



NATIONAL INSTITUTE OF WATER

AND ATMOSPHERIC RESEARCH LIMITED

STATEMENT OF CORPORATE INTENT

2001 / 2002

26 November 2001

**THIS STATEMENT IS SUBMITTED BY THE BOARD
OF DIRECTORS OF THE NATIONAL INSTITUTE
OF WATER & ATMOSPHERIC RESEARCH
LIMITED (NIWA) 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 2002, AND THE TWO SUCCEEDING
FINANCIAL YEARS.**

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PREAMBLE

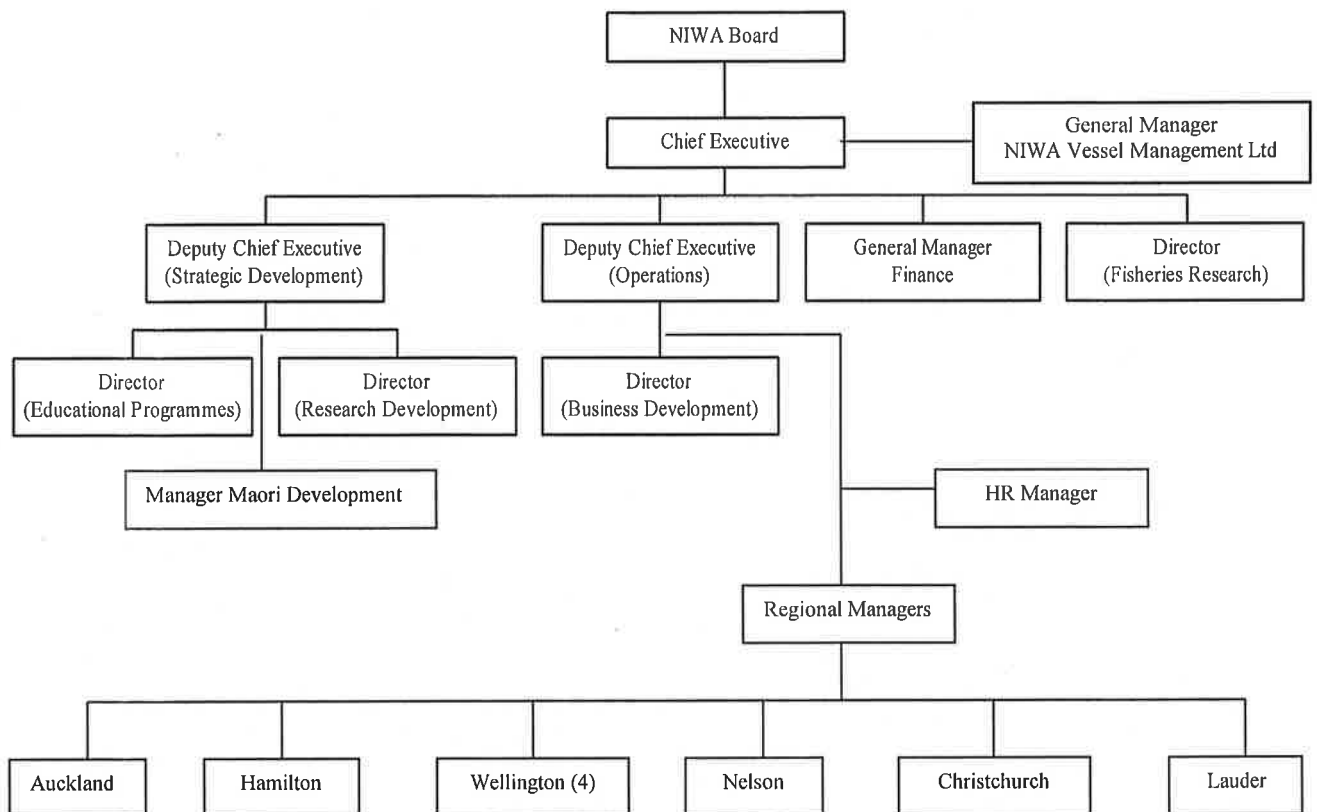
The National Institute of Water and Atmospheric Research Ltd (NIWA) is a Crown Research Institute wholly owned by the New Zealand Government and incorporated on 1 July 1992. NIWA is New Zealand's foremost institute in atmospheric and aquatic science. NIWA undertakes a mix of public good research and 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 senior management of NIWA is indicated on the in the diagram below. Regional Managers at each location report to the Deputy Chief Executive (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.

