



National Institute of Water &
Atmospheric Research Limited

Statement of
Corporate Intent
2007/2008

science supporting sustainability



NATIONAL INSTITUTE OF WATER

AND ATMOSPHERIC RESEARCH LIMITED

STATEMENT OF CORPORATE INTENT

2007 / 2008

**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
2008, 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 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 of our natural resources.

1.1 Structure of the NIWA Group

The NIWA Group comprises the parent company (referred to as NIWA Science) and five other entities:

NIWA Science employs c. 650 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, and NIWA USA 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.

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 data collection and transfer. NIWA owns 80% of the shares in Unidata Pty Ltd. This company complements the skills within NIWA Science enabling services to be provided in real-time decision support networks and forecasting.

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 the renewable energy skills located in NIWA Science.

1.2 Our Aspirations

Our mission: NIWA is an internationally respected research organisation dedicated to creating and delivering, innovative and excellent science that enables New Zealanders to make informed decisions on the sustainable use of the natural environment and its living resources.

Our vision: In fulfilling this mission NIWA will have a reputation for:

- Scientific excellence in aquatic and atmospheric research;
- Providing objective science-based advice and leadership to enhance the sustainable management of natural resources;
- Producing new tools and providing information that enables enhanced environmental management, improved wealth creation and increased public safety;

- Working with the fisheries and aquaculture sectors to create new business opportunities and optimise returns;
- Transferring commercialisation opportunities to private enterprise in a manner that maximises both their chances of success and their economic benefits to New Zealand;
- Working collaboratively with other researchers to enhance scientific creativity and ensure associated benefits to New Zealand, and the globe, are maximised;
- Partnering with others to ensure our science positively influences environmental, economic, social and cultural outcomes;
- Operating a financial strategy that ensures both a continual investment in its people, facilities and equipment to ensure appropriate science capability in areas of strategic benefit to New Zealand while also providing 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.

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

- promoting creativity, innovation and opportunity-seeking;
- ensuring national capabilities in core aquatic and atmospheric sciences are appropriately staffed and supplied with sufficient equipment and resources;
- encouraging a workplace culture which is empowering, collegial, adaptable, and openly communicative;
- operating with integrity, skill and professionalism;
- providing a remuneration system that attracts, retains and rewards high quality staff;
- providing a safe and healthy working environment, including appropriate work-life balance;
- ensuring that all staff are treated in a fair and equitable manner;
- taking social responsibility, valuing our environment and operating in a sustainable manner;
- encouraging staff and stakeholder participation in the setting of our research strategies;
- working collaboratively with others where this adds value and enhances benefits to New Zealand;
- honouring the principles of the Treaty of Waitangi.

