



Statement of Corporate Intent  
2008/09

NATIONAL INSTITUTE OF WATER  
& ATMOSPHERIC RESEARCH LTD



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

**STATEMENT OF CORPORATE INTENT**

**2008 / 2009**

**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 2009, 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. 750 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, 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 those 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 a New Zealand 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 and increased public safety;
- Working with the primary sector to create new sustainable business opportunities and optimise both their chances of success and their economic benefits to New Zealand;
- Working collaboratively with other researchers to enhance scientific creativity and ensure that associated benefits to New Zealand, and the the rest of the world, 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.

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

- promoting creativity, innovation, and opportunity-seeking;
- promoting a service attitude that is responsive to client and stakeholder expectations;
- 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 an overall working environment and 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;
- honouring the principles of the Treaty of Waitangi;

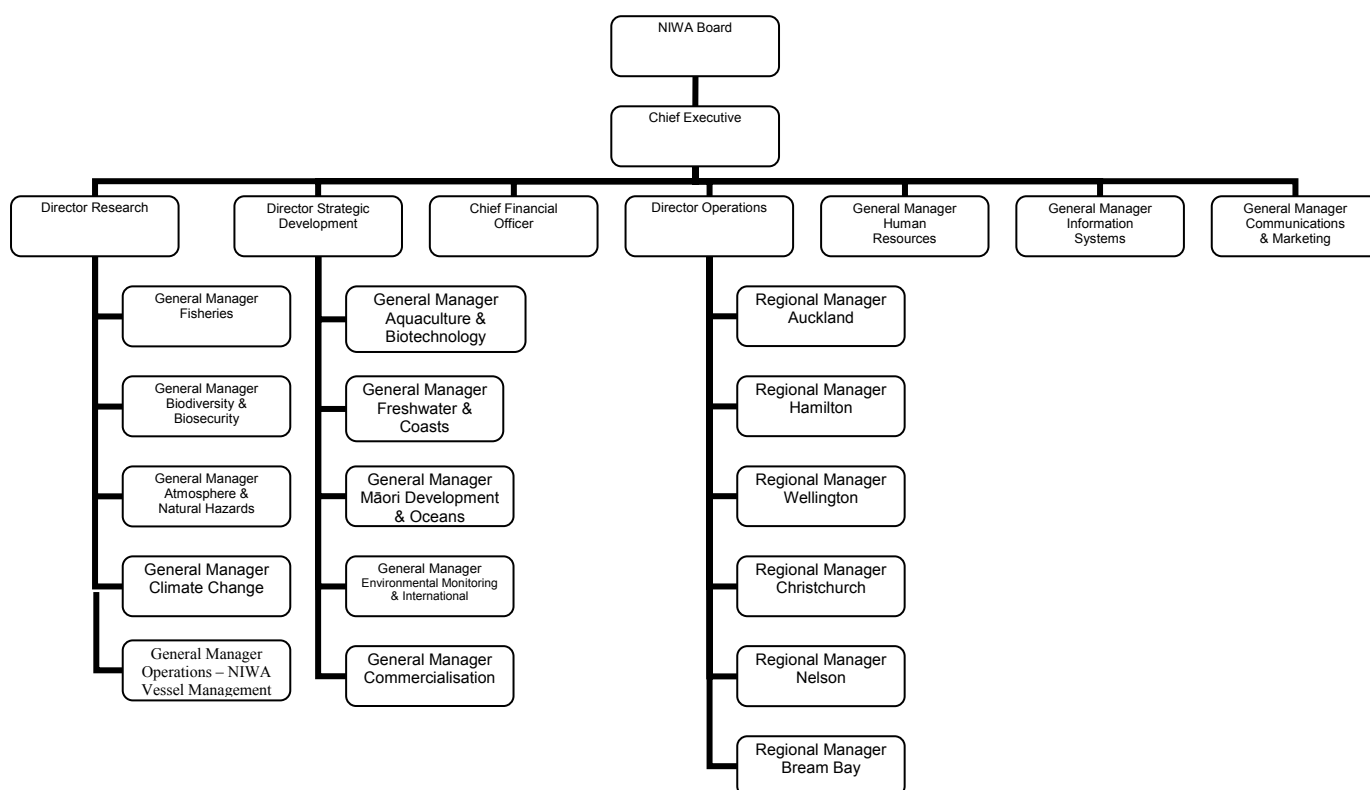
### **1.3 Governance of the NIWA Group**

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 senior management appointed by the NIWA Board. These subsidiaries have, in addition, directors representing the interests of the other 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 management structure of the parent company, NIWA Science, is illustrated in the diagram below. The Executive Management Team comprises the Chief Executive, the Chief Financial Officer, three Directors who guide research, strategic development, and operations, and three General Managers responsible for organisation-wide support functions in information systems, human resources, and communications and marketing. The company's core activities are divided into thirteen portfolios managed by nine Science General Managers who coordinate activities across the company and engage 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 capabilities in order to deliver the following desired outcomes.

