



NATIONAL INSTITUTE OF WATER

AND ATMOSPHERIC RESEARCH LIMITED

STATEMENT OF CORPORATE INTENT

2004 / 2005

THIS STATEMENT OF CORPORATE INTENT (SCI) IS SUBMITTED BY THE BOARD OF DIRECTORS OF THE NATIONAL INSTITUTE OF WATER AND ATMOSPHERIC RESEARCH LIMITED (NIWA) IN ACCORDANCE WITH THE CROWN RESEARCH INSTITUTES ACT 1992 (THE ACT). THE SCI SETS OUT THE BOARD'S OVERALL INTENTIONS AND OBJECTIVES FOR THE COMPANY TO 30 JUNE 2005, AND THE FINANCIAL FORECASTS FOR THE NEXT TWO YEARS.

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1.0 INTRODUCTION

The National Institute of Water and Atmospheric Research Ltd (NIWA) is a Crown Research Institute incorporated as a company on 1 July 1992. Ownership is held equally between two Shareholding Ministers appointed by the New Zealand Government (the Crown). NIWA is New Zealand’s leading provider of atmospheric and aquatic research and associated products and services. NIWA’s diverse range of activities and skills benefit New Zealand by fostering economic growth, enhancing human well-being, and ensuring the sustainable use and development of our natural resources.

1.1 Structure of the NIWA Group

The NIWA Group comprises the Parent company (referred to in-house as NIWA Science) and six other entities:

The NIWA Group						
NIWA USA	NIWA Australia Pty Ltd	NIWA Vessel Management Ltd	NIWA Science	NIWA Natural Solutions Ltd	Unidata Pty Ltd	EcoConnect Ltd
subsidiary	subsidiary	subsidiary	Parent	subsidiary	subsidiary	subsidiary

NIWA Science employs over 600 staff spread across 15 locations. Revenue is generated principally from fully contested Government research contracts and consultancy services to a diverse array of clients. Its main campuses are in Auckland, Hamilton, Wellington, Nelson, Christchurch and Lauder.

NIWA Vessel Management Ltd, NIWA Australia Pty Ltd, NIWA USA (with registered not-for-profit and commercial entities), and NIWA Natural Solutions Ltd are all wholly owned by NIWA.

NIWA Vessel Management Ltd owns and operates two research vessels (*Tangaroa* and *Kaharoa*) and employs c. 40 staff. Our companies in Australia and the USA provide similar services to NIWA Science but are more targeted to the specific needs of these countries. NIWA Natural Solutions Ltd assists in the commercialisation of products and technologies developed by NIWA.

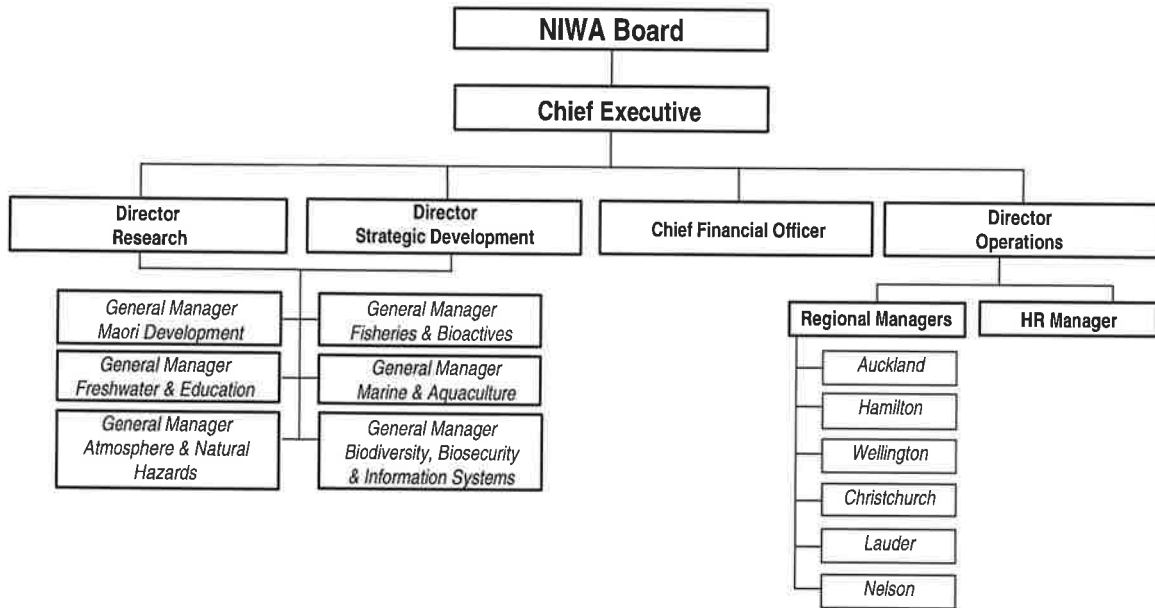
Unidata Pty Ltd is an instrument manufacturing company, located in Perth, Australia, which specialises in the creation of new technologies for environmental monitoring and real-time decision support networks. NIWA owns 80% of the shares in Unidata Pty Ltd. This company complements a similar service provided by NIWA Science in New Zealand.

