

NATIONAL LIBRARY OF
13 OCT 1998
NEW ZEALAND

**NATIONAL INSTITUTE OF WATER
AND ATMOSPHERIC RESEARCH LIMITED**

STATEMENT OF CORPORATE INTENT

1998/1999

18 May 1998

WAW

**THIS STATEMENT IS SUBMITTED BY THE BOARD
OF DIRECTORS OF THE NATIONAL INSTITUTE
OF WATER & ATMOSPHERIC RESEARCH
LIMITED (THE INSTITUTE) IN ACCORDANCE
WITH THE CROWN RESEARCH INSTITUTES ACT
1992. IT SETS OUT THE BOARD'S OVERALL
INTENTIONS AND OBJECTIVES FOR THE
COMPANY TO 30 JUNE 1999, AND THE TWO
SUCCEEDING FINANCIAL YEARS.**

CONTENTS

	PAGE
PREAMBLE	1
1 MISSION	4
2 CORE BUSINESS	5
3 BUSINESS POLICIES	7
4 BUSINESS STRATEGIES	8
5 PERFORMANCE MEASURES AND TARGETS	9
6 POLICY STATEMENTS	12
6.1 Accounting Policy	12
6.2 Borrowing Policy	12
6.3 Dividend Policy	12
6.4 Treasury Policy	13
6.5 Purchases and Disposals Policy	14
6.6 Non Core Activities Policy	14
6.7 Control of Subsidiary Companies	15
6.8 Co-operative Activities	15
6.9 Databases	16
7 INFORMATION REPORTING	18
8 COMMERCIAL VALUE OF THE CROWN'S INVESTMENT	19
APPENDIX	
DIRECTORY	

PREAMBLE

The National Institute of Water and Atmospheric Research Ltd (NIWA) is a Crown Research Institute wholly owned by the New Zealand Government and incorporated on 1 July 1992. NIWA is New Zealand's foremost institute in atmospheric and aquatic science. NIWA undertakes a mix of public good research and commercial scientific services which benefit New Zealand by transferring technologies to agencies responsible for the sustainable management of aquatic and atmospheric natural resources.

Organisational Structure

NIWA's main locations are at Wellington (Greta Point), Hamilton, Christchurch, Auckland, Lauder and Nelson. The Executive comprises the Chief Executive, Director of Operations, Research Director, Director of Fisheries Research and General Manager (Finance). Regional Managers at each location report to the Director of Operations and are responsible for the implementation of policies and delivery of scientific and commercial outputs. Project management forms the basis of NIWA's operations, with budgeting, financial and line control of staff by project.

This single unified organisational structure facilitates multidisciplinary science, separates policy from delivery, provides a direct and consistent interface between policy development and implementation, promotes consistent application of strategies and policies, and enables common standards and culture to be developed across the whole company.

The flexibility of NIWA's structure allowed a largely seamless merger with MAF Fisheries Research to take place in July 1995 when 170 MAF staff were transferred to NIWA and the associated assets and facilities were purchased from the Crown. This included the research vessels *Tangaroa* and *Kaharoa*.

Financial Situation

Since the establishment of NIWA on 1 July 1992, shareholders' funds have increased consistently, PGSF and commercial revenue have grown strongly and the company has operated profitably. In the five completed years of operation, from 1992-93 to 1996-97, operating profit averaged 20.96% of shareholders' funds and the average post-tax return on shareholders' funds was 13.81%.

NIWA Consolidated	92-93	93-94	94-95	95-96	96-97	97-98 Budget
Average Shareholders' Funds (\$000)	11,680	12,421	14,220	24,569	35,966	38,577
Revenue (\$000)						
PGSF & NSOF	24,979	25,447	26,940	28,225	29,239	31,315
MFish	-	-	-	16,604	13,485	13,785
Commercial	10,544	10,587	11,577	15,113	16,197	15,820
Total	35,523	36,034	38,517	59,942	58,921	60,920
Operating Profit (\$000)	2,724	2,167	3,233	5,887	6,225	5,071
Operating Profit/Average SHF (%)	23.32%	17.45%	22.74%	23.96%	17.31%	13.51%
NPAT (\$000)	1,852	1,483	2,113	3,614	4,208	3,397
NPAT/Average SHF (%)	15.86%	11.94%	14.86%	14.71%	11.70%	8.81%

Financial targets for 1998-99 and the subsequent two years are indicated in section 5.