### **Atmospheric Composition**

Desired Outcome: New Zealand reduces emissions of greenhouse gases, ozone depleting substances, and local air pollutants to mitigate long-term climate change and human health impacts, and contributes to international knowledge and understanding of these issues.

### **Climate Change**

Desired Outcome: New Zealand is well prepared for, and adapts effectively to, the impacts and opportunities afforded by our current climate and future climate variability and change.

### **Natural Hazards**

Desired Outcome: New Zealand communities are more resilient to weather-driven, coastal, and marine geological hazards, now and in a changing climate.

### **Energy**

Desired Outcome: New Zealand is powered by sustainable and secure energy, optimising renewable and low emissions solutions at national and local levels.

### **Aquatic Biodiversity & Biosecurity**

Desired Outcome: New Zealand's aquatic biodiversity is understood, conserved, and sustainably-managed. There are no further human-induced extinctions, and threatened species and important habitats are protected or on their way to recovery. Biosecurity systems reduce arrival of undesirable aquatic species, and those that are here are rapidly detected and effectively controlled, such that they do not threaten aquatic biodiversity and New Zealanders' economic use and enjoyment of our waters.

### **Freshwater Environments**

Desired Outcome: New Zealand's freshwater resources are wisely allocated and have measurably improved water quality and ecosystem health, with sustainable management decisions being made on the basis of sound knowledge of the resource and robust predictive capability.



## **Coasts**

Desired Outcome: New Zealand's estuaries and coasts have measurably improved water quality and ecosystem health, with sustainable management decisions made on the basis of sound knowledge of the resource and robust predictive capability.

## **Oceans**

Desired Outcome: New Zealand manages exploitation of its marine resources in a way that maintains the environmental health of the oceans and meets the needs of all stakeholders.

## **Environmental Information**

Desired Outcome: New Zealand possesses a nationally integrated environmental data and information collection, and a storage and dissemination system for precise tracking of long-term environmental change, reporting the state of our environment, making informed decisions on natural resource use, and reducing risks from weather-related hazards.

## **Māori Development**

Desired Outcome: The innovation potential of Māori knowledge, resources, and people is unlocked to help New Zealanders create a better future. Kia tū Rangatira ai te ao Māori – Māori aspirations are pursued in partnership with others.

## **Aquaculture & Biotechnology**

Desired Outcome: New Zealand aquaculture is a financially and environmentally sustainable billion dollar export industry by 2025 through the production of high-value species and value-added products.

## **Fisheries**

Desired Outcome: New Zealand manages and develops its marine fishery resources in a sustainable and environmentally sound manner.

## **NIWA International**

Desired Outcome: New Zealand is recognised as a global leader and provider of the research and technology required for sound environmental management and sustainable use of natural resources.

## **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 750 staff, revenue exceeding \$120 million, and total assets greater than \$105 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 2008 to 2011 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 weather-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 retained or recruited 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 retain and recruit 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 2008/09, NIWA will receive \$10.53M (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 (\$2,863k);
- 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 (\$3,685k);
- Building science capacity and capability for the future in areas of high national need by recruiting postdoctoral fellows, funding student scholarships, and providing learning opportunities for existing staff through sabbaticals, technical training awards, and sponsoring visits from international experts (\$1,905k);
- 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 (\$170k);
- Increasing the uptake of science by end-users through training courses, development of tools, and NIWA National Centre promotional activities (\$1,160k);

- 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 and are aligned to our strategic priorities (e.g., research related to droughts, floods, algal blooms) (\$501K).

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 Land Management and Climate Change, New Zealand Energy Strategy, Biosecurity Strategy, Water Programme of Action), 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 with 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 2008/09 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**

**Desired Outcome:** As a responsible and accountable corporate citizen, NIWA will show leadership in maintaining the health of our environmental systems through the provision of sustainability advice and services, and operating in an environmentally, socially, culturally, and economically responsible manner.

