

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

**STATEMENT OF CORPORATE INTENT**

**2005 / 2006**

**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 2006, 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 c. 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 (RV *Tangaroa* and RV *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. It currently oversees three aquaculture businesses and is a part-owner (50%) of Ensid Technologies Ltd, which develops and sells food-safe electronic tags.

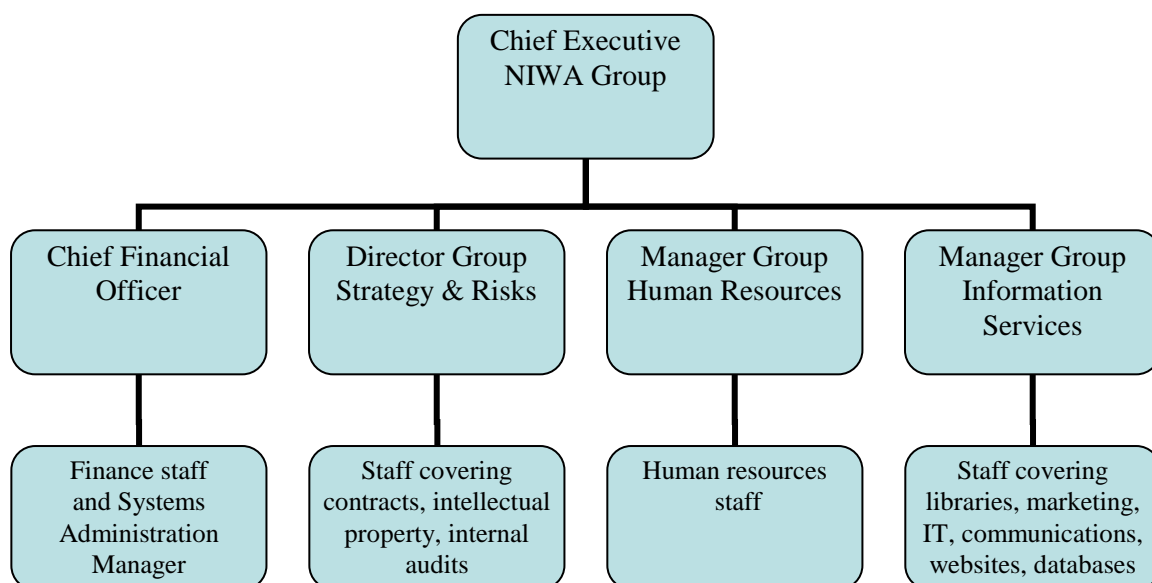
Unidata Pty Ltd is an instrument manufacturing company, located in Perth, Australia, which specialises in the creation of new technologies for environmental monitoring and real-time decision support networks. NIWA owns 80% of the shares in Unidata Pty Ltd. This company complements a similar service provided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

In 2004/05, a new governance and management framework was implemented to ensure all entities within the NIWA Group develop well. Each subsidiary within the NIWA Group has a new Board consisting of two directors from the NIWA Board, the NIWA Chief Executive Officer and one to two other individuals (who bring additional skills). The latter individuals are either members of the NIWA Executive or are independent directors with relevant skills and experience. Subsidiaries with external shareholders (i.e., Unidata Pty Ltd and EcoConnect Ltd) have, in addition, one to two directors representing the interests of these shareholders on the Board. Each subsidiary is led by a General Manager who is responsible for all management, operational and reporting functions. Each subsidiary is expected to meet the same standards of business planning, operation and reporting that are expected of the parent company. All business plans developed by the subsidiaries must ultimately be approved by the NIWA Board and included in the NIWA Business Plan (which must be approved by shareholding Ministers) before they may be implemented. Deviations from accepted business plans must be approved by the NIWA Board (who will consult with shareholding Ministers as appropriate).