Public Good Science Fund

Although the overall growth of the PGSF has been less than projected by the Government's 1995 statement on priorities for the PGSF, NIWA successfully increased its PGSF revenue by 10.9% over the two-year period of the 1996-98 bidding round, and has increased its PGSF revenue by a further 18.3% (more than \$5 million) over the two-year period of the 1998-2000 bidding round. These gains are largely due to increased market share in NIWA's core PGSF outputs.

Ministry of Fisheries

Since 1 October 1997, fisheries research for stock assessment advice to the Ministry of Fisheries has been fully contestable. While NIWA tendered successfully for 88% of the projects and more than 95% of the funding in the first year of full contestability for the Ministry's research contracts, revenue from this source is decreasing because of the substantial reduction in overall Ministry of Fisheries research funding. NIWA considers that further reductions in the quantum of stock assessment research could have serious implications for the sustainability of New Zealand's marine fisheries. We believe that substantial changes are required to the current systems for the purchase and management of fisheries research in New Zealand, to improve their efficiency and effectiveness in meeting the needs of sustainable management of fish stocks. Key changes should include a formal management planning framework on which to base research needs, maximising the effective and efficient use of New Zealand's limited

fisheries research capability, ensuring that research is adequately funded, and minimising conflicts of interest between industry, stakeholders and research providers.

Vessel Ownership

A subsidiary company, NIWA Vessel Management Ltd, owns and operates the two research vessels *Tangaroa* and *Kaharoa*. Concern exists over the declining commitment to fisheries research over the last three years which impacts directly on vessel sea days. The vessels only remain viable through the addition of NIWA's ocean and marine science programmes from the Public Good Science Fund. Alternative charter opportunities are being actively sought to ensure that the fullest possible use is made of the vessels.

Human Resources

Staff numbers have grown substantially since NIWA's establishment, and staff turnover has been low (less than 3% per annum). The net changes to NIWA's staff numbers between 1 July 1992 and 1 March 1998 have included the establishment of 50 new, permanent positions (over and above the transfer of MAF Fisheries staff in July 1995). These new positions comprise 31 scientists, 7 science technicians and 12 support staff.

NIWA has put in place a performance management system and remuneration policy that rewards staff for individual performance. Our financial performance over the last four years has enabled us to raise the salary levels of our scientists and science technicians to 5-16% above the market median at equivalent levels of skills, qualifications and experience (source: Cullen Egan Dell science sector salary survey, September 1997). In addition, all staff received substantial profit-linked bonuses in 1996 and 1997.

1.0 MISSION

NIWA is an independent research institute that conducts international quality science and provides applied science services. NIWA's science and services assist in understanding natural processes and human influences operating in atmospheric and aquatic systems.

Our mission is:

To provide a scientific basis for the sustainable management of New Zealand's atmospheric, marine and freshwater systems and associated resources.

We are committed to:

- maintaining and enhancing NIWA's position as New Zealand's **leading provider** of atmospheric and aquatic science
- directing our science principally towards providing the basis for **sustainable resource management**, with the intention of providing a strong knowledge base to assist in the implementation of New Zealand's Resource Management Act, **sustainable management of fisheries** and finding solutions to broader **global environmental concerns**
- producing **high quality science**, delivering **scientific services** to high professional standards, and positioning ourselves to exploit **new opportunities** as they arise
- developing and maintaining the **science capabilities** needed to achieve the priorities set for the Public Good Science Fund, including continuing the five joint NIWA/university **Centres of Excellence** in areas of science where New Zealand has a growing demand for quality graduates
- operating with financial efficiency to ensure that we generate the surpluses needed to develop our business and provide an adequate **return on shareholders' funds** to maintain the Institute's financial viability
- developing excellence in strong **multidisciplinary** research and the ability to work in large, integrated teams on difficult environmental problems, leading to outcomes which improve New Zealand's ability to manage our aquatic and atmospheric **environment** and associated resources such as **fisheries**
- ensuring that the **working environment** is responsive to our science direction and that all staff are treated in a fair and equitable manner
- securing a **diverse client base** to broaden our source of revenue, increase our awareness of new commercial opportunities and to minimise the Crown's ownership risk
- recognising the principles of the **Treaty of Waitangi** in formulating and undertaking research programmes.