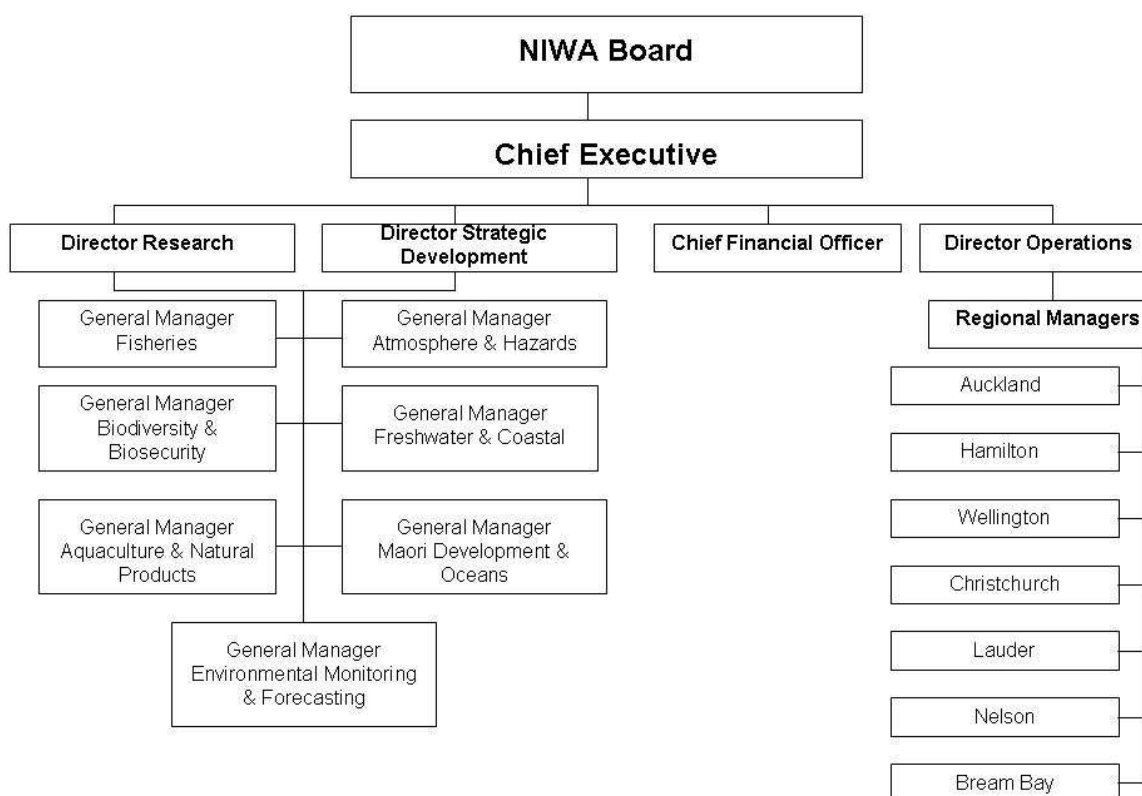
1.3 Governance of the NIWA Group

The full NIWA Board governs the parent company (known as NIWA Science) and all wholly-owned subsidiaries – NIWA Vessel Management Ltd, NIWA Australia and NIWA USA. NIWA is represented on the Boards of the partly-owned subsidiaries Unidata Pty Ltd and CRL Energy Ltd by directors and senior management appointed by the NIWA Board. These subsidiaries have, in addition, directors representing the interests of these shareholders on the Board. All business plans developed by the subsidiaries must ultimately be approved by the NIWA Board before they may be implemented. Transactions between the parent and subsidiaries are carried out on a fully-costed basis.

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 engages with external stakeholders. 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
- modelling climate change and its environmental effects
- climate monitoring and prediction (New Zealand and Pacific Islands)
- specialised maps and services for climate-sensitive businesses
- real-time hazard forecasts (e.g., severe winds, storm surge, tsunami, floods)
- satellite remote sensing
- renewable energy resources (e.g., wind, water, solar, tide, wave)

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
- modeling rainfall runoff and forecasting floods
- 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
- real-time measurement and forecasting technologies
- 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
- 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
- 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
- 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

NIWA is a very successful research organisation with a reputation for excellent science, excellent services and strong financial performance. Our scientific and financial success has been based on dedicated, high-performing staff, complemented by revenue growth in both public good research and projects for the wider Government sector and private business. The NIWA Group now has over 660 staff, revenue exceeding \$110 million and assets greater than \$70 million.

Securing NIWA's future success will require continued demonstration of the relevance of our science to priority issues faced by our stakeholders, within both the public and private sectors. Strategic priority areas identified for focus in the period 2007 to 2009 include: mitigation and adaptation to climate change, secure and sustainable energy, high-return aquaculture, allocation and quality of freshwater resources, and the use of real-time technologies to forecast floods and other water-related hazards. Pursuit of these priorities and delivering benefit to stakeholders will require us to meet the following key challenges:

- Securing sufficient research funding so that core skill bases are maintained above critical mass and new skills are recruited in emerging areas of science relevant to our strategic priorities.
- Building effective research collaborations so that the skills and knowledge of others, internationally and within New Zealand, can assist in delivering the science required.
- Forming effective partnerships with key companies and sector groupings to ensure rapid commercialisation of our science and improved economic and environmental outcomes.
- Ensuring appropriate staff are recruited/retained to enhance NIWA's leadership capabilities, scientific prowess and development of services.
- Improving the communication of our science and raising its profile with key stakeholders and communities.
- Continuing to operate in a financially disciplined way while implementing our human resources strategies to recruit and retain high quality staff, investing in core infrastructure to improve the working environment and increase efficiencies, and providing new equipment to advance our science and meet stakeholder expectations.