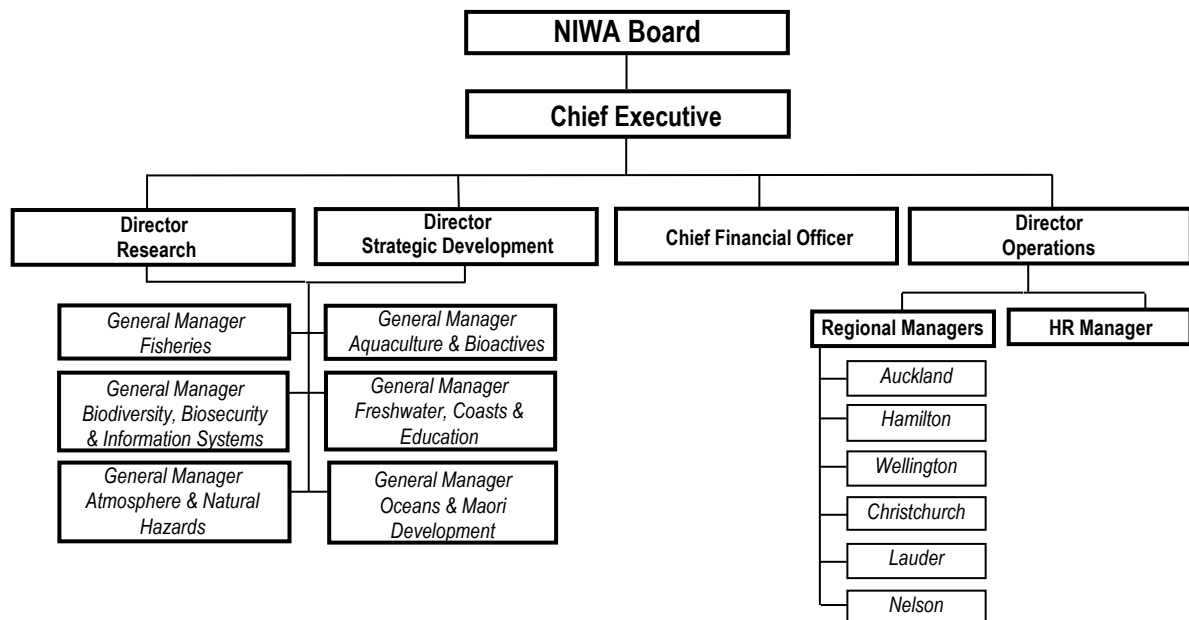
To enhance management of the NIWA Group, and ensure appropriate administrative and support services are provided to all entities, a more formal 'corporate group' will be established within NIWA in 2005/06 (see diagram below). The group will be called NIWA Corporate. Three positions within NIWA Corporate (initially to be filled by staff who hold other positions within the NIWA Group) will be concerned with the overall development of the Group (i.e., Chief Executive NIWA Group, Director Group Strategy & Risks and Chief Financial Officer). Their role is to advise the Board of the parent company of any initiative within the NIWA Group that may significantly impact (positively or negatively) on the Group's development and/or financial success. Conflicts between Group and subsidiary aspirations will be resolved by the parent Board after consultation with the Boards of relevant subsidiaries. All other positions within NIWA Corporate will be concerned solely with the provision of services. The parent company and each subsidiary will purchase services required from NIWA Corporate at cost through a 'service level agreement'.



### 1.3 Organisational Structure of Parent Company

The senior management structure of the parent company, NIWA Science, is illustrated in the diagram below. The Senior Directorate comprises the Chief Executive, 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



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 research 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.

### **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, storm surge, tsunami, floods)
- satellite remote sensing
- renewable energy resources (e.g., wind, solar)
- atmosphere–ocean interactions

### **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
- rainfall runoff and flood forecasts
- 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

### **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. Thirteen years later, these measures have largely doubled or trebled: The NIWA Group now has over 640 staff, revenue approaching \$90 million and assets greater than \$65 million.

With the establishment of our six subsidiaries, NIWA has become a much more robust company. We are no longer an organisation that just sells staff and vessel time and bears all commercial risks solely. We have created new opportunities to sell a diverse range of products and services and are increasingly promoting ourselves, sharing risks, and leading new sector initiatives with others (e.g., our 80% shareholding in Unidata Pty Ltd, 50% shareholding in EcoConnect Ltd, 50% shareholding in Ensid Technologies Ltd). A key challenge for NIWA in 2005/06 is to manage this portfolio of businesses well and invest wisely. This challenge places equal pressure on both the governance and management of NIWA. Whereas NIWA has good practices in place to develop its 'traditional' business, a more dynamic, commercial approach is required to grow



the combined business of the new NIWA Group effectively and ensure each component remains financially viable and competitive. NIWA's board and management will need to have the skills and knowledge to interface appropriately with those governing and managing its subsidiaries. The time is now right to proceed as the board and management of NIWA have had time to settle in and build a strong and effective working relationship. It is essential that NIWA maintains its excellent science, strong market focus and leadership role in all relevant sectors.