EcoConnect Ltd, our newest subsidiary, is a joint venture company with the United Kingdom MetOffice. NIWA holds 50% of the shares. Whilst still in the development phase, this company has been established to deliver real-time environmental forecasts in Australasia, the United Kingdom and Europe.

1.2 Organisational Structure

The senior management structure of the Parent company, NIWA Science, is illustrated in the diagram below. The Senior Directorate comprises the Chief Financial Officer and three Directors who guide research, strategic development and operations. The company’s core activities have been divided into six portfolios. Each portfolio is managed by a General Manager who co-ordinates activities across the company and markets services externally. Regional Managers are responsible for providing leadership in the regions, facilitating activities, implementing company policies and ensuring all contracted outputs are delivered. Regional Managers report to the Director, Operations and have line control of all staff in their region. This organisational structure facilitates multidisciplinary science, ensures the effective use of resources, provides a direct and consistent interface between the development and implementation of strategies and policies, and enables common standards and culture to be developed across the company - the “One NIWA” concept.

Senior Management Structure of Parent Company



Each subsidiary within the NIWA Group has its own Board (comprised principally of Board members from the Parent company) and is led by a General Manager who reports to the Chief Executive of the Parent company.

Project management forms the basis of all operations within the NIWA Group. A Project Leader is chosen for each contracted project. The Project Leader establishes the project’s budget, oversees the activities of all staff in the project, and ensures the project runs to budget, is completed on time and produces outputs of high standard. Most staff in NIWA lead at least one project during the course of a year.

2.0 NATURE AND SCOPE OF CURRENT ACTIVITIES

NIWA is an internationally respected research organisation dedicated to creating and delivering, innovative and unrivalled, science-based services and products that enable people and businesses to make best use of the natural environment and its living resources, and derive benefit from them in a sustainable manner.

Our core business is based on key competencies in the following areas.

Freshwater

Research, consultancy and technology development related to the chemistry, physics, and biology of lakes, rivers, and wetlands, including:

- hydrology and hydraulics, including climatic effects
- flood forecasts
- rainfall runoff
- riparian and wetland management
- effects of land-use change on water quantity and quality
- aquatic pollution control and prediction, including the development of new technologies
- invasive species and their eradication/control
- processes affecting ecosystem function and measurement of ecosystem health
- environmental impact assessments and risk analyses
- restoration of freshwater environments
- freshwater taxonomy and biodiversity
- national monitoring networks and databases for river flow, water quality, freshwater biota and sediment

Coasts and Oceans

Research, consultancy and technology development related to the geological, biological, and physical properties of oceans, coastal waters, estuaries and harbours, including:

- oceanography and palaeoceanography
- marine geology, seafloor and habitat mapping and seismic surveys
- databases for ocean bathymetry, currents, salinity and sediment type.
- biological and chemical oceanography and food chain processes
- marine taxonomy and biodiversity, including national marine invertebrate collection
- fishing impacts on marine ecosystems, including seabirds
- coastal erosion and marine sedimentary processes
- current, tide, and wave analysis and modeling
- national sea level monitoring network and database
- environmental impact assessments and risk analyses, including ocean outfalls
- processes affecting ecosystem function and measurement of ecosystem health
- invasive species and their eradication/control
- restoration of coastal and estuarine environments

Atmosphere and Climate

Research, consultancy and technology development related to the physical and chemical processes affecting the atmosphere and climate, including:

- ozone depletion and effect on UV radiation
- greenhouse gases and global warming
- urban air quality and measurement of vehicle/industrial emissions
- climate monitoring and prediction (New Zealand and Pacific islands)
- environmental monitoring networks and National Climate Database
- specialised maps and services for climate-sensitive businesses
- hazard forecasts (e.g., severe winds, tsunamis, floods)
- satellite remote sensing
- renewable energy resources (e.g., wind, solar)
- atmosphere–ocean interactions

Marine and Freshwater Fisheries

Research, consultancy and technology development related to fisheries assessment and impacts, including:

- fish abundance and productivity
- population modelling and risk analysis
- estimation of sustainable harvest levels
- fish biology, ecology and biodiversity
- genetics and stock separation
- development of new stock assessment technologies
- impacts of fishing on non-target species
- assessment of highly migratory species and non-commercial catches

Aquaculture and Biotechnology

Research, consultancy and technology development related to existing and new aquaculture species and other natural products derived from marine and freshwater environments, including:

- biology and physiology of potential aquaculture species
- breeding programmes for stock enhancement
- nutrition and development of synthetic feed
- disease diagnosis and management
- development of improved rearing technologies
- hatchery training and troubleshooting
- supply of reared juveniles to industry
- feasibility studies and environmental impact assessments for new aquaculture ventures
- sustainability, placement and carrying capacity of marine farms
- development of new technologies to enhance marine farm productivity and sustainability
- development of natural products with chemotherapeutic, industrial and agricultural applications

3.0 FUTURE DEVELOPMENT

Since the innovative restructuring of NIWA in 1994 to embody the 'One NIWA' concept, the company has developed into a very successful research organisation and commercial consultancy firm with a reputation for excellent science, excellent services, strong financial performance, and high staff morale. Our growth has been based on strong revenue gains in both public good research and commercial projects. In 1992, NIWA had 329 staff, revenue of \$35.5 million and assets of \$20 million. Twelve years later, these measures have largely doubled or trebled: The NIWA Group now has over 650 staff, revenue of \$85 million and assets of \$65 million.

For NIWA to be successful in the future, the company must continue to operate its core business effectively and efficiently plus offer more.

During 2003/04, three major initiatives were undertaken to enable NIWA to expand the nature of its core business:

- a wholly owned subsidiary, NIWA Natural Solutions Ltd, was established to commercialise products developed by NIWA;
- a new joint venture company, EcoConnect Ltd, was formed with the United Kingdom Met Office to deliver real-time environmental forecasts; and
- an 80% shareholding was taken in an Australian company, Unidata Pty Ltd, which specialises in the manufacturing of environmental monitoring equipment.

These new businesses, coupled with NIWA's traditional strength in research, consultancy and vessel management, provide a strong platform for sustainable growth, create new opportunities to sell a diverse range of products and services, and allow us to promote ourselves, and share risks, with others. In 2004/05, the key challenge for NIWA is to manage this portfolio of companies well and invest wisely.