4.0 CAPABILITY FUND

The Capability Fund is an essential tool for fostering strategic science, innovation and staff morale in NIWA. It provides funds to maintain critical mass and capability in strategic areas of science that are of long-term importance to New Zealand. In 2007/08, NIWA will receive \$10.083M (excluding GST) from the Capability Fund which will be used in the following manner:

- Supporting core skill bases that are at or below critical mass, yet essential to achieving Government outcomes (\$822K).
- 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 (\$3,363K).
- 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 (\$2,960K).
- Bridging the gap between research and commercialisation of new products, through market-led 'proof of concept' research (\$605K).
- Increasing the uptake of science by end-users through training courses, tools development and NIWA National Centre promotional activities (\$1,513K).
- 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) (\$300K).
- 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) (\$520K).

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 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 2007/08 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. During 2007/08, we will continue our initiatives in energy conservation by further investing in energy efficient systems at our regional offices, establishing a wind energy generator at one of our sites, and increasing use of our video-conferencing system to reduce the need for travel. We will continue our 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 on issues of climate change and sustainability. 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 2007/08, we will report on the following non-financial performance categories:

Category	Performance Monitoring and Reporting	Performance Targets
Corporate Commitment	<ul style="list-style-type: none"> ▪ Board reporting and communication of commitment, sustainability one of core values 	0.5% revenue directed toward sustainability initiatives (see 5.4.4)
External Sustainability Advice/Services	<ul style="list-style-type: none"> ▪ Requests for information from our nationally significant databases and collections* <ul style="list-style-type: none"> - National Climate Database - Water Resources Archive - NZ Freshwater Fish Database - Marine invertebrate collection and database 	<p style="text-align: right;">70,000**</p> <p style="text-align: right;">80,000**</p> <p style="text-align: right;">1,500</p> <p style="text-align: right;">150</p>
Science Outputs and Collaboration (including International Connectedness)	<ul style="list-style-type: none"> ▪ Commissioned reports to users* 	550
	<ul style="list-style-type: none"> ▪ Presentations on technical information and research results* 	450
	<ul style="list-style-type: none"> ▪ Publications on technical information and research results* <ul style="list-style-type: none"> - papers in trade journals, magazines, series or books - conference papers and abstracts - research monographs or books - popular books/articles - web-based publications. 	<p>200</p> <p>410</p> <p>115</p> <p>200</p> <p>20</p>
	<ul style="list-style-type: none"> ▪ Peer-reviewed articles* 	320
	<ul style="list-style-type: none"> ▪ Keynote and plenary presentations* 	15
	<ul style="list-style-type: none"> ▪ Client profile (by revenue & national centre) 	
	<ul style="list-style-type: none"> ▪ Client feedback 	50% of clients observe an improvement in client relations with NIWA based on survey of industries
	<ul style="list-style-type: none"> ▪ Number of representations on international committees 	110
	<ul style="list-style-type: none"> ▪ Number of collaborative formal links with overseas organisations 	
	<ul style="list-style-type: none"> ▪ Number of international visits/visiting scientists 	150
<ul style="list-style-type: none"> ▪ Number/value of international consultancy contracts 	\$2.7M	