Major strategic initiatives for the period 2005 to 2007 include:

- Establishing appropriate governance and management frameworks, relationships and skills to ensure efficient and effective development of all entities within the NIWA Group.
- Increasing the revenue and profitability of our research and consulting businesses (i.e., NIWA Science, NIWA Australia Pty Ltd, NIWA USA) by improving our market image, brand and reach, minimising expenditure that is not directly related to revenue generation, better targeting our research and services to client needs, and placing greater emphasis on selling the skills of NIWA versus those of individual staff.
- Developing a stronger financial footing for our vessel company (NIWA Vessel Management Ltd) 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.

These initiatives will have a significant impact on the way we structure activities within the NIWA Group and on staff perceptions of NIWA as an employer. Hence it is essential that over the next three years we find ways of achieving change without hurting staff morale, dampening innovation or reducing our strong work ethic. Key staff issues across the NIWA Group include the need to reward staff well, recruitment and retention, and maintenance of critical mass. Many of our core science areas have lost considerable research time over the last six years and maintaining these capabilities (and associated morale and productivity) is an increasing challenge. The Capability Fund plays an important role in maintaining and fostering essential research capabilities and in developing new opportunities for growth. Without the Capability Fund, we would struggle to be an innovative research and development company, and synergies between the different entities of the NIWA Group would largely end.

#### **4.0 CAPABILITY FUND**

In 2005/06, NIWA will receive \$7.5M (excluding GST) from the Capability Fund. The money will be used to:

- Support core skill bases that are at or below critical mass, yet essential to achieving Government outcomes (\$500K).
- Advance new areas of science and innovation that have long-term strategic benefits to New Zealand, including recruitment of experienced scientists to complement existing skills (\$2,800K);
- Increase the transfer of science to end-users; e.g., education initiatives, training courses, National Centre promotional activities (\$650K).

- Build research capacity for the future in areas of high national need (e.g., recruiting post-doctoral fellows and the next generation of science leaders, funding student scholarships) (\$1,100K).
- Provide training opportunities and keeping existing staff at the forefront of their area of expertise, including sabbaticals, technical training and sponsoring visits from international experts (\$500K).
- Re-position NIWA science to respond to future opportunities and emerging stakeholder needs (\$800K).
- Bridge the gap between research and commercialisation of new products, through market-led ‘proof of concept’ research driven by the needs of our subsidiaries and joint ventures (\$1,150K).

Stakeholders play an important role in our allocation of the Capability Fund by providing information on national needs and issues. This information is obtained through seminars, workshops, newsletters, websites, training courses and formal consultation with a diverse range of stakeholders, including central government agencies (e.g., Ministry of Fisheries, Department of Conservation, Ministry for the Environment), regional and district councils, community interest groups and relevant industry sectors (e.g., dairy, seafood, energy, tourism).

Further details are provided in Appendix 1 and in our 2005/06 Business Plan (which links expenditure to specific tasks).

## **5.0 PERFORMANCE MEASURES AND TARGETS**

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

### **5.1 Non-Financial Performance**

NIWA is fully committed to operating in a sustainable manner and working with others to achieve the Government's economic, environmental and social goals. Many of our core business activities contribute directly to the sustainable development of New Zealand’s natural and human resources through the provision of scientific advice, services and products. A growing component of our work is directed at creating new business and job opportunities, both in the main city centres and rural areas of New Zealand. Particular care is taken to minimise the impact of our activities on the environment and to ensure that individuals and communities potentially affected by our actions are well informed and consulted about how we plan to proceed. We support extensive interactions with non-government organisations and community groups and contribute significantly to the education of primary, secondary and tertiary students, local and central government agencies, and the wider public. Internationally, we represent New Zealand at a vast array of scientific meetings and inter-government forums.

