NATIONAL INSTITUTE OF WATER

AND ATMOSPHERIC RESEARCH LIMITED

STATEMENT OF CORPORATE INTENT

2006 / 2007

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 2007, AND THE FINANCIAL FORECASTS FOR THE NEXT TWO YEARS.

CONTENTS

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 as NIWA Science) and seven other entities:

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

NIWA Science employs c. 635 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 Bream Bay, 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), NIWA Natural Solutions Ltd and EcoConnect 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. EcoConnect Ltd has been established to deliver web-based environmental forecasts. Whilst still in the development phase, this company plans to deliver forecasts in association with the United Kingdom Met Office (through service contracts) starting 1 July 2006.

Unidata Pty Ltd is an instrument manufacturing company, located in Perth, Australia, which specialises in the creation and supply 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.

CRL Energy Ltd is New Zealand's only research and consulting business that focuses solely on the energy sector. The company employs c. 40 staff, with major campuses in Lower Hutt and Christchurch. Shares in the company are equally split between NIWA and the Coal Association of New Zealand. The research and services provided by CRL Energy Ltd complement those provided by NIWA Science.

1.2 Our Aspirations

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.

NIWA will fulfil its mission by:

- maintaining and enhancing our national and international reputations for excellence in marine, freshwater and atmospheric science;
- providing a sound scientific basis for the sustainable management and development of natural resources;
- producing new tools and services to enhance environmental management, improve business performance and increase public safety;
- ensuring optimal value is obtained from all species harvested from, or reared in, marine and fresh waters;
- developing and commercialising new products to boost economic growth;
- securing a diverse portfolio of clients and partnerships to broaden our source of revenue, increase our awareness of new commercial opportunities and to minimise the Crown's ownership risks;
- operating with financial efficiency to ensure that we generate the cash flow needed to develop our business and provide an appropriate return on shareholders' funds.

This vision is consistent with the Crown Research Institutes Act 1992, which requires all Crown Research Institutes to conduct scientific research for the benefit of New Zealand and to be financially viable.

In support of our mission and vision statements we are committed to:

- promoting creativity, innovation and teamwork;
- ensuring our core science areas are appropriately staffed and supplied with sufficient equipment and resources to conduct leading-edge science and deliver innovative and unrivalled services and products;
- maintaining a culture which is adaptable and seeks opportunities;
- being recognised for our integrity, skill and professionalism in conducting all aspects of the company's business;
- attracting, retaining and rewarding high quality staff;
- providing a safe and healthy working environment;
- ensuring that all staff are treated in a fair and equitable manner and that their work and private lives are appropriately balanced;
- taking social responsibility and valuing our environment;
- encouraging stakeholder participation in the setting of our research and business strategies;

- working collaboratively with other organisations and people to form partnerships that add value to our research, intellectual property, products and services;
- honouring the principles of the Treaty of Waitangi.