Major strategic initiatives for the period 2004 to 2006 include:

- Establishing appropriate governance and management frameworks, relationships and skills to ensure efficient and effective development of all entities within the NIWA Group.
- Developing a stronger financial footing for our vessels by building a more secure client base and obtaining higher daily rates for vessel rental.
- Establishing NIWA Natural Solutions Ltd as an important vehicle in the commercialisation of products (particularly with early stage investors).
- Strengthening the manufacturing capability and product range of Unidata Pty Ltd to enhance NIWA's position in environmental monitoring and the development of real-time decision support tools.
- Establishing EcoConnect Ltd as a highly reputable environmental forecasting service in Australasia, United Kingdom and Europe.

Key issues currently facing the organisation are recruitment and retention of staff, sustainable management of vessel assets, maintenance of core science capability, and commitment to fundamental science in areas where there is declining public sector funding. NIWA has strategies in place to address these issues.

4.0 PERFORMANCE MEASURES AND TARGETS

NIWA's performance measures and targets are split into two categories – financial and non-financial performance.

4.1 Financial Performance

NIWA will continue to fulfill its financial obligations as specified in section 5 of the Act as follows:

- to operate in a financially responsible manner so that sufficient operating funds are generated to maintain financial viability;
- to provide a reasonable return on the shareholders' funds invested; and
- to operate as a going concern.

In 2004/2005, NIWA will report against the following key financial performance measures:

Performance Measure	Definition
Revenue	<i>Revenue</i> 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 products and the lease of assets. It excludes income from capital gains, dividends, foreign currency gains/losses and interest on investments.
Current ratio	<i>Current assets</i> include bank balances, short term deposits, debtors and prepayments, and inventory. <i>Current liabilities</i> include bank overdraft, accounts payable, current portion of term liabilities, and tax payable. <i>Current ratio = Current assets ÷ Current liabilities.</i>
Quick ratio	<i>Quick assets</i> are Current Assets excluding Stock. <i>Quick liabilities</i> are Current Liabilities excluding staff entitlements. <i>Quick ratio = Quick assets ÷ Quick liabilities.</i>
Return on equity	<i>NPAT</i> is net profit after tax. <i>Shareholder's funds</i> include share capital and retained earnings. <i>Return on equity = NPAT ÷ Average shareholder's funds, expressed as a percentage.</i>
Return on assets	<i>EBIT</i> is as defined below. <i>Total assets</i> include all the assets on the Statement of Financial Position as per the Annual Report. <i>Return on assets = EBIT ÷ Average total assets, expressed as a percentage.</i>
EBIT margin	<i>EBIT</i> is earnings before interest, financial lease charges and tax. It excludes restructuring costs. <i>Revenue</i> is as defined above. <i>EBIT margin = EBIT ÷ revenue, expressed as a percentage.</i>

As stated in our 2004/05 Business Plan, we aim to achieve the following specific targets:

NIWA GROUP

Business Plan for the Year Ended 30 June 2005

Ratios and Statistics

	Budget 2004/05	Forecast 2005/06	Forecast 2006/07
REVENUE (\$000s)	86,899	93,811	96,921
OPERATING			
Operating Expenses & Depreciation (\$000s)	81,845	85,102	88,009
Earnings Before Interest and Tax (EBIT) (\$000s)	5,054	8,709	8,912
Operating Surplus before Tax (\$000s)	4,953	7,975	8,232
Net Surplus (\$000s)	3,065	5,455	5,885
Average total assets (\$000s)	66,015	64,344	61,828
Average Equity (\$000s) (Shareholders' funds)	45,600	38,650	36,859
LIQUIDITY			
Current Ratio	0.8	0.8	0.9
Quick Ratio (aka. Acid test)	0.9	0.9	1.0
PROFITABILITY			
Return on Equity (%)	6.7	14.1	16.0
Return on Assets (%)	7.7	13.5	14.4
EBIT Margin (%) (aka. Operating Profit margin)	5.8	9.3	9.2

4.2 Non-Financial Performance

NIWA is committed to the principles of operation stated in section 5 of the Act, which require:

- 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; and
- 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.