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 2005/06, we will report on the following non-financial performance categories:

<b>Category</b>	<b>How performance will be monitored and reported</b>
<b>Staff composition</b>	Number of FTEs, turnover, profile, age composition in the following categories (as defined by CCMAU): research teams, research support, general support and management.
<b>Science output</b>	Number of publications in the following 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; 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.
<b>International connectedness</b>	Number of representations on international committees, collaborative formal links with overseas organisations, international visits, presentations at international conferences, visiting scientists, international consultancy contracts.
<b>Application and promotion of science</b>	Number and value of consultancies and contracts to supply information to New Zealand users; extent of achievement of technology transfer objectives in FRST contracts; number of workshops, field days and training sessions; number of joint ventures or licence agreements with New Zealand users; number and value of TBG and Technet contracts; requests serviced from our National Climate Database, Water Resources Archive and New Zealand Freshwater Fisheries Database; number of magazine and newspaper feature articles and TV appearances.
<b>Social and cultural responsibility</b>	A narrative outlining achievements, including comment on work/life balance, community involvement, cultural training, the number of staff involved in Te Kuwaha, MOUs with iwi, and commitment to animal welfare.
<b>Good employer</b>	A narrative outlining policies to meet the provisions of the Crown Research Institutes Act 1992, including policies on training, equal employment opportunities, parental leave, benefits and health and safety. Comment is also made on the results of staff attitude surveys and comparisons of staff salaries with market. Measures that will be reported on include the number of staff receiving training, percentage of staff with personal development plans, the number of accidents during the year, and time lost due to work-related accidents as a percentage of total working days.
<b>Environmental responsibility</b>	A narrative outlining achievements, including comment on energy use, equivalent greenhouse gas emissions, waste disposal and waste recycling against performance targets.
<b>Education</b>	Number of Post-docs funded, teaching fellowships awarded, PhD and MSc students supervised, scholarships awarded, external training courses run, narrative outlining education initiatives with schools and communities.
<b>Benefits to New Zealand</b>	A narrative outlining initiatives and achievements in this area.

All of the narratives and non-financial performance measures outlined above will be included in our 2005/06 Sustainable Development Report which will be reviewed and verified by an independent external agency.

It is anticipated that the following targets will be met by 30 June 2006:

*Staff Composition*

- A total permanent staff of 641, comprising 444 researchers, 44 research support, 103 general support, 8 marketing and promotion, 24 management and 18 post-doctoral fellows (see Appendix I for definitions of staff categories).
- Overall staff turnover of less than 8% per annum.

*Good Employer*

- Less than 0.05% of total working days lost due to work-related accidents.

*Research Output*

- 300 papers in international, externally refereed scientific journals, series or books
- 180 papers in local, refereed journals, series or books
- 510 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 > \$28 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).
- 250 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).

**5.2 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 an adequate rate of return on shareholders' funds; and
- to operate as a going concern.

In 2005/06, NIWA will report against the following key financial performance measures:

<b>Performance Measure</b>	<b>Definition</b>
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.

<b>Performance Measure</b>	<b>Definition</b>
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 2005/06 Business Plan, we aim to achieve the following specific targets:

## **NIWA GROUP Business Plan for the Year Ended 30 June 2006**

### **Ratios and Statistics**

	<b>Budget 2004/05</b>	<b>Forecast 2005/06</b>	<b>Forecast 2006/07</b>	<b>Forecast 2007/08</b>
<b>REVENUE</b> (\$000s)	86,899	100,350	103,116	108,255
<b>OPERATING</b>				
Operating Expenses & Depreciation (\$000s)	81,845	91,481	92,796	96,123
Earnings Before Interest and Tax (EBIT) (\$000s)	5,054	8,868	10,321	12,131
Operating Surplus before Tax (\$000s)	4,953	8,366	9,510	11,464
Net Surplus (\$000s)	3,065	5,763	6,590	7,991
Average total assets (\$000s)	66,014	69,490	66,676	63,712
Average Equity (\$000s) (Shareholders' funds)	45,600	40,475	36,444	36,337
<b>LIQUIDITY</b>				
Current Ratio	0.79	0.81	0.86	0.99
Quick Ratio (aka. Acid test)	0.85	0.87	0.94	1.10
<b>PROFITABILITY</b>				
Return on Equity (%)	6.72	14.24	18.08	21.99
Return on Assets (%)	7.66	12.76	15.48	19.04
EBIT Margin (%) (aka. Operating Profit margin)	5.82	8.84	10.01	11.21

## 6.0 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.

## 7.0 POLICY AND PROCEDURE STATEMENTS

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

### 7.1 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.

## **7.2 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;
- capacity to replace RV *Tangaroa* in event of loss;
- 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 2005/06 of \$13 million.