NIWA Management



Financial Situation

Since the establishment of NIWA on 1 July 1992, shareholders' funds have increased consistently, FRST and commercial revenue have grown strongly and the company has operated profitably.

NIWA's shareholders' funds stood at \$56.43 million at the end of the 2000/01 year, compared with \$9.83 million at the beginning of its first year of operations, 1992/93. After allowing for a further share subscription by the shareholder of \$14.97 million to finance the purchase by NIWA of the fisheries research assets from MAF in 1995, this represents a growth in equity of \$31.63 million over the eight-year period.

Financial targets for 2001/2002 and the subsequent two years are indicated in section 5.

Foundation for Research, Science and Technology (FRST)

Like most CRIs, NIWA was established in 1992 with a high level of dependence on FRST revenue. The funding which FRST administers was in effect created from the Vote:Science of the former government science departments, including operating expenditures and staff salaries. NIWA achieved 50% growth in FRST revenue (including NSOF) from \$24.9 million in 1992-93 to \$37.4 million in 2000/2001. These gains were largely due to increased market share in NIWA's public good science funding under the contestable bidding system formerly operated by FRST.

The implementation of the new portfolio-based investment process by the Foundation is producing major changes to their funding allocation procedures. NIWA believes that this new allocation process has the *potential* to ensure that the best and most appropriate science is funded to achieve the key outcomes which are required to provide the maximum benefit to New Zealand from FRST and other science investments, but that this will require key issues to be addressed effectively. Examples include appropriate involvement of end-users in the portfolio negotiation process, prevention of unnecessary duplication of research, and development of the Foundation's capability to act as a "smart investor".

The nature of NIWA's science gives us very limited capacity to seek funding from sources such as the Marsden Fund and Technology New Zealand scheme. Hence we remain heavily dependent on Output Classes 7 and 14 as our dominant source of Crown funding and the primary means through which we maintain NIWA's skill base for the benefit of New Zealand. At present there is no clear indication to what extent, if any, the government plans to increase the Output Classes which are relevant to NIWA. We are also concerned that any new government investment in science may be targeted largely at departmental operational funds rather than FRST. This would be likely to result in a reduction of key environmental science skills in CRIs.

In view of these uncertainties, we project only a very modest increase (<1% per annum) in NIWA's FRST revenue over the next 3 years.

Ministry of Fisheries

NIWA has retained more than 90% of the funding for stock assessment contracts from the Ministry of Fisheries since this became fully contestable in 1997/98. We expect to retain a high share of this market. After several successive years of decline, there are indications that the Ministry's total research funding has stabilised and may increase in the next few years. This will address the continuing demand for the assessment of major fish stocks, and the need for information on new or poorly studied stocks and on environmental impacts of fishing.

Commercial Revenue

NIWA's commercial revenue, i.e., all revenue other than FRST, NSOF and MFish, is generated largely by consultancy work and has more than doubled from \$10.5 million in 1992/93 to an excess of \$23.0 million (excluding NIWA Vessel Management Ltd.) in 2000/2001. Our consultancy services transfer technology to end-users as well as earning the commercial component of NIWA's revenue. These services, which are developed from our core science activities, benefit New Zealand by extending the results of our research to clients responsible for the sustainable management and utilisation of aquatic and atmospheric natural resources. We operate at the high-value, high-price end of the environmental consultancy market. We have now achieved a high level of market share in our major New Zealand consultancy markets and we do not expect strong overall growth of revenue to continue from this source.