These principles of operation form the basis of our non-financial objectives.

In 2004/2005, NIWA will incorporate the following non-financial performance measures in the Sustainable Development Reporting section of its Annual Report:

Measures	How Measured
Staff Composition	Number of staff FTEs, turnover, profile and age composition in the following categories (as defined by CCMAU): research teams; research support; general support and management.
Research Output	Number 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 other presentations; 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	Number and value of contracts to supply information to New Zealand users; extent of achievement of technology transfer objectives in FRST contracts; number of workshops, field days, training sessions; number of joint ventures or licence agreements with New Zealand users; number and value of TBG and Technet contracts; availability and degree of use of National Climate Database, Water Resources Archive and New Zealand Freshwater Fisheries Database; number of magazine and newspaper feature articles and TV appearances.
Social and Cultural Responsibility	A narrative outlining initiatives and achievements in this area including work/life balance initiatives, cultural training, and the number of staff involved in Te Kuwaha.
Environmental responsibility	A narrative outlining initiatives and achievements in this area including reports on energy use and equivalent greenhouse gas emissions against performance targets, waste disposal and waste recycling.
Benefits to New Zealand	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, including policies on training, parental leave, benefits, health and safety, results of staff attitude surveys, comparison of salaries with market, and the number of accidents and days lost as a result due to work-related accidents (as a % of total working days).

It is anticipated that the following targets will be met by 30 June 2005:

Staff Composition

- A total permanent staff of 616, comprising 433 researchers, 47 research support, 92 general support, 7 marketing and promotion and 22 management (see Appendix I for definitions of staff categories).
- Overall staff turnover of less than 8% per annum.

Good Employer

- Less than 0.1% of total working days lost due to work-related accidents.

Research Output

- 280 papers in international, externally refereed scientific journals, series or books
- 180 papers in local, refereed journals, series or books
- 500 scientific and technical reports
- 800 conference papers and other presentations
- 70 research monographs or books
- 2 popular books

Application and Promotion of Science

- More than 550 consultancy contracts (total value > \$25 million) to supply information predominantly to New Zealand users.
- 95% achievement of technology transfer objectives in FRST contracts.
- Five Technology for Business Growth contracts (total value to NIWA > \$800,000).
- 230 magazine and newspaper feature articles and TV programmes.
- The following number of enquiries for information and automatic updates met from NIWA databases: National Climate Database (9000), Water Resources Archive (800), New Zealand Freshwater Fish Database (1200).

5.0 INFORMATION TO BE PROVIDED TO SHAREHOLDERS

NIWA will provide information that meets the requirements of the:

- Crown Research Institutes Act 1992 (the Act);
- Companies Act 1993;
- Financial Reporting Act 1993;
- Public Finance Act 1989; and
- Institute of Chartered Accountants of New Zealand (ICANZ) with regards to Generally Accepted Accounting Practice (GAAP).

The following information is made available to enable our Shareholders to make an informed assessment of NIWA's performance:

- A ***Business Plan*** containing information such as the mission statement, strategic priorities, financial and non-financial forecasts of the Company (over the next three financial years). The Business Plan will be provided prior to the start of each financial year.
- A ***Statement of Corporate Intent (SCI)*** containing information such as the objectives and a summary of the financial and non-financial performance targets of the Company. The draft SCI is due not later than 1 month before the start of the financial year (30 May).
- An ***Annual Report*** containing sufficient information to allow an informed assessment to be made against the performance targets in the Business Plan and SCI. This report includes comments on our core business and how we communicate our science, financial statements (including audit report), sustainable development report and a report of the Directors to the Shareholders. The Annual report is to be provided within three months of the financial year ended 30 June.
- A ***Half-Yearly Report*** containing information such as unaudited financial statements (including comparatives of the same period in the previous year) and major highlights during the period. The Half-yearly report is due within two months of the first half of each financial year ended 31 December.