## **7.3 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.

## **7.4 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.

## 8.0 OTHER MATTERS REQUIRED BY THE CRI ACT 1992

### 8.1 Ratio of Shareholders Funds to Total Assets

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

	As at 30 June			
	2005 Budget \$000	2006 Forecast \$000	2007 Forecast \$000	2008 Forecast \$000
NIWA Group Equity to Total Assets	0.60:1	0.54:1	0.55:1	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.

### 8.2 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 net asset position as shown in the audited accounts for 30 June 2004 was \$52 million.

### 8.3 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.
- 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 2005/06 Business Plan.

### 8.4 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 - Capabilities to be Developed with Capability Fund

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Sustainability of Freshwater Environments and Resources	<ul style="list-style-type: none"> <li>maintain core capabilities in urban storm-water and wastewater science</li> <li>recruit staff in key areas of increasing stakeholder need (water allocation, water-borne pathogens, contaminant modelling)</li> <li>improve access to national water resources data through developing a web-based interface</li> <li>develop real-time environmental data capture, transfer and forecasting systems</li> </ul>	<ul style="list-style-type: none"> <li>recruit new staff to strengthen freshwater modelling capabilities</li> <li>recruit new staff to increase national capability in aquatic health risk assessment (in collaboration with ESR Ltd)</li> <li>improve stakeholder use of science in decision-making on freshwater resources, through developing user-friendly tools and models</li> </ul>	<ul style="list-style-type: none"> <li>improve stakeholder use of science in decision-making on freshwater resources through training courses on the use of tools and models</li> <li>recruit new staff to strengthen cross-boundary science, linking climate, freshwater and nearshore-marine systems</li> <li>enhance national capability in freshwater ecosystem restoration science through recruitment of new staff and international collaboration</li> </ul>
Sustainability of Nearshore Marine Environments and Resources	<ul style="list-style-type: none"> <li>recruit new staff to re-build capabilities in coastal and estuarine science</li> <li>strengthen near-shore habitat mapping capabilities</li> <li>improve monitoring, prediction and decision support tools for coastal and estuarine environments</li> </ul>	<ul style="list-style-type: none"> <li>develop and run training courses to upskill stakeholders on the use of current models and tools in coastal and estuarine management</li> <li>develop new technology to monitor toxic algal blooms and coastal sediment plumes from satellite data</li> </ul>	<ul style="list-style-type: none"> <li>strengthen research capability linking climate variability and change to coastal and estuarine management</li> <li>strengthen basic understanding of nearshore marine environments for development of next phase of resource management tools</li> </ul>
Sustainability of Oceanic Environments and Resources	<ul style="list-style-type: none"> <li>develop planning and prediction tools to assist in formulating ocean policy</li> <li>enhance performance of current trophic models to better represent ecosystem dynamics and sustainable resource use</li> <li>strengthen capability associated with the use of satellite data to research, monitor and forecast ocean properties</li> </ul>	<ul style="list-style-type: none"> <li>maintain long-term oceanographic observations that are critical to validating and forecasting ocean response to global change</li> <li>maintain strong links with international science programmes in ocean ecosystem and biogeochemical research</li> </ul>	<ul style="list-style-type: none"> <li>integrate marine databases to promote multi-disciplinary research</li> <li>maintain long-term oceanographic observations that are critical to validating and forecasting ocean response to global change</li> <li>recruit additional staff to maintain critical mass in ocean sciences</li> </ul>