1.3 Governance and Management of the NIWA Group

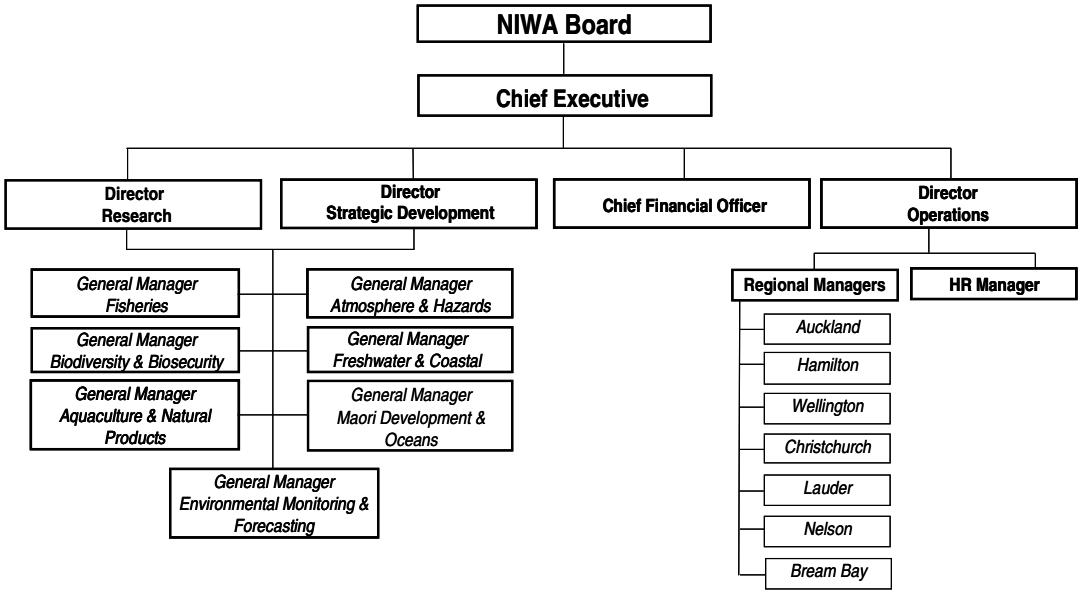
In 2004/05, a new governance and management framework was implemented to ensure all entities within the NIWA Group develop well. Each subsidiary within the NIWA Group has a new Board consisting of two to three directors from the NIWA Board, the NIWA Chief Executive Officer and one to two other individuals (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 (e.g., Unidata Pty Ltd, CRL Energy Ltd) have, in addition, one to three 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' was established within NIWA in 2005/06 (see diagram below). The group is referred to as NIWA Corporate. Three positions within NIWA Corporate are 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 are concerned solely with the provision of services. The parent company and each subsidiary purchases services required from NIWA Corporate at cost through a 'service level agreement'.

1.4 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 are divided into seven 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's 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

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

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

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. Fourteen years later, these measures have largely doubled or trebled: The NIWA Group now has over 680 staff, revenue exceeding $100 million and assets greater than $65 million.

With the establishment of our seven subsidiaries, NIWA has become a much more robust company. We are no longer an organisation that sells staff and vessel time only 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 Ensid Technologies Ltd, joint development of environmental forecasting with the United Kingdom Met Office). A key challenge for NIWA in 2006/07 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.

Over the last four years, NIWA's board and management have formed a strong working unit which has fostered the skills and knowledge necessary to develop its subsidiaries. Emphasis in 2006/07 is to ensure that these tools are well employed to bring about the required transformation of NIWA. 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 2006 to 2008 include:

- Further enhancement of our governance and management frameworks, relationships and skills to ensure efficient and effective development of all entities within the NIWA Group.
- Ensuring appropriate staff are recruited/retained to enhance NIWA's leadership capabilities, scientific prowess and development of products and services.
- 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.
- Forming effective partnerships with industry to facilitate NIWA's development in aquaculture, the design of new energy solutions and environmental monitoring/forecasting.
- Enhancing the financial footing for our vessel company (NIWA Vessel Management Ltd) by building a more secure client base, actively pursuing overseas charters, maintaining appropriate daily charter rates, and ensuring the vessels are appropriately maintained and equipped to attract a diverse range of clients.
- 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.
- Expanding the services of CRL Energy Ltd to include development and construction of small-scale energy systems based on a variety of technologies from biofuels to hydrogen to liquified coal.

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

The Capability Fund is an essential tool for advancing NIWA's strategic priorities, fostering innovation and maintaining staff morale. In 2005/06, NIWA received $7.5M (excluding GST) from the Capability Fund. In 2006/07, NIWA will receive $9.1M (excluding GST) from the Capability Fund. The Capability Fund will be used in the following manner:

- Supporting core skill bases that are at or below critical mass, yet essential to achieving Government outcomes ($630K).
- Advancing new areas of science and innovation that either have long-term strategic benefits to New Zealand and/or are a response to emerging stakeholder needs ($2,955K).
- Building science capacity and capability for the future in areas of high national need by recruiting post-doctoral fellows, funding student scholarships, and providing learning opportunities for existing staff through sabbaticals, technical training awards and sponsoring visits from international experts ($2,305K).
- Bridging 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 ($1,420K).
- Increasing the uptake of science by end-users through training courses, tools development and National Centre promotional activities ($1,100K).
- Supporting our Innovation Seed Fund, where scientists allocate funds to projects put forward by their peers based on scientific merit alone (i.e., the project does *not* need to align with any strategic priority) ($250K).
- A contingency fund that allows pursuit of unforeseen research opportunities that emerge during the year that are aligned to our strategic priorities (e.g., research related to droughts, floods, algal blooms) ($440K).