2.0 CORE BUSINESS

2.1 Key Scientific Competencies

NIWA's core business is based on key competencies in the following areas:

- behaviour and composition of the atmosphere and its interaction with the oceans
- natural processes of marine, coastal and freshwater ecosystems of New Zealand, together with impacts that human activities have upon them
- measurement of fish abundance and productivity
- marine and freshwater aquaculture
- development of criteria for environmental standards
- fish population modelling and the assessment of risk
- frequency, magnitude and timing of atmospheric and hydrological phenomena, in particular extreme events and long term changes and variability
- the nature and variability of oceanic water masses, currents and waves
- marine geological processes and bathymetry
- identification and evaluation of the biota of marine, estuarine, river and lake ecosystems
- repair and rehabilitation of aquatic ecosystems
- development of marine natural products with chemotherapeutic, industrial and agricultural applications
- design and servicing of national information bases on atmospheric trace gases, climate, water resources and quality, aquatic biota, bathymetry and sediments
- provision of public information, technology transfer and international liaison in atmosphere and water disciplines.

2.2 Core Research Areas

NIWA's core research areas are:

- **atmospheric research**, including urban air quality, greenhouse gases and tropospheric aerosols, stratospheric chemistry (including UV and ozone dynamics), Antarctic atmospheric research, climate/weather processes and national climate database network
- **freshwater research**, including hydraulics, hydrology, aquatic pollution prediction and control, river ecosystems, lake ecosystems, aquatic plant management, freshwater fish biology/ecology, Antarctic ecological research and national freshwater database network
- **fisheries research**, including fisheries biology and ecology, population dynamics, fisheries modelling and stock assessment, fisheries genetics and pathology, and assessment of impact of fishing activities on non-target species
- **coastal research**, including coastal and estuarine processes (physical, biological and chemical), aquaculture and aquatic pollution prediction and control
- **marine research**, including physical and biological oceanography, taxonomic assessment of biodiversity, current and wave analysis, seabed geological processes and ocean productivity
- **aquaculture production research**, including life histories, hatchery technology, field technology, disease management and stock enhancement.

3. BUSINESS POLICIES

NIWA is committed to the principles of operation stated in section 5 of the Crown Research Institutes Act 1992:

- (a) That research undertaken by NIWA should be undertaken for the benefit of New Zealand.
- (b) That NIWA should pursue excellence in all its activities.
- (c) That in carrying out its activities, NIWA should comply with any applicable ethical standards.
- (d) That NIWA should promote and facilitate the application of: -
 - * the results of research; and
 - * technological developments.
- (e) That NIWA should be a good employer.
- (f) That NIWA should be an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage those interests when able to do so.

4.0 BUSINESS STRATEGIES

NIWA's business strategies include

- conducting multidisciplinary science which further establishes nationally and internationally recognised expertise in water, atmospheric and fisheries science and consolidates NIWA's position as New Zealand's leading provider of research and related services in these fields
- promoting NIWA's research with a view to its application, leading to outcomes which improve New Zealand's ability to manage fisheries resources and the environment
- consolidating the unification of NIWA as a commercial science business with high staff morale, confidence in senior management, long-term retention of staff and a high level of staff "ownership" of the company
- providing a premium level of innovative and specialised service to clients
- providing for the professional and career development of staff and ensuring that appropriately qualified staff are available where and when required
- recognising the principles of the Treaty of Waitangi in formulating and undertaking research programmes
- achieving strong financial performance and retaining profits by reinvesting in personnel, infrastructure improvement and strategic capital.