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Fisheries	<ul style="list-style-type: none"> <li>develop with central government agencies a shared research strategy to guide development of future ecosystem management tools</li> <li>recruit new staff to strengthen capability in fisheries modelling and shellfish population biology</li> <li>develop training courses to upskill stakeholders on fisheries research concepts and technologies</li> </ul>	<ul style="list-style-type: none"> <li>recruit new staff to strengthen capability in ecological modelling and fisheries management in a ecosystem context</li> <li>develop tools and services to improve fishing efficiency</li> <li>develop training courses to upskill stakeholders on fishery management plans, research plans and ecological risk assessments</li> </ul>	<ul style="list-style-type: none"> <li>recruit new staff to strengthen capability in fish population biology</li> <li>develop tools and services to mitigate fisheries bycatch and damage to sensitive environments</li> <li>develop new and effective tools for monitoring and assessing fish stocks</li> <li>support studies that integrate fisheries capabilities with those in coastal and ocean science and biodiversity</li> </ul>
Maori Development	<ul style="list-style-type: none"> <li>enhance science capability and profile of Maori staff by supporting paper writing and conference presentations</li> <li>recruit new staff to enhance capability in qualitative and kaupapa Maori research methodologies</li> <li>develop tools to assist Maori in aquatic biodiversity management</li> <li>enhance partnerships with iwi through assisting in the development of iwi environmental plans</li> </ul>	<ul style="list-style-type: none"> <li>provide guidance to iwi on the use of distributed energy sources for isolated communities</li> <li>strengthen skill base to assess coastal fisheries resources and kaimoana</li> <li>develop new species aquaculture opportunities relevant to emerging Maori business</li> </ul>	<ul style="list-style-type: none"> <li>promote new species aquaculture opportunities to Maori groups</li> <li>develop joint initiatives on marine natural products with Maori</li> <li>increase science transfer to iwi through joint studies on taonga species</li> </ul>
Mitigating Human Impacts on the Atmosphere	<ul style="list-style-type: none"> <li>recruit new staff to develop novel technologies to quantify and source greenhouse gas emissions</li> <li>develop policy-relevant models and tools related to greenhouse gas emissions and renewable energy</li> <li>recruit new staff and support studies to re-build capability in air dispersion modelling</li> </ul>	<ul style="list-style-type: none"> <li>develop and apply new technical solutions to monitor and reduce greenhouse gas emissions</li> <li>develop guidelines and models that quantify health risks associated with emissions/air quality</li> <li>recruit additional staff to attain critical mass in climate-energy forecasting/solutions</li> </ul>	<ul style="list-style-type: none"> <li>develop linked satellite remote sensing, ground-based and modelling techniques to determine greenhouse gas emissions and validate mitigation measures</li> <li>strengthen links with global atmospheric observing networks</li> </ul>

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2005/06 Forecast	2006/07 Forecast	2007/08 Forecast
Natural Hazards	<ul style="list-style-type: none"> <li>• adapt remote sensing infrastructure to the next generation of satellites to maintain ability to obtain remotely sensed data</li> <li>• recruit additional staff to attain critical mass in social, planning and economic aspects of hazard mitigation</li> </ul>	<ul style="list-style-type: none"> <li>• strengthen capability in coastal hazard modelling and risk assessment</li> <li>• broaden hazard research and services to include impact analysis</li> <li>• provide training courses for hazard practitioners on floods and coastal hazards</li> </ul>	<ul style="list-style-type: none"> <li>• improve integration of our chained models (e.g., rainfall, river flow, inundation)</li> <li>• recruit additional staff to attain critical mass flood and coastal hazard forecasting</li> </ul>
Climate Variability and Change	<ul style="list-style-type: none"> <li>• accelerate development of regional climate models</li> <li>• produce monthly climate summaries and outlooks and disseminate via television, radio, internet, public presentations and the <i>Climate Update</i></li> <li>• recruit additional staff to develop climate-related products and services for selected end-user sectors</li> </ul>	<ul style="list-style-type: none"> <li>• link regional climate and catchment models to assess river flow regimes</li> <li>• validate and apply short-term (up to 1 month) climate outlooks and create new outlooks products with strong user sector orientation</li> <li>• develop simplified, low-cost climate stations and link real-time to our databases</li> </ul>	<ul style="list-style-type: none"> <li>• support studies assessing trends in climate extremes</li> <li>• develop a unified and user-friendly delivery mechanism for climate and other environmental monitoring data</li> </ul>
Aquaculture and Marine Natural Products	<ul style="list-style-type: none"> <li>• accelerate research on new species aquaculture</li> <li>• enhance capability in core areas of aquaculture that are below critical mass</li> <li>• recruit new staff to advance added-value product development</li> </ul>	<ul style="list-style-type: none"> <li>• develop commercial scale trials on new species with sector partners</li> <li>• conduct proof of concept studies on added-value product opportunities</li> <li>• develop skills and knowledge in added-value products through staff training and collaborative work with industry and international researchers</li> </ul>	<ul style="list-style-type: none"> <li>• continue commercial scale trials on new species with sector partners</li> <li>• develop commercial scale trials on added-value products in collaboration with industry partners</li> <li>• support industry uptake through training courses and manuals</li> </ul>
Aquatic Biodiversity and Biosecurity	<ul style="list-style-type: none"> <li>• build team in aquatic biosecurity to address expanding stakeholder needs</li> <li>• increase staff skills in taxonomy through training courses</li> <li>• improve utility of biodiversity data through developing better analysis and mapping tools</li> </ul>	<ul style="list-style-type: none"> <li>• improve knowledge of marine microbial biodiversity</li> <li>• develop new techniques for interpreting trends and predicting future biodiversity and bioinvasions.</li> <li>• assess community attitudes to biosecurity risks and management</li> </ul>	<ul style="list-style-type: none"> <li>• recruit expert in modelling bio-invasions and impacts on biodiversity</li> <li>• develop web-based access to integrated data and models</li> </ul>