Stakeholders play an important role in establishing NIWA's strategic priorities and therefore the allocation of the Capability Fund. The strategy documents of Government (e.g., Sustainable Development Plan of Action, Biodiversity Strategy, *Oceans 2020* Policy), the regional plans and developing Long-Term Council Community Plans of local government, and sector strategy documents (particularly those of the agriculture, seafood and energy sectors) provide key information on national needs and issues. This information is supplemented by more specific detail obtained through direct interaction with stakeholders via seminars, workshops, training courses, and various external advisory groups. These stakeholder needs are compared to the ability of existing science to provide answers, the research effort currently being expended, and the appropriateness of our existing capabilities to effectively address the science gaps identified. The result of this analysis is a suite of activities that need to be supported by the Capability Fund if the strategic priorities identified by stakeholders are to be advanced effectively. Details of these activities are provided in Appendix I and in our 2006/07 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.

We recognise the importance of improving the sustainability of our internal operations and 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. 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. 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 2006/07, we will report on the following non-financial performance categories:

Category	**How performance will be monitored and reported**
Staff composition	Number of FTEs, turnover, profile, age composition in the following categories (as defined by the Crown Company Monitoring Advisory Unit): research teams, research support, general support and management.
International connectedness	Number of representations on international committees, collaborative formal links with overseas organisations, international visits, presentations at international conferences, visiting scientists, international consultancy contracts.

Category	How performance will be monitored and reported
Social and cultural responsibility	A narrative outlining achievements, including comment on work/life balance, community involvement, commitment to animal welfare, cultural training, the number of staff involved in Te Kuwaha and Memoranda of Understanding with iwi..
Science output	Number of publications in the following categories (as defined by the Crown Company Monitoring Advisory Unit): papers in international, externally refereed scientific journals, series or books; papers in local, internally refereed, journals, series or books; conference papers; keynote presentations; presentations to users and the public; research monographs or books; popular books; web-based publications; scientific and technical reports to users. Where available, we will also report on results of external reviews of excellence and results of quality assurance programmes.
Application and promotion of science	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; numbers of patents and/or product licenses sought and registered; number of significant new or improved products, processes and services developed; number of joint ventures, spin-off companies (separate reporting of wholly-owned and partially owned) and licence agreements with New Zealand and International 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.
Education	Number of post-doctoral fellows supported, teaching fellowships awarded, PhD and MSc students supervised, scholarships awarded, external training courses run, narrative outlining education initiatives with schools and communities.
Environmental responsibility	A narrative outlining achievements, including comment on energy use, equivalent greenhouse gas emissions, waste disposal and waste recycling against performance targets.
Good employer	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 will be 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.
Benefits to New Zealand	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 2006/07 Sustainable Development Report which will be reviewed and verified by an

independent external agency. Targets for key performance indicators as required by Crown Company Monitoring Advisory Unit are listed in the table below.

Research Application Indicators	**Target for the year ended 30 June 2007**
Commissioned reports to users	580
Presentations on technical information and research results	800
Publications on technical information and research results	150
Peer-reviewed articles	320
Keynote and plenary presentations	30
New or improved products, processes and services	20
Patents granted (and/or PVR if relevant) - in New Zealand - overseas	Two new patents for New Zealand and Overseas
Requests for information from databases and collections	National Climate database external requests = 10,000 Water Resources Archive requests = 1,200 New Zealand Freshwater Fish database requests = 1,400
Licensing arrangements entered into	New software licensing arrangements entered into = 10 Other new licensing arrangements entered into = 5
Joint ventures or formal associations	One new Joint Venture entered into.