NIWA is fully committed to operating in a sustainable manner and working with others to achieve the Government's environmental, social, cultural, and economic 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 2008/09, we will continue our initiatives in energy conservation by further investing in energy efficient systems at our regional offices, establishing a photovoltaic energy system at one of our sites, increasing the reach of our video-conferencing system to reduce the need for travel, investigating options to further reduce fuel consumption of our vessels, and implementing new guidelines in the design of our new buildings to achieve at least four star green rating. 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 Crown Research Institute 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, and we will provide appropriate commentary in our annual report.

In 2008/09, we will report on the following non-financial performance categories (targets have been set where appropriate).

Category	Performance Monitoring and Reporting	Performance Targets
<b>Corporate Commitment</b>	<ul style="list-style-type: none"> <li>▪ Board reporting and communication of commitment, sustainability one of core values</li> </ul>	0.5% revenue directed toward sustainability initiatives
<b>External Sustainability Advice/Services</b>	<ul style="list-style-type: none"> <li>▪ External requests for information from our nationally significant databases and collections*               <ul style="list-style-type: none"> <li>- National Climate Database</li> <li>- Water Resources Archive</li> <li>- NZ Freshwater Fish Database</li> <li>- Marine invertebrate collection and database</li> </ul> </li> </ul>	<p>25,000**</p> <p>60,000**</p> <p>1,500</p> <p>150</p>
<b>Science Outputs and Collaboration (including International Connectedness)</b>	<ul style="list-style-type: none"> <li>▪ Commissioned reports to users*</li> </ul>	500
	<ul style="list-style-type: none"> <li>▪ Presentations on technical information and research results*</li> </ul>	500
	<ul style="list-style-type: none"> <li>▪ Publications on technical information and research results*               <ul style="list-style-type: none"> <li>- papers in trade journals, magazines, series, or books</li> <li>- conference papers and abstracts</li> <li>- research monographs or books</li> <li>- popular books/articles</li> <li>- web-based publications</li> </ul> </li> </ul>	<p>200</p> <p>420</p> <p>120</p> <p>200</p> <p>20</p>
	<ul style="list-style-type: none"> <li>▪ Peer-reviewed articles*</li> </ul>	300
	<ul style="list-style-type: none"> <li>▪ Keynote and plenary presentations*</li> </ul>	15

Category	Performance Monitoring and Reporting	Performance Targets
	<ul style="list-style-type: none"> <li>▪ Client profile (by revenue &amp; national centre)</li> </ul>	
	<ul style="list-style-type: none"> <li>▪ Client feedback</li> </ul>	50% of clients observe an improvement in client relations with NIWA based on surveys of key sectors
	<ul style="list-style-type: none"> <li>▪ Number of representations on international committees</li> </ul>	110
	<ul style="list-style-type: none"> <li>▪ Number of collaborative formal links with overseas organisations</li> </ul>	30
	<ul style="list-style-type: none"> <li>▪ Number of international visits/visiting scientists</li> </ul>	150
	<ul style="list-style-type: none"> <li>▪ Number/value of international consultancy contracts</li> </ul>	\$3m
	<ul style="list-style-type: none"> <li>▪ Number of significant interactions with companies and industry boards in NIWA's key target sectors*</li> <li>- percentage of significant companies with which NIWA had meaningful interactions</li> <li>- percentage of significant companies with which NIWA was involved in decision-making</li> <li>- percentage of significant companies providing revenue</li> <li>- number of positions on industry boards</li> </ul>	<p>85%</p> <p>30%</p> <p>80%</p> <p>3</p>
<b>Environmental Sustainability</b>	<ul style="list-style-type: none"> <li>▪ Total greenhouse gas emissions for NIWA Science (vehicle fleet, gas, electricity) and vessels</li> </ul>	Reduce total emissions (NIWA Science) to below 2006/07 levels by 2010, and reduce emissions for vessels to 2006/07 levels by 2010
	<ul style="list-style-type: none"> <li>▪ Total ghg emissions/FTE</li> </ul>	Reduce to 2006/07 levels by 2010 and a 10% reduction by 2012 compared with 2006/07
	<ul style="list-style-type: none"> <li>▪ Hours of video conference</li> </ul>	300 hours per year
	<ul style="list-style-type: none"> <li>▪ Energy efficiency (kWh/m<sup>2</sup>) of research buildings (compare with best in class standard)</li> </ul>	Improvement in building efficiency of 5 kWh/m <sup>2</sup> by 2010
	<ul style="list-style-type: none"> <li>▪ Energy consumption per FTE</li> </ul>	Reduction of energy consumption per FTE by 10% by 2012 compared with 2006/07
	<ul style="list-style-type: none"> <li>▪ Change in recycling and solid waste production</li> </ul>	10% reduction in solid waste and paper usage by 2009 compared with 2003/04)
	<ul style="list-style-type: none"> <li>▪ Number of staff using alternative modes of transport</li> <li>▪ Number of staff who believe sustainability is core to the NIWA ethos</li> </ul>	<p>50% by 2009</p> <p>70%</p>
<b>Social and Cultural Sustainability</b>	<ul style="list-style-type: none"> <li>▪ Total staff FTEs (permanent and fixed term)*</li> </ul>	750