- A *Quarterly Report* containing information such as unaudited financial statements (including current quarter and year to date budgets and a forecast for the financial year ended 30 June). The Quarterly report also includes financial performance measures and major highlights during the period. The Quarterly report is currently requested within one month of each financial quarter ended 30 September, 31 December, 31 March and 30 June.
- Any *other information* relating to the affairs of the Company, as reasonably required by shareholders, under section 20 of the Act and section 45B of the Public Finance Act 1989.

6.0 POLICY AND PROCEDURE STATEMENTS

The following policies and procedures are required to be disclosed under section 16 of the Act.

6.1 Accounting Policies

NIWA adopts generally accepted accounting practice in New Zealand as prescribed by the Institute of Chartered Accountants of New Zealand. The accounting policies for the measurement and reporting of financial performance, movements in equity, financial position, and cash flows are detailed in Appendix II.

6.2 Dividend Policy

The profit retention and dividend policy will be determined from year to year by the Board. The objective is to ensure that an appropriate level of funds is maintained in the Company to sustain financial viability, whilst providing an adequate return to the Shareholders. In considering this objective, the Board each year determines the level of surplus funds by reference to NIWA's:

- medium and long term capital investment requirements (including Equity investments);
- ability to maintain and expand operational capability;
- ability to repay debt (if any);
- funding requirements for subsidiaries;
- anticipated replacement cost for research vessels;
- working capital requirements and;
- legislative requirements, for example ensuring section 4 of the Companies Act 1993 (Solvency test) has been satisfied.

Any dividend would be paid within four months of the financial year-end. At this stage, NIWA has budgeted to pay a dividend in 2004/05 of \$15 million.

6.3 Shares in Another Company or Organisation

In order for NIWA to meet its objectives, there may be a requirement to subscribe, purchase or acquire shares in another company, entity structure or business arrangement. Any such decision will initially be subject to Board approval. The Crown (as ultimate Shareholder) would be consulted in activities involving:

- Subscription for the purchase of shares in another company or entity structure.
- Purchase of options or other financial instruments in another company or entity structure.

- A significant or material transaction less than \$5 million which is outside the approved Business Plan. The Board will seek the written consent of shareholding Ministers on financial transactions in regard to expansion, diversification, and divestment in excess of \$5 million or 30% of total assets, whichever is the lesser.
- Establishment of a subsidiary company.

Furthermore, NIWA will ensure that:

- The NIWA Board will control the affairs of every subsidiary or entity structure (with greater than 50% ownership).
- The Directors representing NIWA in every subsidiary with greater than 50% ownership are Directors or employees of NIWA.

6.4 Other Matters Requiring Shareholder Consultation or Consent

The procedure of Consultation with the Crown will also occur in the following circumstances:

- Providing a loan to any other organisation (excluding subsidiaries).
- Disposing of significant assets, shares or undertakings of NIWA or any of its subsidiaries.
- Disposing of shares in any company in which NIWA holds more than 20% of the total shares.

Where financial transactions in regard to expansion, diversification and divestment exceed \$5 million the written consent of shareholding Ministers will be sought.

7.0 OTHER MATTERS REQUIRED BY THE CRI ACT 1992

7.1 Ratio of Shareholders Funds to Total Assets

The target ratio of Shareholder Funds to Total Assets is as follows:

	As at 30 June			
	2004 Budget \$000	2005 Budget \$000	2006 Forecast \$000	2007 Forecast \$000
NIWA Group Equity to Total Assets	0.76:1	0.60:1	0.60:1	0.59:1

Shareholders Funds are defined as the sum of the Share Capital and Equity Reserves (otherwise called 'Total Equity').

Total Assets are defined as the sum of the net book value of Current and Non-Current Assets. This is 'as disclosed' in the Company's Statement of Financial Position per the Annual Report, prepared in accordance with the accounting policies adopted by the Board.

7.2 Commercial Value of the Shareholders Investment

Section 16 (3) of the Act requires the NIWA Group to furnish an estimate of the current commercial value of the Crown's investment.