Staff Indicators	**Target for the year ended 30 June 2007**
Total number of FTEs	640
FTEs in research teams	450
FTEs in research support	45
Other FTEs	145

In addition to the targets for indicators that are required by the Crown Company Monitoring Advisory Unit it is anticipated that the following additional non-financial performance targets will be met by 30 June 2007:

Staff Composition

- A total permanent staff of 655, comprising 458 researchers, 46 research support, 104 general support, 3 marketing and promotion, 26 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.
- 500 staff receiving internal and external training.
- 80% of staff having personal development plans in place.
- Creation of 10 new positions in rural areas.

Research Output (in addition to those in table above)

- 70 research monographs or books
- 2 popular books

Application and Promotion of Science

- Consultancy contracts with total value > $24 million to supply information predominantly to New Zealand users.
- 95% achievement of technology transfer objectives in FRST contracts.
- Five Technology for Business Growth contracts with total value to NIWA > $1M.
- 220 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 (10,000), Water Resources Archive (1200), New Zealand Freshwater Fish Database (1400).

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 2006/07, NIWA will report against the following key financial performance measures:

Performance Measure	**Definition**
Revenue	*Revenue* is income generated by the day-to-day operations of the business. It includes science research, contract work for the Crown or commercial clients, royalties, licence fees, etc., plus income from the sale of products and the lease of assets. It excludes income from capital gains, dividends, foreign currency gains/losses and interest on investments.
Current ratio	*Current assets* include bank balances, short-term deposits, debtors and prepayments, and inventory. *Current liabilities* include bank overdraft, accounts payable, current portion of term liabilities, and tax payable. *Current ratio = Current assets ÷ Current liabilities.*
Quick ratio	*Quick assets* are Current Assets excluding Stock. *Quick liabilities* are Current Liabilities excluding staff entitlements. *Quick ratio = Quick assets ÷ Quick liabilities.*
Return on equity	*NPAT* is net profit after tax. *Shareholder's funds* include share capital and retained earnings. *Return on equity = NPAT ÷ Average shareholder's funds, expressed as a percentage.*
Return on assets	*EBIT* is as defined below. *Total assets* include all the assets on the Statement of Financial Position as per the Annual Report. *Return on assets = EBIT ÷ Average total assets, expressed as a percentage.*
EBIT margin	*EBIT* is earnings before interest, financial lease charges and tax. It excludes restructuring costs. *Revenue* is as defined above. *EBIT margin = EBIT ÷ revenue, expressed as a percentage.*

As stated in our 2006/07 Business Plan, we aim to achieve the following specific targets:

NIWA GROUP
Business Plan for the Year Ended 30 June 2007

Ratios and Statistics

	Budget 2005/06	Forecast 2006/07	Forecast 2007/08	Forecast 2008/09
REVENUE ($000s)	100,350	102,599	107,539	113,329
OPERATING				
Operating Expenses & Depreciation ($000s)	91,481	93,984	97,719	101,808
EBIT & Dividend Received ($000s)	8,868	8,616	9,820	11,521
Operating Surplus before Tax ($000s)	8,366	8,339	9,944	11,828
Net Surplus ($000s)	5,763	5,550	6,663	8,032
Average total assets ($000s)	69,490	63,706	67,881	75,090
Average Equity ($000s) (Shareholders' funds)	40,475	40,570	46,511	53,693
LIQUIDITY				
Current Ratio	0.81	1.01	1.31	1.65
Quick Ratio (aka. Acid test)	0.87	1.26	1.67	2.16
PROFITABILITY				
Return on Equity (%)	14.24	13.68	14.33	14.96
Return on Assets (%)	12.76	13.52	14.47	15.34
EBIT Margin (%) (aka. Operating profit margin)	8.84	8.40	9.13	10.17
COVERAGE				
Interest Cover	11.11	28.36	-	-
FINANCIAL STRENGTH				
Gearing (%)	22.16	0.82	0.70	100.00
Equity ratio (%) (aka. Proprietorship)	58.25	63.68	68.52	71.50
Cash and Short Term Deposits ($000s)	4,770	1,636	7,493	14,076
Financial Debt ($000s)	10,904	409	409	409
WEIGHTED AVERAGE COST OF CAPITAL	9.37	10.67	10.50	10.32

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;
- Crown Entities Act 2004; 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 not budgeted to pay a dividend in 2006/07.