	<ul style="list-style-type: none"> ▪ Number of significant interactions with companies and industry boards in NIWA's key target sectors* - percentage of companies with which NIWA had meaningful interactions - percentage of companies with which NIWA was involved in decision-making - percentage of companies providing revenue - number of positions on Industry Boards 	<p style="text-align: right;">70%</p> <p style="text-align: right;">30%</p> <p style="text-align: right;">70%</p> <p style="text-align: right;">4</p>
Environmental Sustainability	▪ Total Green House Gas emissions (vehicle fleet, gas, electricity)	Hold total emissions at 2005/06 levels
	▪ Total GHG emissions/FTE	Less than 2006/07 levels by 2010
	▪ Hours of Video Conference	200 hours per year
	▪ Energy Efficiency (kWh/m ²) of research buildings (compare with best in class standard)	Improvement in building efficiency of 5 kWh/m ² by 2010
	▪ Energy Consumption per FTE	No increase in electricity consumption compared with 2006/07
	▪ Change in Recycling and Solid Waste Production	10% reduction in Solid Waste and Paper Usage by 2008 (cf 2003/04)
	<ul style="list-style-type: none"> ▪ Number of staff using alternative modes of transport ▪ Number of staff who believe sustainability is core to NIWA ethos 	70% by 2009
Social and Cultural Sustainability	▪ Total staff FTEs (permanent and fixed term)*	720
	<ul style="list-style-type: none"> ▪ Staff Composition (number of staff)* - 675 Permanent Staff 	473 Researchers 46 Research Support 110 General Support 26 Management 20 Post-docs
	▪ Achievement of a Desirable Work – Life Balance	70% of staff are positive about working for NIWA and see themselves working for NIWA in three years time
	▪ Value of financial benefits received by staff	
	<ul style="list-style-type: none"> ▪ Staff Turnover - key staff 	<10% <5%
	<ul style="list-style-type: none"> ▪ Number of New Jobs Created - main city centre - rural areas 	5 5

	<ul style="list-style-type: none"> ▪ Staff Development <ul style="list-style-type: none"> - staff with Personal Development Plans - staff days allocated to Personal Development 	<p>90%</p> <p>400</p>
	▪ Lost time from injuries/accidents	<0.05%
	▪ Number of incident/near miss reports	
	▪ Number of community activities	
	▪ Number of field days per year	
	▪ Number of Noho Marae attendees	60
Education	<ul style="list-style-type: none"> ▪ Number of Post-docs funded, teaching fellowships awarded, PhD and MSc students supervised, scholarships awarded <ul style="list-style-type: none"> - PhD and MSc students supervised - post-docs funded 	<p>60</p> <p>20</p>
	▪ Number of external training courses run	20
Innovation	<ul style="list-style-type: none"> ▪ Patents granted* <ul style="list-style-type: none"> - in New Zealand - overseas 	<p>1</p> <p>1</p>
	▪ Licensing arrangements entered into*	3
	▪ New or improved products, processes and services *	20
	▪ Joint ventures or formal associations*	6
	▪ Spin-out companies formed*	0
	▪ Spin-off companies formed*	0
*Research Application Metrics and Relationships/influencing role indicators as required by CCMAU.		
** Total automated and manual requests serviced.		

All of the narratives and non-financial performance measures outlined above will be included in our 2007/08 Sustainable Development Report which will be reviewed and verified by an independent external agency.

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 2007/08, NIWA will report against the following key financial performance measures:

Performance Measure	Definition
Revenue	<i>Revenue</i> is income generated by the day-to-day operations of the business. It includes science research, contract work for the Crown or commercial clients, royalties, licence fees, etc., plus income from the sale of products and the lease of assets. It excludes income from capital gains, dividends, foreign currency gains/losses and interest on investments.
Current ratio	<i>Current assets</i> include bank balances, short-term deposits, debtors and prepayments, and inventory. <i>Current liabilities</i> include bank overdraft, accounts payable, current portion of term liabilities, and tax payable. <i>Current ratio</i> = <i>Current assets</i> ÷ <i>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</i> = <i>Quick assets</i> ÷ <i>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</i> = <i>NPAT</i> ÷ <i>Average shareholder's funds</i> , expressed as a percentage.
Return on assets	<i>EBIT</i> is as defined below. <i>Total assets</i> include all the assets on the Balance Sheet as per the Annual Report. <i>Return on assets</i> = <i>EBIT</i> ÷ <i>Average total assets</i> , expressed as a percentage.
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</i> = <i>EBIT</i> ÷ <i>revenue</i> , expressed as a percentage.