5. PERFORMANCE MEASURES AND TARGETS

Financial Performance

NIWA is operating as a commercially viable organisation and continues to perform satisfactorily with its return ratios:

- 1997-98 NPAT budget return on equity 8.8% (1998-99 budget 9.1%)
- 1997-98 EBIT budget return on assets employed 8.3% (1998-99 budget 8.6%)

NIWA is conservatively funded:

- 1997-98 proprietorship rate 75.8% (1998-99 budget 79.4%)

NIWA will continue to fulfill the institute's financial obligations as specified in section 5 of the Crown Research Act 1992, viz.:

- 2 "...operate in a financially responsible manner so that it generates operating funds sufficiently to maintain its financial viability"
3a "...providing a reasonable return on the shareholders' funds invested in the Crown Research Institute"
3b "...operated as a going concern"

We aim to achieve the following specific targets:

NIWA CONSOLIDATED Business Plan 1998-99

	Budget 1997/98	Budget 6 mth 1998/99	Budget 1998/99	Forecast 1999/00	Forecast 2000/01
Revenue	60,920	31,293	63,559	65,380	67,295
Operating expenses & depreciation (\$000s)	55,849	28,671	57,930	58,954	60,807
Operating profit before tax (\$000s)	5,071	2,622	5,629	6,427	6,488
Net profit after tax (\$000s)	3,397	1,757	3,771	4,306	4,347
EBIT	5,359	2,650	5,687	6,487	6,549
EBIT Margin (%) (KFPI)*	8.80	8.47	8.95	9.92	9.73
Average Total assets (\$000s)	51,761	52,541	53,531	56,690	61,047
Productivity					
Revenue per operational staff (\$000s)	152.68	154.15	153.90	155.30	156.14
Ratio of revenue to personnel costs	1.96	1.84	1.89	1.91	1.89
Operational staff per support staff	2.71	2.74	2.77	2.81	2.84
Profitability					
Operating profit margin (%)	8.32	8.38	8.86	9.83	9.64
Return on equity (%) (KFPI)*	8.84	8.58	8.98	9.36	8.64
Return on assets (%) (EBIT/Av tot assets) (KFPI)*	10.35	10.09	10.62	11.44	10.73
Liquidity and Efficiency					
Current ratio (KFPI)*	1.18	0.77	0.99	1.56	2.14
Quick ratio	2.07	1.10	1.48	2.43	3.41
Creditors' days	30.65	31.57	30.37	30.52	30.52
Non-FRST/Non-MFish work in progress days	6.44	4.73	4.66	4.51	4.25
Non-FRST debtor days	61.89	69.11	72.09	70.79	71.09
Financial Leverage					
Gearing (%) (KFPI)*	24.29	20.72	20.28	18.88	17.58
Interest Cover (KFPI)*	18.61	91.41	98.05	107.76	108.41
Equity Ratio (KFPI)*	0.74	0.78	0.78	0.81	0.82
Diversification (%)					
Non-FRST & Non-MFish/Total Revenue (%)	25.97	26.51	26.52	26.59	27.45
Number of Operational Staff					
Scientists and Science Technicians	399	406	413	421	431
Number of Support Staff					
Science Support	57	58	58	59	60
General Support	78	78	79	79	80
Management	12	12	12	12	12
	147	148	149	150	152
	546	554	562	571	583

*KFPI = Key Financial Performance Indicator

Non-Financial Performance

In 1998-99 NIWA will report on the following non-financial performance indicators in its Annual Report:

Indicator	How Measured
Staff Composition	No. of staff FTEs, turnover and age composition in the following categories (as defined by CCMAU): research teams; research support; general support and management.
Research Output	No. of publications in the categories (as defined by CCMAU): papers in international, externally refereed scientific journals, series or books; papers in local, internally refereed, journals, series or books; conference papers and abstracts; research monographs or books; popular books; scientific and technical reports. Where available, we will also report on results of external reviews of excellence (FRST reviews), numbers of patents and/or products licensed, equipment developed and results of quality assurance programmes.
Application and Promotion of Science	No. and value of consultancies and contracts to supply information to NZ users; extent of achievement of technology transfer objectives in PGSF contracts; no. of workshops, field days, training sessions, etc; no. of joint ventures or licence agreements with NZ users; no. and value of TBG contracts; availability and degree of use of National Climate Database, Water Resources Archive and NZ Freshwater Fisheries Database; no. of magazine and newspaper feature articles, TV programmes.
Social Responsibility	A narrative outlining initiatives and achievements in this area.
Benefits to NZ	A narrative outlining initiatives and achievements in this area.
Good Employer	A narrative outlining policies to meet the provisions of the Crown Research Institutes' Act 1992 in this area, and the no. of days lost due to work-related accidents as a % of total working days as a measure of "good and safe working conditions".