7.3 Shareholder Consent for Significant Transactions

The Board will obtain the prior written consent of Shareholding Ministers for any one-off transaction or series of transactions (related to the same project) with a value equivalent to or greater than $5.0 million or 30.0% of the company's total assets before the transaction, whichever is the lesser. The transactions covered by this provision include, but are not limited to:

- the acquisition, modification or disposal of an interest in an incorporated or unincorporated joint venture, partnership, or other similar association;
- licencing arrangements and other transactions that involve the transfer of intellectual property;
- the acquisition or disposal in full or in part of shares or interests in external companies, subsidiaries and business units;
- the acquisition and disposal in full or in part of property (buildings and land) and other assets, including capital equipment;
- other transactions that affect the company's ownership of a subsidiary or a subsidiary's ownership of another equity;
- other transactions that fall outside the scope of the definition of the company's core business or that may have a material effect on the company's science capabilities.

The Board will advise the Shareholding Ministers in writing before entering into any transaction below this threshold related to property or to a specific commercialisation venture which involves change in intellectual property ownership or control.

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			
	2006 Budget $000	**2007 Forecast $000**	**2008 Forecast $000**	**2009 Forecast $000**
NIWA Group Equity to Total Assets	0.54:1	0.67:1	0.70:1	0.73:1

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

Troy Newton
Director

APPENDIX I - Capability Fund Outlook

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2006/07 Forecast	**2007/08 Forecast**	**2008/09 Forecast**
Sustainability of Freshwater Environments and Resources	• maintain national capabilities in lake and wastewater sciences • support seven post-doctoral fellows in key areas of increasing stakeholder need (water allocation, water-borne pathogens, contaminant modelling) • further develop freshwater modelling capabilities and user-friendly decision support systems • develop new tools for real-time environmental data capture, transfer and forecasting systems	• improve stakeholder use of science in decision-making on freshwater resources through training courses on the use of tools and models • recruit new staff to strengthen cross-boundary science, linking climate, freshwater and nearshore-marine systems • enhance national capability in freshwater ecosystem restoration science through recruitment of new staff and international collaboration	• develop new cross-boundary models that link climate, freshwater and nearshore-marine systems • develop freshwater ecosystem restoration models and guidelines for stakeholders
Sustainability of Near-shore Marine Environments and Resources	• maintain critical mass in key areas of coastal hydrodynamics and near-shore ecology through support of two post-doctoral staff • strengthen understanding of interactions between coastal aquaculture and land-derived contamination • develop shellfish rehabilitation techniques	• develop and run training courses to upskill stakeholders on the use of models and tools in coastal and estuarine management and rehabilitation • strengthen research capability linking climate variability and change to coastal and estuarine management	• strengthen basic understanding of nearshore marine environments for development of next phase of resource management tools • enhance capability in use of remote sensing technology for decision making on coastal resources

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2006/07 Forecast	**2007/08 Forecast**	**2008/09 Forecast**
Sustainability of Oceanic Environments and Resources	• support cross-agency initiative for Ocean Survey 2020 to proceed and inform ocean policy • maintain national capability in ocean geology • maintain strong links with international science programmes in ocean ecosystem and biogeochemical research	• maintain long-term oceanographic observations that are critical to validating and forecasting ocean response to global change • integrate marine databases to promote better links between oceanographic, biodiversity and fisheries science	• maintain long-term oceanographic observations that are critical to validating and forecasting ocean response to global change • recruit additional staff to maintain critical mass in ocean sciences
Fisheries	• strengthen capability in key areas of demand, especially fisheries population modelling and ecological impacts modelling • re-develop our software systems for gathering, storing and interrogating our fisheries data • develop training courses to enable stakeholders to better participate in the fishery management and research planning process	• increase stakeholder uptake and acceptance of new fishery population models • integrate marine databases to promote better links between oceanographic, biodiversity and fisheries science • recruit new staff to strengthen capability in fish population biology • develop tools and services to mitigate fisheries bycatch and damage to sensitive environments	• develop new and effective tools for monitoring and assessing fish stocks • support studies that integrate fisheries capabilities with those in coastal and ocean science and biodiversity