The NIWA Board is satisfied that the net asset position (or Shareholder's Funds) as at 30 June 2004 is a fair and reasonable indication of the commercial value of the Group.

The commercial value of the Crown's investment is estimated at \$52 million.

7.3 Activities where Shareholder Compensation would be Required

The Board would look to seek compensation from the Shareholders in the following circumstances:

- Where the Shareholders instruct NIWA to undertake activities or assume obligations that would result in a reduction of the Company's profit or net realisable value, sufficient to allow NIWA's position to be restored.
- Where the Board may consider undertaking strategic investments for the wider benefit of the New Zealand public, involving financial outlays beyond those incorporated within the Company's Business Plan or financing capabilities.

No request for compensation is currently being sought from the Shareholders. At this time no such investment has been identified, nor have any financial projections for such investment been included in NIWA's 2004/05 Business Plan.

7.4 Other Matters Specifically Requested by the Shareholder

There are no other matters that have been specifically requested by the Shareholders.



Sue Suckling
Chair

APPENDIX I - Definitions of Staff Composition

Researchers (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 II – Detailed Accounting Policies

The following accounting policies form the basis of any Financial Statements produced by NIWA:

Statement of Accounting Policies

The NIWA Financial Statements and Group Financial Statements are presented in accordance with the requirements of the Crown Research Institutes' Act 1992, the Public Finance Act 1989, the Companies Act 1993, and the Financial Reporting Act 1993. The NIWA Financial Statements are for the Parent Company as a separate entity. The consolidated or Group Financial Statements are for NIWA and its subsidiaries, NIWA Vessels Management Ltd, NIWA Natural Solutions Ltd, NIWA (USA), Incorporated, NIWA Environmental Research Institute, NIWA Australia Pty Ltd, EcoConnect Ltd and Unidata Pty Ltd.

Measurement base

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

Specific Accounting Policies

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

(a) Basis of consolidation

The Group Financial Statements are prepared using the purchase method of consolidation. This involves adding corresponding assets, liabilities, revenues, and expenses on a line-by-line basis. All intercompany transactions, balances, and unrealised profits are eliminated on consolidation.

(b) Revenue recognition

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

(c) Goods and Services Tax (GST)

The Financial Statements are prepared on a GST exclusive basis, except for receivables and payables, which are stated with GST included.

(d) Taxation

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

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

Future income taxation benefits and provisions for deferred taxation are not offset if they arise in different taxation jurisdictions.

(e) Property, plant, and equipment

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

Property, plant, and equipment with a cost price less than \$2,000 and computer software are fully depreciated in the year of purchase.

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

(f) Depreciation

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

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

(g) Receivables

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

(h) Inventory

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

(i) Foreign currencies

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

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

(j) Leases

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

Operating lease payments are recognised evenly over the expected period of benefit to the Group.

(k) Statement of cash flows

Operating activities comprise the provision of research services. Investing activities comprise the purchase and disposal of property, plant, and equipment and advances to subsidiaries. Financing activities are those which result in changes in the size and composition of the capital structure of the Group.

(l) Provision for dividends

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

DIRECTORY

BOARD OF DIRECTORS

Sue Suckling (*Chair*)

Carolyn Burns

John Hercus

Miranda Cassidy

David Sharp

Graham Hill

Troy Newton

John Spencer

CHIEF EXECUTIVE

Rick Pridmore

COMPANY SECRETARY

Dene Biddlecombe

SOLICITORS

Kaimai Law

Bell Gully Buddle Weir

AUDITORS

Deloitte on behalf of the Auditor-General

BANKERS

National Bank of NZ Ltd

INSURANCE BROKER

Marsh Ltd

REGISTERED OFFICE

269 Khyber Pass Road

Newmarket

Auckland

NEW ZEALAND

Private Bag 99 940

Newmarket

Auckland

NEW ZEALAND

WEBSITE

<http://www.niwa.co.nz>