It is anticipated that the following targets will be met by 30 June 1999:

Staff Composition

A total staff of 562, comprising 413 in research teams, 58 research support, 79 general support and 12 management, with an overall staff turnover of less than 5% per annum.

Research Output

280 papers in international, externally refereed scientific journals, series or books.

20 papers in local, internally refereed journals, series or books.

230 conference papers and abstracts.

20 research monographs or books.

No popular books.

250 scientific and technical reports.

Application and Promotion of Science

500 consultancies (total value \$10.5 million) to supply information to NZ users.

95% achievement of technology transfer objectives in PGSF contracts.

1 joint venture or licence agreement with NZ users.

6 TBG contracts (total value to NIWA \$250,000).

The following number of enquiries for information met from NIWA databases:

National Climate Database - 1,800

Water Resources Archive - 100

NZ Freshwater Fisheries Database - 25

5 magazine and newspaper feature articles and TV programmes

Good Employer

Less than 2.0% of total working days lost due to work-related accidents.

6. POLICY STATEMENTS

6.1 *Accounting Policy*

The Group will adopt the generally accepted accounting principles and policies prescribed by the Institute of Chartered Accountants of New Zealand. Further details are given in the Appendix to this Statement.

6.2 *Borrowing Policy*

The Institute will follow a conservative borrowing policy. Investment in new assets or programmes and activities will predominantly be financed from the Institute's own cashflows.

We will undertake an annual independent audit to assure the Crown that no borrowings have been undertaken that imply any guarantee by the Crown.

Any information or documentation produced by the Institute in support of debt raising or credit agency revenues will be provided to our owners.

6.3 *Dividend Policy*

This will be determined by the level of surplus funds available which will be determined each year by reference to:

- * Our medium and long term capital expenditure programmes
- * Our replacement cost provisions for the research vessels
- * Our working capital requirements

Any distribution would be paid within four months of financial year end.

However, until the Institute has established itself on a firm basis in respect of fisheries research, with secure sources of income from a broad mix of clients, the board does not consider any distribution should be made. With a legacy of serious capital underspending in science prior to the establishment of the CRIs, the Institute expects to continue to need significant retained profits to support investment in its capital infrastructure. Free cashflows will be used for reinvestment to avoid the need for further injections of equity or debt.

6.4 *Compensation Sought*

Where the Government wishes the Company to undertake activities or assume obligations which will result in a reduction of the Company's profit or net worth in

terms of its investment in research, the board will seek compensation sufficient to allow the Company's position to be restored.

No requests for compensation are currently under consideration.

6.5 Treasury Policy

- (a) The Board will;
- Approve finance plans when budget for the year is approved;
 - Set minimum and maximum limits when the budget for the year is approved;
 - Approve any maturities in excess of one year;
 - Approve allowable foreign exchange currency instruments and counterparts;
 - Approve allowable NZA instrument and counterparts;
 - Approve liquidity limits incorporating funding facilities when the budget for the year is approved.
- (b) New bank accounts require approval of the Chief Executive Officer plus the Financial Controller, but must be ratified by a subsequent Board meeting.
- (c) The Chief Executive, plus the Financial Controller, are authorised to:
- Sign negotiable instruments;
 - Borrow funds from approved Finance Institutions, within specific parameters set by the Board;
 - Invest surplus funds with the Finance Institutions approved by the Board.
 - Arrange fixed and floating debt up to the maximum limits set by the Board;
 - Structure maturities of debt up to a maximum of one year as decreed appropriate given yield curves, debt requirements and interest rate outlook trends. Dealing may be further delegated to the Corporate Accountant subject to reporting requirements.
 - Enter foreign transactions above NZ\$2million.
 - Approve the use of fixed floating mix by synthetic instruments, but terms of any contract not to exceed one year without Board approval. The approval is to cover up to 100% of total debt.
- (d) The Financial Controller has the authority to:

- Enter into Foreign exchange transactions up to NZ\$2million.
 - Add new signatories to bank accounts.
 - Delete signatories from bank accounts.
 - Open new bank accounts.
 - Close bank accounts.
- (e) All investments in shares, patents and copyrights, require specific Board approval;
- (f) Any write-down or write-off of investments requires specific Board approval;
- (g) Leased Assets - Financing
- As leasing is in fact a form of financing, delegations for fixed asset purchases/construction apply, ie. the appropriate approvals for the asset purchase must be obtained.
- (h) The Corporate Accountant has the authority to:
- Enter into foreign exchange transactions up to NZ\$100,000.