As stated in our 2007/08 Business Plan, we aim to achieve the following specific targets:

NIWA Group

Business plan for the year ended 30 June 2008

Ratios and Statistics

	Forecast * Jun-07	Plan Jun-08	Plan Jun-09	Plan Jun-10
Revenue (\$000s)	112,938	115,344	120,406	122,460
Operating results				
Operating expenses & depreciation (\$000s)	98,069	101,632	107,266	111,689
EBIT & dividend received (\$000s)	14,869	13,712	13,139	10,771
Profit before income tax (\$000s)	14,936	14,167	12,184	10,801
Profit for the year (\$000s)	10,145	9,515	8,453	7,667
Average total assets (\$000s)	103,196	111,671	119,140	126,092
Average equity (\$000s) (Shareholders' funds)	75,954	85,434	93,582	100,806
Liquidity				
Current Ratio	1.38	1.16	1.14	1.35
Quick Ratio (aka. Acid test)	2.04	1.53	1.54	1.81
Profitability				
Return on Equity (%)	13.36	11.14	9.03	7.61
Return on Assets (%)	14.41	12.28	11.03	8.54
EBIT Margin (%) (aka. Operating profit margin)	13.17	11.89	10.91	8.80
Coverage				
Interest Cover	>100	n.a.	n.a.	n.a.
Financial strength				
Gearing (%)	0.01	0.00	0.00	0.00
Equity ratio (%) (aka. Proprietorship)	74	77	79	80
Cash and Short Term Deposits (\$000s)	8,648	980	922	4,616
Financial Debt (\$000s)	414	414	414	414
Weighted average cost of capital	10.87	10.88	10.89	10.90

* Forecast for June 2007 has been restated for the adoption of New Zealand equivalents to International Financial Reporting Standards

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 budgeted to pay a dividend of \$836,000 in 2007/08.

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			
	2007 Forecast \$000	2008 Plan \$000	2009 Plan \$000	2010 Plan \$000
NIWA Group Equity to Total Assets	0.75:1	0.78:1	0.79:1	0.81:1

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 Balance Sheet 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 2006 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 2006 was \$41 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 2007/08 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		
	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast
Freshwater	<ul style="list-style-type: none"> maintain national capabilities in lake and wastewater sciences continue support for seven post-doctoral fellows in key areas of increasing stakeholder need (e.g., water allocation, catchment water quality modelling, water-borne pathogens) enhance national capability in freshwater science through support of two sabbaticals and technical training 	<ul style="list-style-type: none"> improve stakeholder use of science in decision-making on freshwater resources through training courses on the use of tools and models develop new cross-boundary models that link climate change and variability with water availability and allocation develop 'green' technology solutions for treating rural and urban wastewaters and runoff 	<ul style="list-style-type: none"> improve models that link freshwater and coastal ecosystems promote new models and technologies and get them implemented on-the-ground develop freshwater ecosystem restoration models and guidelines for stakeholders
Coasts	<ul style="list-style-type: none"> enhance core skills in key areas of coastal hydrodynamics, near-shore ecology and effects of marine farming through support of five post-doctoral fellows strengthen understanding of interactions between coastal aquaculture and land-derived contamination assist iwi in implementing techniques for managing coastal ecosystems, especially shellfish and pelagic fish 	<ul style="list-style-type: none"> continue support for post-doctoral fellows in key core skill areas continue 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 enhance capability in use of remote sensing technology for decision making on coastal resources 	<ul style="list-style-type: none"> strengthen basic understanding of nearshore marine environments for development of next phase of resource management tools enhance skills in real-time sensing of coastal environments

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast
Oceans	<ul style="list-style-type: none"> • continue support for cross-agency initiative for Ocean Survey 2020 to proceed and inform ocean policy • maintain critical mass in core skill areas of ocean sciences through support of three post doctoral fellows 	<ul style="list-style-type: none"> • develop new capabilities in ocean geology, in particular new methods for identifying and characterising active submarine faults • develop improved methods for benthic habitat definition using multibeam backscatter 	<ul style="list-style-type: none"> • support core skill bases in ocean sciences as Foundation research time declines • improve accessibility of ocean data for stakeholders and public and promote value of ocean science
Fisheries	<ul style="list-style-type: none"> • develop tools and services to mitigate fisheries by-catch and damage to sensitive environments • improve our core fisheries survey and analytical software tools • 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 	<ul style="list-style-type: none"> • increase stakeholder uptake and acceptance of new fishery population models • recruit new staff to strengthen capability in fish population biology • support studies that integrate fisheries capabilities with those in coastal and ocean science and biodiversity 	<ul style="list-style-type: none"> • continue support for studies that integrate fisheries capabilities with those in coastal and ocean science and biodiversity • develop new ecosystem based tools for assessing maximum sustainable yield and promote these to stakeholders