## **APPENDIX II - 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 III – 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 comprise NIWA (the "parent company"), its subsidiaries and the Group's interest in associates and joint ventures.

#### *Measurement base*

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

### **Specific accounting policies**

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

#### *(a) Basis of consolidation*

##### *i) Consolidation of subsidiaries*

Subsidiaries are those entities controlled by NIWA. The Group Financial Statements have been prepared using the purchase method of consolidation. This involves adding corresponding assets, liabilities, revenues, and expenses on a line-by-line basis. All inter-company transactions, balances and unrealised profits are eliminated on consolidation. The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised on acquisition together with the minority interests' share of post acquisition surpluses.

##### *ii) Accounting for joint ventures*

Joint ventures are joint arrangements between NIWA and another party in which there is a contractual agreement to undertake a specific business project in which the venturers share several liability in respect of the costs and liabilities of the project and share in any resulting output. NIWA's share of the assets, liabilities, revenues and expenses of the joint ventures are incorporated into the parent company and Group Financial Statements on a line by line basis using the proportionate method.

*(b) Revenue recognition*

Contract revenue is recognised based on the lower of the stage of completion of the contract or the value of work done. The amount of revenue unbilled is represented by '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)*

These 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 has been accounted for using the liability method on a comprehensive basis. A debit balance in the deferred tax account (hereafter called 'future income taxation benefit'), arising from timing differences or taxation benefits from taxation losses, is recognised only if there is virtual certainty of realisation.

*(e) Identifiable intangible assets*

Purchased identifiable intangible assets, comprising copyrights and trademarks, are recognised at cost and amortised in the statement of financial performance on a straight line basis over their estimated useful lives. When the carrying amount of an identifiable intangible asset exceeds its recoverable amount, it is written down to its recoverable amount.

*(f) Development costs*

Development costs that meet the following criteria are recognised as an asset in the Statement of Financial Position:

- the product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the Group intends to produce and market, or use, the product or process;
- the existence of a market for the product or process or its usefulness to the Group, if it is to be used internally, can be demonstrated; and
- adequate resources exist, or their availability can be demonstrated, to complete the projects and market or use the product or process.

Capitalisation is limited to the amount which, taken together with further related costs, is probable of recovery from related future economic benefits. When the criteria above no longer apply, the unamortised balance of development costs is written-off and recognised immediately as an expense. Development costs recognised as an asset are amortised in the statement of financial performance on a straight line basis over the period of expected benefits. When the unamortised balance of development costs exceeds the amount probable of future recovery from related future economic benefits less related future costs, the excess is written down and recognised immediately as an expense.

*(g) Investments*

Non-current investments are valued at cost. Where the carrying amount of an investment exceeds its recoverable amount it is written down to its recoverable amount.

*(h) Property, plant, and equipment*

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

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.

*(i) Depreciation*

Property, plant, and equipment, except for freehold land, are depreciated on a straight-line basis at rates estimated to write off the cost (or transfer price) of the property, plant, and equipment over their estimated useful lives. Maximum useful lives used are 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 electronic data processing equipment	3 years
Furniture & fittings	10 years
Office equipment	5 years
Motor vehicles	4 years

*(j) Receivables*

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

*(k) Inventory*

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

(l) *Foreign currencies*

i) *Transactions*

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

ii) *Translation of independent foreign operations*

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

(m) *Leases*

The Group has not contracted for any leases which would be classified as finance leases. Operating lease payments are recognised evenly over the expected period of benefit to the Group.

(n) *Statement of cash flows*

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the statement of financial performance. Operating activities comprise the provision of research services, consultancy and manufacture of scientific instruments. Investing activities comprise the purchase and disposal of property, plant, and equipment and advances to subsidiaries. Financing activities are those which result in changes in the size and composition of the capital structure of the Group.

(o) *Provision for dividends*

Dividends are recognised in the year 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>