises Act 1986.

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 interests in the Company or any of its subsidiaries.

Karen Shires
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL STATEMENTS
This audit report relates to the financial statements of the Company and Group for the year ended 30 June 2006 included on the Company's web-site. The Company's Board of Directors is responsible for the maintenance and integrity of the Company's web site. We have not been engaged to report on the integrity of the Company's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 15 August 2006 to confirm the information included in the audited financial statements presented on this web site. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Meteorological Service of New Zealand Limited Key Performance Indicators

FOR THE YEAR ENDED 30 JUNE 2006	Statement of Corporate Intent Target	Actual 2006	Actual 2005
Net Surplus attributable to Shareholders	$2,450,000	$2,793,000	$4,152,000
Net Surplus attributable to Shareholders : Average S/H Funds	42.5%	39.3%	47.4%
EBIT : Total Tangible Assets		27.5%	27.9%
Current Ratio	0.79:1	1.39:1	1.62:1
Equity Ratio	39.4%	42.6%	45.7%
Net Surplus attributable to Shareholders : Total Sales	8.4%	9.4%	13.5%
Accounting Value of Crown's Investment	$5,823,000	$6,943,000	$7,287,000
Probability of Detection (POD)	**Minimum**		
Heavy Rain	75%	91%	90%
Heavy Snow	75%	91%	86%
Severe Gales	75%	92%	87%
False Alarm Ratio (FAR)	**Maximum**		
Heavy Rain	40%	29%	25%
Heavy Snow	40%	16%	5%
Severe Gales	40%	23%	30%

Quality Certification
We retained full ISO 9001:2000 re-certification and are happy to record that the quality system auditors found us fully compliant. We also retained our Civil Aviation Rule Part 174 certification again receiving re-certification with a high standard against the measurement criteria.

POD: Probability of Detection measures the proportion of forecast events against actual events.

FAR: False Alarm Ratio measures the proportion of forecasts where the actual event did not reach the warning criteria.

Warning Criteria
MetService is required to issue warnings of widespread hazardous weather, which may cause conditions that could threaten life or property on land. Warnings are issued to a variety of organisations and the media, in the form of Severe Weather Warnings.

Warnings of heavy rain are issued when:

- rain is expected to exceed 50mm in six hours; or
- rain is expected to exceed 100mm in 24 hours

Warnings of heavy snow are issued when:

- snow is expected to affect areas below 1000m in the North Island; and
- snow is expected to affect areas below 500m in the South Island; and
- snow is expected to exceed 10cm in six hours, or 25cm in 24 hours

Warnings of severe gales are issued when:

- sustained winds are expected to exceed 47kt or gusts exceed 60kt, over land

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