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast
Māori Development	<ul style="list-style-type: none"> provide guidance to iwi on the potential economic opportunities from renewable energy support a post-doctorate fellow to study the effects of climate change on the Maori economy support staff collaborations and technology transfer initiatives with iwi on lake restoration, fisheries, aquaculture, energy and water supply, and wastewater treatment continue to strengthen the capability of staff to interact effectively with Maori through the provision of support tools, guidelines and protocols, and training courses 	<ul style="list-style-type: none"> continue to strengthen the capability of staff to interact effectively with Maori through the provision of support tools, guidelines and protocols, and training courses support demonstration projects with iwi that provide economic, social or environmental benefits enhance capability in science transfer to iwi through recruitment of appropriate skills 	<ul style="list-style-type: none"> develop new species aquaculture and added-value opportunities with Maori business continue to strengthen the ability of NIWA staff to interact effectively with Maori, through the provision of support tools, guidelines and protocols, and training courses
Atmospheric Trace Gases	<ul style="list-style-type: none"> maintain critical mass in atmospheric chemistry and modelling through supporting a post-doctoral fellow develop models that quantify health risks associated with emissions/air quality establish capability for assessment of indoor air quality 	<ul style="list-style-type: none"> strengthen links with global atmospheric observing networks develop a regional carbon cycle model utilising new capability from a post-doctorate 	<ul style="list-style-type: none"> develop new modelling techniques for predicting the air dispersal of new biosecurity threats that could arise from climate change
Energy	<ul style="list-style-type: none"> develop techniques for assessing environmental impacts of marine energy installations recruit skills in distributed and combined source energy technologies 	<ul style="list-style-type: none"> publish guidelines for consenting marine energy installations promote combined source energy solutions to communities and policy-makers 	<ul style="list-style-type: none"> form alliances to install demonstration combined source energy solutions with low carbon footprints

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast
Climate & Hazards	<ul style="list-style-type: none"> develop near real-time hazard forecasting products improve integration of our chained models (e.g., rainfall, river flow, inundation) enhance ability to advise local authorities on the effects of climate change on urban infrastructure support the activities of the national centres for climate and hazards in providing advice to policy-makers and the public 	<ul style="list-style-type: none"> recruit additional staff to provide on-going flood and coastal hazard forecasting promote the use of forecasting products for floods and coastal hazards support the activities of the national centres for climate and hazards in providing advice to policy-makers and the public 	<ul style="list-style-type: none"> develop new forecast products and promote to stakeholders develop 'seamless' models between weather and short-term climate prediction support the activities of the national centres for climate and hazards in providing advice to policy-makers and the public
Environmental Information	<ul style="list-style-type: none"> develop new tools for real-time data capture, transfer and display expand coverage of our environmental monitoring networks to enable better decision-making improve access to NIWA's environmental data through the web 	<ul style="list-style-type: none"> continue to develop new tools for data capture, transfer and display improve provision of meta-data on NIWA's monitoring systems begin national integration of environmental data systems in collaboration with others 	<ul style="list-style-type: none"> promote use of tools and data to key stakeholders complete integration of data systems develop new generation technologies for real-time data assimilation and decision-making
Aquaculture & Biotechnology	<ul style="list-style-type: none"> develop commercial scale trials on a new species with sector partners complete technical feasibility studies on added-value products develop a broodstock programme to support industry engage with industry in developing an R&D programme to support the sector's future vision 	<ul style="list-style-type: none"> continue commercial scale trials on a new species with sector partners promote industry uptake of new species aquaculture and associated added-value opportunities 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 	<ul style="list-style-type: none"> 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

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced or developed with Capability Fund		
	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast
Aquatic Biodiversity & Biosecurity	<ul style="list-style-type: none"> • enhance core skills in marine and freshwater taxonomy and freshwater biosecurity through support of visiting scientists and post-doctorates. • increase staff skills in taxonomy through sponsoring training courses • 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 	<ul style="list-style-type: none"> • demonstrate utility of tools and models to policy-makers • increase skills in control techniques for bio-incursions • develop tools to assist in the marine protected areas programme • improve web access to data and identification guides 	<ul style="list-style-type: none"> • continue development of control techniques for bio-incursions • continue web access improvements

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

NIWA will change its accounting policies on 1 July 2007 to comply with the New Zealand Equivalents to the International Financial Reporting Standards (“NZ IFRS”). This transition will be accounted for in accordance with NZ IFRS-1 First time Adoption of New Zealand Equivalents to the International Financial Reporting Standards, with 1 July 2006 as the date of transition.