6.6 Purchases and Disposals Policy

The following activities will only be undertaken following consultation with our owners:

- * Subscription for purchase of shares in other organisations.
- * Loan to any other organisation.
- * Establishment of subsidiary companies.
- * Disposal of significant assets, shares or undertakings of the Institute or any of its subsidiaries.
- * Disposal of shares in any company in which the Institute holds more than 20% of the total shares.

6.7 Non Core Activities Policy

The Institute is engaged primarily in the business of undertaking research and providing related information and consultancy services. The nature of our various research programmes means that we undertake activities which have the opportunity to earn additional income. For example, we operate an instrument servicing business and are in the vessel charter business. Any and all such activities will be regularly reviewed to ensure that they remain relevant and necessary to our core

activities and that they operate on a strictly commercial basis. Where these criteria cease to be met, the activity in question will either be sold or liquidated.

The Institute has no current proposals to diversify beyond its present core business.

6.8 *Control of Subsidiary Companies*

The Institute will ensure at all times that:

- * Control of the affairs of every subsidiary of the Institute is exercised by the majority of the directors of that subsidiary.
- * A majority of the directors of every subsidiary of the Institute are directors or employees of the Institute or have been approved by our owners for appointment as directors of the subsidiary.

6.9 *Co-operative Activities*

The Institute prefers its relationship with other CRIs and universities to be co-operative. NIWA has established joint post graduate Centres of Excellence with Auckland, Waikato, Victoria, Canterbury and Otago Universities.

NIWA is committed to establishing an effective relationship with iwi. NIWA will continue to identify key areas of its work of specific relevance to Maori in consultation with tribal groups throughout the country, and develop plans in collaboration with iwi which enable NIWA to provide appropriate and relevant science for different tribes. Memoranda of Understanding have now been entered into with a number of iwi to formalise these relationships.

The Institute participates in a wide range of international committees or organisations. Generally it is on the basis of the scientific standing of the individual, or on an informal basis as the relevant organisation in New Zealand. The Institute believes that participation in international organisations is an essential part of science, for the informal linkages it offers, and will strongly support its staff's participation.

Organisations on which we are represented include:

- * Scientific Committee on Antarctic Research
- * WESTPAC National Focal Point
- * Biography International Geological Correlation Programme
- * World Ocean Circulation Experiment
- * International Association of Physics of the Ocean

- * Freshwater Fish Specialist Group, Indo Pacific Fisheries Council, FAO
- * Fish Specialist Group, Species Survival Commission, IUCN
- * NZ National Committee for International Hydrological Programmes
- * International Association of Hydrological Sciences
- * SIL Working Group on Biological Monitoring of Freshwater
- * WMO Commission for Atmospheric Science
- * WMO Commission for Agricultural Meteorology
- * WMO Commission for Climatology
- * WMO Commission on Hydrology
- * WMO Ozone Commission
- * International Union of Pure and Applied Chemistry
- * UNEP/WHO Global Environmental Monitoring System
- * NDSC Steering Committee
- * Southern Bluefin Tuna Commission
- * Commission for the Conservation of Antarctic Marine Living Resources

6.10 *Databases*

The Institute is responsible for five covenanted national databases or reference collections:

- * Biology Collection of Marine Biota
- * Geology Collection of Seabed Sediments
- * Water Resources Archive
- * Climatological Database
- * Freshwater Fisheries Database

Management of these databases and collections will be in accordance with the following principles:

The Institute will provide access to these national databases and reference collections so long as they are substantially paid for from the public purse and in providing this access:

- 1 the costs of collection, archiving and maintenance will be recovered only to the extent that they have not been paid for from public good funding;
- 2 the costs of actual retrieval of data from databases and collections will be recovered;
- 3 the data supplied will be subject to copyright, so that the right to further copy the data and acknowledgement as to source is subject to normal conventions; and
- 4 in situations where a third party wishes to obtain large portions of data from a database or collection for direct commercial use then the Institute will charge a copyright, royalty or licence fee.