Offshore Market Opportunities

In view of the anticipated lack of growth in two of our main revenue streams, FRST and New Zealand-based consultancy work, we are now looking offshore to develop the new markets that will be essential to continue NIWA's growth. Without continued revenue growth, NIWA will be unable to further develop the strong personnel and capital equipment base of our core science areas for the benefit of New Zealand. We are therefore moving into the US and Australian markets, and have established NIWA (USA), Inc. and NIWA Environmental Research Institute (ERI) as wholly owned US subsidiaries and NIWA Australia Pty Ltd, for this purpose. NIWA ERI will also strengthen our science through the development of strong linkages with selected leading US research organisations. The static (and in real terms declining) funding in New Zealand and public good science output classes relating to the environment has been a major driver of our move offshore.

Vessel Ownership

A subsidiary company, NIWA Vessel Management Ltd, owns and operates the two research vessels *Tangaroa* and *Kaharoa*. These vessels are essential assets for NIWA's and New Zealand's science and are an integral part of our science operations. They are utilised in a wide range of research projects for FRST, Ministry of Fisheries and other clients.

Human Resources

Staff numbers have grown substantially since NIWA's establishment, and research staff turnover has been low (less than 5% per annum). The net growth of NIWA's staff numbers between 1 July 1992 and 30 June 2001 has included the establishment of more than 80 new,

permanent positions. Independent surveys conducted at intervals since 1994 have consistently revealed high staff morale in NIWA.

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.

NIWA is an environmental Crown Research Institute. Maintenance and enhancement of New Zealand's environmental wealth, e.g., through mitigation of the environmental effects of economic development, is the primary outcome of NIWA's research. We also have a direct role in the creation of economic wealth, e.g., through our fisheries and aquaculture research.

Our mission is:

To provide a scientific basis for the sustainable management and development 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 **Institute of Aquatic and Atmospheric Sciences** established with the University of Auckland and the **Centres of Excellence** which were established with other universities in 1997 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 and benefit from 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, national climate database network and extreme weather and climate forecasting

- **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.

3.0 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
- reinvesting in human resources and capital assets to enhance the quality of NIWA's science and generate revenue, in order to maintain and grow our position at the high-value end of the science and consultancy markets for the benefit of New Zealand's socio-economic development.

5.0 PERFORMANCE MEASURES AND TARGETS

Financial Performance

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

- 2001/2002 NPAT budgeted return on equity 8.4% (2000/2001 actual 8.7%)
- 2001/2002 EBIT budgeted return on assets employed 10.5% (2000/2001 actual 10.4%)

NIWA is prudently funded:

- 2001/2002 budgeted proprietorship rate 78.4% (2000/2001 actual 77.1%)

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

- "...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 2001/02**

	Actual 2000/01	Budget 2001/02	Forecast 2002/03	Forecast 2003/04
Revenue (\$000s)	77,113	78,689	83,522	90,372
Operating expenses & depreciation (\$000s)	69,785	72,270	78,170	84,419
Operating profit before tax (\$000s)	7,328	6,420	5,351	5,953
Net profit after tax (\$000s)	4,717	4,149	3,623	4,091
EBIT	7,328	6,598	6,046	6,585
EBIT Margin (%) KFPI	9.50	8.47	7.37	7.52
Average total assets (\$000s)	70,110	62,796	61,280	63,922
Average shareholders' funds	54,055	49,218	43,604	47,461
Profitability				
Operating profit margin (%)	9.50	8.16	6.41	6.59
Return on equity (%) KFPI	8.73	8.43	8.31	8.62
Return on assets (%) (EBIT/Ave tot asset) KFPI	10.45	10.51	9.87	10.30
Liquidity and Efficiency				
Current ratio	1.81	1.76	1.91	1.85
Quick Ratio KFPI	1.75	2.88	3.15	3.02
Non-FRST debtor days	75.39	65.84	55.14	52.27
Financial Leverage				
Gearing (%) (Debt/Equity) KFPI	-	18.61	13.35	12.39
Interest cover (EBIT/Interest) KFPI	-	37.09	8.70	10.42
Equity ratio KFPI	77.10	78.38	71.16	74.25

Non-Financial Performance

In 2001/2002 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, 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 2002:

Staff Composition

A total permanent staff of 600, comprising 430 in research teams, 50 research support, 92 general support, 6 marketing and promotion and 22 management, with an overall staff turnover of less than 5% per annum.