The following accounting policies will form the basis of any Financial Statements produced by NIWA as from 1 July 2007:

Statement of accounting policies

The Company’s Financial Statements and Group Financial Statements are presented in accordance with the requirements of the Crown Research Institutes Act 1992, the Crown Entities Act 2004, the Public Finance Act 1989, and the Companies Act 1993. The Company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements also comply with that Act.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (‘NZ GAAP’). They comply with the New Zealand Equivalents to International Financial Reporting Standards (‘NZ IFRS’) and other applicable financial reporting standards as appropriate for profit-orientated entities.

Compliance with NZ IFRS ensures that the consolidated financial statements comply with International Financial Reporting Standards (‘IFRS’). The parent entity financial statements also comply with IFRS.

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 intercompany 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 associates*

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the Group has the capacity to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The Group Financial Statements incorporate the Group's interest in associates, using the equity method, as from the date that significant influence commenced or until the date the significant influence ceased. The investments are recorded at the lower of carrying value and recoverable amount.

The Group recognises its share of the associates' net surplus or deficit for the year as operating revenue in its Income Statement. The Group recognises its share of other post-acquisition movements in reserves in its Statement of Movements in Equity. Dividends received from associates are recognised directly against the carrying value of the investment. In the Balance sheet the investment and the reserves are increased by the Group's share of the post-acquisition retained surplus and other post-acquisition reserves of the associates. In assessing the Group's share of earnings of associates, the Group's share of any unrealised profits between group companies and associates is eliminated.

iii) *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 liabilities 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 is incorporated into the Parent Company and Group Financial Statements on a line-by-line basis using the proportionate method.

(b) *Revenue recognition*

Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance sheet date. The stage of completion is assessed based on the proportion that costs incurred to date bear to the estimated total cost of the contract.

The amount of revenue unbilled is represented by 'Uninvoiced Receivables' and is recognised under "Receivables" at the value of revenue earned. Revenue received but not earned is recognised as Revenue in Advance in 'Payables and Accruals' in the financial statements.

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred the significant risks and rewards of ownership to the buyer of the goods.

(c) *Government grants*

Government grants are assistance by the government in the form of transfers of resources to the entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. These include where there are no conditions other than the requirement to operate in certain industries.

Government grants relating to income are recognised as income over the period necessary to match them to the related costs.

(d) *Goods and Services Tax (GST)*

These Financial Statements are prepared on a GST-exclusive basis, except for receivables and payables, which are stated GST inclusive.

(e) *Employee benefits*

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick pay when it is probable that settlement will be required and they are capable of being measured reliably. Provisions in respect of employee benefits are measured at their nominal values using the remuneration rate expected to apply at settlement.

Defined contribution plans

Contribution for the defined contribution superannuation plan of the entity is expensed when incurred.

(f) *Impairment of Assets*

At each balance date the consolidated entity reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these have suffered an impairment. If such an indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of fair value less cost to sell and value in use.

Goodwill, intangible assets with indefinite useful lives and intangibles not yet available for use owned by the entity (if any) are tested for impairment annually.

If the recoverable amount of the asset is estimated to be less than its carrying value the carrying value is reduced to its recoverable amount. An impairment loss is recognised to the profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but only to the extent that the increased carrying value does not exceed the carrying amount that would have been recognised if the asset had no impairment loss recognised in the past. This reversal is recognised immediately to profit or loss.

(g) *Taxation*

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using the tax rates and laws applicable at balance date. Current tax for the current and prior period is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable amount will be available against which these assets can be offset.