7. INFORMATION REPORTING

The Institute has established information systems and reporting mechanisms both for its own management use and to fulfil its obligations to its owners, including quarterly, half yearly and yearly annual reports together with audited annual financial results:

- * Quarterly Reports - with summary financial statistics indicating:
 - Financial and operating performance versus the same period in the previous year, when applicable.
 - Explanations for divergence from budget.
 - Forecasts for the remainder of the financial year including key financial and performance measures and cashflows.
 - Explanations for significant changes in forecasts from business plan targets.
- * Half-Yearly Reports - within two months of the end of the first half of the financial year, indicating:
 - Financial and operating performance for the half year, versus the same period in the previous year where applicable.
 - Major issues during the period.
 - Profit and loss statement, end-of-period balance sheet and cashflow statement.
- * Annual Reports - within three months of the end of the financial year, indicating:
 - Full annual report, accounts and proposed dividend for the year.
 - Comparison of performance against targets.
 - Auditors' statement.
- * Business Plans - at the start of each year, the Institute will submit a summary of its business plans to its shareholders. Any material revision to these plans during the course of the year will be advised to shareholders.
- * Any other information reasonably required by shareholders.
- * Internal reporting will be monthly.

8. COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

Shareholders funds include issued shares, reserves and retained earnings. The value of the Crown's investment as represented by shareholders funds are:

	June 1996	June 1997	Forecast June 1998
	000	000	000
Opening Shareholders Funds	24,799	24,799	24,799
Retained Earnings	8,093	11,331	12,365
Vessel Replacement	<u>970</u>	<u>1,940</u>	<u>2,910</u>
Closing Shareholders Funds	\$33,862	\$38,070	\$40,077
External Debt	\$6,500	\$1,900	\$300

Valuation of the Institute agreed at time of asset transfer (July 1992) was \$12.3m net of provision for restructuring costs.

The Institute acquired the assets and undertaking of MAF Fisheries Research on 1 July 1995 and the research vessels in November 1995 for a total of \$25.0m.

The directors previously planned to conduct a full review of the commercial value of the Company at the end of the 1995/96 year, 12 months following the fisheries research merger. The major reductions that have since taken place in the 1996/97 and 1997/98 fisheries research contracts have led the directors to defer the revaluation until the full impact of contestability of the MFish contract on NIWA's activities can be measured. Fisheries research contracts through MFish became fully contestable from 1 October 1997. As there remains uncertainty in the level of fisheries research contracts, the review of the commercial value of the company has been deferred until results of the 1998/99 fisheries contracts have been released.

The board conducted a valuation of the Vessel Company in the year ending June 1997 and considered the value determined to be appropriate to the current level of the Crown's investment. This decision was made after taking into consideration the sensitivity of assumptions used in the cash flow projections by the independent valuer Coopers & Lybrand.

The board expects to conduct a valuation review in 1999 once the profile of the fisheries research business becomes clearer.

.....
Don Sollitt
Chairman

APPENDIX

Accounting Policies

The Group will adopt general accounting principles as recommended by the Institute of Chartered Accountants of New Zealand for the measurement and reporting of results and financial position under the historical cost and accrual accounting conventions for a going concern.

The following specific accounting policies which materially affect the measurement of financial performance and financial position are applied.

Shareholder's Funds

Shareholder's funds are defined to be the total of retained earnings, revenue reserves and equity capital at the end of the financial year.

Total Assets

Total assets include all tangible assets.

Revenue Recognition

Contract revenue is recognised based on the stage of completion of the contract, or the value of the work done, whichever is lower.

Basis of Consolidation

The consolidated Financial Statements are prepared from the Financial Statements of the Parent Company and its subsidiary as at 30 June 1998, using the purchase method. All significant transactions between the Group companies are eliminated on consolidation.

Debtors

Debtors are stated at their estimated realisable value.

Inventory

Inventory is stated at the lower of cost and net realisable value on a first in, first out basis.

Fixed Assets

Fixed assets are shown in the balance sheet at historical cost less accumulated depreciation to date. Assets purchased from the Crown at 1 July 1992 and 1 July 1995 are stated at the transfer price at those dates and used for subsequent disposals and depreciation.