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2006/07 Forecast	**2007/08 Forecast**	**2008/09 Forecast**
Maori Development	• promote value of new web-based tools for resource management and new species aquaculture opportunities relevant to Maori groups • strengthen capability of staff to interact effectively with Maori • enhance capability of Maori staff by supporting visiting experts in the use of traditional knowledge • enhance capability in assessing customary fisheries resources and kaimoana	• provide guidance to iwi on the use of distributed energy sources for isolated communities • develop joint initiatives on marine natural products with Maori • strengthen the ability of NIWA staff to interact effectively with Maori, through the provision of support tools, guidelines and protocols, and training courses	• develop new species aquaculture and added-value opportunities with Maori business • increase science transfer to iwi through joint studies on taonga species • strengthen the ability of NIWA staff to interact effectively with Maori, through the provision of support tools, guidelines and protocols, and training courses
Mitigating Human Impacts on the Atmosphere	• develop novel technologies to quantify and source greenhouse gas emissions • support a post-doctoral fellow to attain critical mass in atmospheric chemistry and modelling • re-build capability in air quality modelling and real time display	• develop new combined source energy solutions that meet the energy needs of communities (in collaboration with CRL Energy Ltd) • develop guidelines and models that quantify health risks associated with emissions/air quality • strengthen links with global atmospheric observing networks	• promote combined source energy solutions to communities and policy-makers
Natural Hazards	• strengthen capabilities in coastal hazard modelling and risk assessment • strengthen capability in the use of satellite remote sensed data and the supply of near real-time products	• improve integration of our chained models (e.g., rainfall, river flow, inundation) • develop near real-time hazard forecasting products	• recruit additional staff to provide operational flood and coastal hazard forecasting • provide end-user training courses on the use of forecasting products for floods and coastal hazards

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2006/07 Forecast	**2007/08 Forecast**	**2008/09 Forecast**
Climate Variability and Change	• enhance capability in assessing trends in climate extremes • build short-term climate outlooks and create new products with strong user sector orientation • produce monthly climate summaries and outlooks and disseminate via television, radio, internet, public presentations and the *Climate Update*	• develop simplified, low-cost climate stations and link real-time to our databases • develop a unified and user-friendly delivery mechanism for climate and other environmental monitoring data • enhance national capability in mitigating climate change effects through supporting international collaboration	• recruit additional staff to develop new climate-related products and services for new end-user sectors • develop 'seamless' models between weather and short-term climate prediction
Aquaculture and Natural Products	• develop commercial scale trials on a new species with sector partners • recruit new staff to enhance capability in added-value product development • conduct proof of concept studies on an added-value product opportunity	• continue commercial scale trials on a new species with sector partners • develop commercial scale trials on an added-value product in collaboration with industry partners • conduct proof of concept studies on the next added-value product opportunity	• develop commercial scale trials on next new species with sector partners • continue commercial scale trials on added-value products in collaboration with industry partners • promote industry uptake of new species aquaculture and associated added-value opportunities
Aquatic Biodiversity and Biosecurity	• maintain core skills in marine and freshwater taxonomy and freshwater biosecurity • increase staff skills in taxonomy through training courses • build capability associated with predicting future biodiversity and bio-incursion spread	• improve utility of biosecurity data through developing better analysis and mapping tools • develop predictive models and tools for biodiversity management and bio-incursion spread and effects • develop control techniques for bio-incursions • assess community attitudes to biosecurity risks and management	• demonstrate utility of tools and models to policy-makers • continue development of control techniques for bio-incursions

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 Crown Entity Act 2004, 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 *Tangaroa* hull	26 years
RV *Kaharoa* 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 (retired 30 June 2006)
John Hercus
Miranda Cassidy
David Sharp
Graham Hill
Troy Newton
John Spencer
Ed Johnson
Wendy Lawson (appointed 01 July 2006)

CHIEF EXECUTIVE
Rick Pridmore

COMPANY SECRETARY
Kate Thomson

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