Deferred tax liabilities are recognised for the taxable temporary differences arising on investment in subsidiaries, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary difference from these investments are only recognised to the extent that it is probable there will be sufficient taxable profits against which to utilise the asset.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset and liability giving rise to them are realised or settled, based on the tax laws that have been enacted or substantively enacted at balance date.

Current & deferred tax for the financial year

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited direct to equity, in which case the deferred or current tax is recognised directly to equity.

(h) *Identifiable intangible assets*

Purchased identifiable intangible assets, comprising copyrights and trademarks, are recorded at cost less amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. Identifiable intangible assets are reviewed for indications of impairment each year. The estimated useful life and amortisation method are reviewed each balance date.

(i) *Development costs (including intangible assets)*

Development costs that meet the following criteria are recognised as an asset:

- 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;
- 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 likely to be recovered 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 stated at cost less accumulated amortisation and impairment and are amortised on a straight-line basis over the period of expected benefits.

When the unamortised balance of development costs exceeds the probable amount of future recovery from related future economic benefits less related future costs, the excess is written down and recognised immediately as an expense.

All other development and research costs are expensed as incurred.

(j) *Property, plant, and equipment*

Property, plant, and equipment, except land, are valued at historical cost less accumulated depreciation to date. Assets are reviewed annually for indications of impairment. On transition to IFRS Land and Buildings were measured at fair value, this fair value is treated as deemed cost as at 1 July 2006. 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.

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.

(k) *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:

RV <i>Tangaroa</i> hull	26 years
RV <i>Kaharoa</i> hull	16 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
Small boats	5 years

(l) *Receivables*

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

(m) *Inventory*

Inventory is stated at the lower of cost and net realisable value (NRV). Cost is calculated on the weighted average basis for consumables and first in first out (FIFO) for finished goods and work in progress. NRV represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(n) *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 recognised in the profit or loss.

ii) *Translation of independent foreign operations*

On consolidation revenues and expenses of independent foreign operations are translated to New Zealand dollars at the average exchange rates for the period. 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, and recognised as a profit or loss on disposal of the foreign operation.

Goodwill and fair value adjustment arising on the acquisition of a foreign entity on or after the date of transition to NZ IFRS are treated as assets and liabilities of the foreign entities and translated at the exchange rate ruling at balance date.

(o) *Leases*

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised on a systematic basis that is representative of the benefit to the Group.

(p) *Statement of Cash Flows*

The Statement of Cash Flows is prepared on a gross basis. 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. Cash includes cash and short-term deposits.

Cash & cash equivalents comprise cash on hand, cash in banks and investments in money market, net of outstanding bank drafts.

(q) *Provision for dividends*

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

(r) *Financial instruments and assets*

Derivative Financial Instruments

Derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured to their fair value at balance date. Any unrealised gains or losses are recognised immediately to profit or loss.

Financial Assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the parent's financial statements.

Other financial assets are classified into the following specified categories; classification depends on the nature and purpose of the financial asset and is determined at time of initial recognition:

Financial Assets at fair value through profit and loss:

Financial Assets held for trading purposes are classified as current assets and are stated at fair value with any gain or loss recognised in profit and loss.

Held to Maturity Investments:

Held to Maturity investments are recorded at amortised cost using the effective interest method less impairments, with revenue recognised on an effective yield basis.

Available-for-sale financial assets:

Available for sale investment are stated at fair value less impairment. Gains and losses arising from changes in fair value are recognised directly to revaluation reserve until investment is disposed of or determined to be impaired at which time the accumulated gain or loss is recognised in the profit or loss for the period.

Loans and receivables:

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

DIRECTORY

BOARD OF DIRECTORS

Sue Suckling (*Chair*)
John Spencer (*Deputy Chair*)
John Hercus
David Sharp (retired 30 June 2007)
Graham Hill
Troy Newton
Ed Johnson
Wendy Lawson

CHIEF EXECUTIVE

John Morgan

COMPANY SECRETARY

Kate Thomson

SOLICITORS

Bell Gully Buddle Weir
Kaimai Law

AUDITORS

Deloitte on behalf of the Auditor-General

BANKERS

ANZ National Bank of NZ Ltd

INSURANCE BROKER

Marsh Ltd

REGISTERED OFFICE

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