Depreciation

Assets are depreciated over their useful life using the straight line method of depreciation. Assets costing less than \$2,000 and computer software are fully depreciated in the year of purchase. Useful lives are as follows.

	New Assets
RV <i>Tangaroa</i> Hull	26 years
RV <i>Kaharoa</i> Hull	16 years
Buildings	40 years
Plant and equipment	10 years
Scientific Equipment	4 years
Vehicles	4 years
EDP equipment	3 years
Furniture and fittings	10 years
Office equipment	5 years
Small boats	5 years
Leasehold improvements, Freehold property	10 years
Leasehold improvements, Rented property	5 years

Income Tax

Income tax is assumed at 33% of operating profits. No allowance for deferred taxation has been made.

Foreign Currencies

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 New Zealand dollars at the exchange rate ruling at balance date and any exchange gains or losses are taken to the Statement of Financial Performance.

GST

Revenue and expenses have been calculated on a GST exclusive basis

Inflation

All forecasts assume a zero inflation rate.

APPENDIX

Definitions of Staff Composition

Scientists and science technicians - all staff directly involved in actual research or scientific work. If they could conceivably be an author named on a scientific publication, they should be included.

Science support - any staff whose work logistically supports the research effort directly, but whose work could not have itself be described as research. For instance, laboratory assistants, research report editors, librarians, nursery staff, farm staff, ship crew and workshop staff.

General support - activities that support the generic non-research or infrastructural component of the organisation as a whole. Included here are financial, accountancy, salary, personnel, secretarial, stores, and ground and building maintenance staff.

Marketing, promotion and liaison - although elements of these activities are undertaken by many staff, this category should be confined to those staff who have designated positions.

Management - this category covers those that formulate strategy, plan and direct the organisation beyond the limits of a single science programme. It should not be reserved solely for staff designated as “management”, but for management activities performed by any staff that are an overhead, and not accounted for directly within a programme or project budget.

APPENDIX

Key Financial Performance Indicators

Indicator	How Measured
Revenue	Revenue is income generated by the day-to-day operations of the business. It includes science research, contract work for the Crown or commercial clients, royalties, licence fees etc., plus income from the sale of produce and the lease of assets. It excludes income from capital gains, dividends, foreign currency gains/losses and interest on investments.
EBIT Margin	EBIT is earnings before interest, financial lease charges and tax. It excludes restructuring costs. Revenue is as defined above. EBIT Margin = EBIT ÷ Revenue, expressed as a percentage.
Return on Equity	NPAT is net profit after tax. Shareholder's funds include share capital and retained earnings. Return on Equity = NPAT ÷ Average shareholder's funds, expressed as a percentage.
Return on Assets	EBIT is as defined above. Total assets include all the assets on the balance sheet. Return on assets = EBIT ÷ Average total assets, expressed as a percentage.
Equity Ratio	Shareholder's funds include share capital and retained earnings. Total assets include all the assets on the balance sheet. Equity Ratio = Average shareholder's funds ÷ Average total assets.
Current Ratio	Current assets include bank balances, short term deposits, debtors and prepayments, and inventory. Current liabilities include bank overdraft, accounts payable, current portion of term liabilities, and tax payable. Current Ratio = Current assets ÷ Current liabilities.
Gearing	Financial debt is all interest bearing liabilities. Shareholder's funds are as defined above. Gearing = Financial debt ÷ Financial debt plus Shareholder's funds, expressed as a percentage.
Interest Cover	EBIT as defined above. Interest is the cost of debt and financial leases. Interest Cover = EBIT ÷ Interest

DIRECTORY

BOARD OF DIRECTORS

Donald Sollitt

Alexander Laing

Dr John Montgomery

Paul Morgan

Dr Brian Rhoades

Dr Donald Thompson

Chairman

Deputy Chairman

CHIEF EXECUTIVE

Paul Hargreaves

COMPANY SECRETARY

Catherine Booth

SOLICITORS

Bell Gully Buddle Weir

AUDITORS

Deloitte Touche Tohmatsu on behalf of the Office of the Auditor-General

BANKERS

National Bank of NZ Ltd

INSURERS

J&H Marsh & McLennan Ltd

REGISTERED OFFICE

269 Khyber Pass Road

Newmarket

Auckland

Private Bag 99940

Newmarket

Auckland