Research Output

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

150 papers in local, internally refereed journals, series or books.
500 conference papers and abstracts.
60 research monographs or books.
2 popular books.
400 scientific and technical reports.

Application and Promotion of Science

More than 550 consultancies (total value \$20 million) to supply information predominantly to NZ users.

95% achievement of technology transfer objectives in FRST contracts.

4 Technology for Business Growth contracts (total value to NIWA \$3,500,000).

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

National Climate Database	- 3,500
Water Resources Archive	- 300
NZ Freshwater Fisheries Database	- 300

100 magazine and newspaper feature articles and TV programmes

Good Employer

Less than 1.0% of total working days lost due to work-related accidents.

6.0 POLICY STATEMENTS

6.1 Accounting Policy

The Group will adopt the generally accepted accounting practices 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

Directors have followed a conservative borrowing policy, mindful of the need of NIWA to continue to upgrade its major science assets and infrastructure. In 2001/2002 the Shareholder has sought a one-time dividend which could produce a balance sheet gearing of up to 30%.

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

6.3 Dividend Policy

Any ongoing dividends 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.

During the course of the year, the NIWA Board may consider undertaking strategic investments beyond those incorporated within the company's 2001/2002 Business Plan. At this time no such investments have been identified, nor have any financial projections for such investments been included in NIWA's Business Plan.

The company will provide further information to Shareholding Ministers on any such strategic investment with an expenditure in excess of \$2 million, which has been approved by the Board before final commitment is made to proceed.

6.4 Compensation Sought

Where the Government wishes NIWA to undertake activities or assume obligations that 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 NIWA'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 the 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 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 General Manager - Finance, but must be ratified by a subsequent Board meeting.
- c) The Chief Executive, plus the General Manager - Finance, 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 Exchange transactions above NZ\$2million.
 - Approve the use of a 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 General Manager - Finance 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 the shareholder:

- 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 NIWA or any of its subsidiaries.
- Disposal of shares in any company in which NIWA holds more than 20% of the total shares.

6.7 *Non Core Activities Policy*

NIWA 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 may have the opportunity to earn additional income. For example, we undertake instrument development and servicing and research vessel charters. 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.

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

6.8 *Control of Subsidiary Companies*

NIWA will ensure at all times that:

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

6.9 Co-operative Activities

NIWA prefers its relationship with other CRIs and universities to be co-operative. NIWA has established the Institute of Aquatic and Atmospheric Sciences with the University of Auckland and joint post graduate Centres of Excellence with Auckland, 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. We have established NIWA's Maori Development Unit, Te Kuwaha, to operate as a gateway for Maori organisations to work with NIWA.

NIWA 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. NIWA 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
- Biogeography International Geological Correlation Programme
- World Ocean Circulation Experiment
- Joint Global Ocean Flux Study
- International Association of Physics of the Ocean
- IPCC Bureau Working Group for World Meteorological Organisation Region V
- Freshwater Fish Specialist Group, Indo Pacific Fisheries Council, FAO
- Fish Specialist Group, Species Survival Commission, IUCN
- Joint Commission on Oceanography and Marine Meteorology
- IGBP Ecosystem Dynamics (Globec) Programme
- International Association of Hydrological Sciences
- SIL Working Group on Biological Monitoring of Freshwater
- IGBP Global Atmospheric Methane Synthesis Project
- WMO Commission for Atmospheric Science

- WMO Commission for Agricultural Meteorology
- WMO Commission for Climatology
- WMO Commission on Hydrology
- International Ozone Commission
- International Union of Pure and Applied Chemistry
- UNEP/WHO Global Environmental Monitoring System
- NDSC Steering Committee
- UNESCO International Hydrological Programme for Southeast Asia and the Pacific
- Southern Bluefin Tuna Commission
- Commission for the Conservation of Antarctic Marine Living Resources

6.10 Databases

NIWA 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:

NIWA 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 NIWA will charge a copyright, royalty or licence fee.

7.0 INFORMATION REPORTING

NIWA 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 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.
 - Statements of financial performance, position and cash flow.
- 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' opinion statement.
- Business Plans - at the start of each year, NIWA 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.

8.0 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 1999 \$000	June 2000 \$000	June 2001 \$000
Opening Shareholders Funds	24,799	24,799	24,799
Retained Earnings	17,670	22,026	25,773
Vessel Replacement Reserve	3,880	4,850	5,820
Foreign Currency Translation Reserve			43
Closing Shareholders Funds	<u>46,349</u>	<u>51,675</u>	<u>56,435</u>

NIWA's valuation agreed at the time of asset transfer (July 1992) was \$12.3m net of provision for restructuring costs.

NIWA 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 Board commissioned a commercial valuation of the company prepared by the independent valuers PriceWaterhouse Coopers in April 2000. That valuation at \$54.645 million supported the Crown's current investment in NIWA at 30 June 2000.

The Board also conducted a valuation of the Vessel Company in April 2000 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 PriceWaterhouse Coopers.

The Board has no reason to believe that the current commercial value of NIWA does not approximate the Crown's current investment.



Sue Suckling
Chair

APPENDIX I

Accounting Policies

NIWA adopts generally accepted accounting practices 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 subsidiaries using the purchase method. All significant transactions, balances and unrealised profits between the Group companies are eliminated on consolidation.

Debtors

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

Inventory

Inventory is stated at the lower of cost and net realisable value.

Plant, Property and Equipment

Plant, Property and Equipment (PPE) are shown in the statement of financial position at historical cost less accumulated depreciation to date. PPE purchased from the Crown at 1 July 1992 and 1 July 1995 are stated at the transfer price at those dates adjusted for subsequent disposals and depreciation.

Depreciation

PPE are depreciated over their useful life using the straight-line method of depreciation. PPE 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
Super computer	5 years

Taxation

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

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 except for receivables and payables, which are stated with GST included.

Inflation

All forecasts assume a zero inflation rate.

APPENDIX II

Definitions of Staff Composition

Research teams (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.

Research 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 and promotion - 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 III

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 = $\text{EBIT} \div \text{Revenue}$, 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 = $\text{NPAT} \div \text{Average shareholder's funds}$, 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 = $\text{EBIT} \div \text{Average total assets}$, 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 = $\text{Average shareholder's funds} \div \text{Average total assets}$.
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 = $\text{Current assets} \div \text{Current liabilities}$.
Gearing	Financial debt is all interest bearing liabilities. Shareholder's funds are as defined above. Gearing = $\text{Financial debt} \div \text{Financial debt plus Shareholder's funds}$, expressed as a percentage.
Interest Cover	EBIT as defined above. Interest is the cost of debt and financial leases. Interest Cover = $\text{EBIT} \div \text{Interest}$

DIRECTORY

BOARD OF DIRECTORS

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Paul Morgan
Dr Brian Rhoades
Dr Carolyn Burns
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Miranda Cassidy
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David Sharp

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Deputy Chair

CHIEF EXECUTIVE

Paul Hargreaves

COMPANY SECRETARY

Dene Biddlecombe

SOLICITORS

Bell Gully Buddle Weir
Edmonds Marshall Burcher

AUDITORS

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

BANKERS

National Bank of NZ Ltd

INSURERS

Marsh Ltd

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