Category	Performance Monitoring and Reporting	Performance Targets
	<ul style="list-style-type: none"> <li>▪ Staff composition (number of staff, see Appendix II)*</li> <li>- 710 Permanent Staff</li> </ul>	502 Researchers 43 Research Support 117 General Support 28 Management 20 Postdocs
	<ul style="list-style-type: none"> <li>▪ Achievement of a desirable work-life balance</li> </ul>	70% of staff are positive about working for NIWA and see themselves working for NIWA in three years time
	<ul style="list-style-type: none"> <li>▪ Value of financial benefits received by Staff</li> </ul>	
	<ul style="list-style-type: none"> <li>▪ Staff turnover</li> <li>- key staff</li> </ul>	<12% <5%
	<ul style="list-style-type: none"> <li>▪ Number of new jobs created</li> <li>- main city centre</li> <li>- rural areas</li> </ul>	20 10
	<ul style="list-style-type: none"> <li>▪ Staff development</li> <li>- staff with personal development plans</li> <li>- staff days allocated to personal development</li> </ul>	90% 400
	<ul style="list-style-type: none"> <li>▪ Lost time from injuries/accidents</li> </ul>	<0.03%
	<ul style="list-style-type: none"> <li>▪ Number of incident/near-miss reports</li> </ul>	<90
	<ul style="list-style-type: none"> <li>▪ Number of Noho Marae attendees</li> </ul>	60
<b>Education</b>	<ul style="list-style-type: none"> <li>▪ Number of postdocs funded, teaching fellowships awarded, PhD and MSc students supervised, scholarships awarded</li> <li>- PhD and MSc students supervised</li> <li>- postdocs funded</li> </ul>	60 20
	<ul style="list-style-type: none"> <li>▪ Number of external training courses run</li> </ul>	20
<b>Innovation</b>	<ul style="list-style-type: none"> <li>▪ Patents granted*</li> <li>- in New Zealand</li> <li>- overseas</li> </ul>	1 1
	<ul style="list-style-type: none"> <li>▪ Licensing arrangements entered into*</li> </ul>	3
	<ul style="list-style-type: none"> <li>▪ New or improved products, processes, and services*</li> </ul>	20
	<ul style="list-style-type: none"> <li>▪ Joint ventures or formal associations*</li> </ul>	6
	<ul style="list-style-type: none"> <li>▪ Spin-out companies formed*</li> </ul>	0
	<ul style="list-style-type: none"> <li>▪ Spin-off companies formed*</li> </ul>	0
*Research Application Metrics and Relationships/influencing role indicators as required by CCMAU.		
** Total automated and manual requests serviced.		

## 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 2008/09, NIWA will report against the following key financial performance measures:

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

As stated in our 2008/09 Business Plan, we aim to achieve the following specific targets:

## NIWA Group Ratios and Statistics

<b>Business Plan</b>	<b>Forecast 07/08</b>	<b>Plan 08/09</b>	<b>Plan 09/10</b>	<b>Plan 10/11</b>
<b>Revenue</b> (\$000s)	120,009	125,709	131,335	143,670
<b>Operating results</b>				
Operating expenses & depreciation (\$000s)	105,766	115,067	123,910	135,222
EBIT & dividend received (\$000s)	14,243	10,642	7,425	8,448
Profit before income tax (\$000s)	14,770	10,529	6,998	7,740
Profit after Tax (\$000s)	10,339	7,670	5,199	5,719
Average total assets (\$000s)	107,901	116,243	126,153	136,069
Average equity (\$000s) (Shareholders' funds)	79,168	87,391	92,953	97,552
Adjusted Average total assets (\$000s)	80,664	89,006	98,916	108,832
Adjusted Average equity (\$000s)	56,306	64,529	70,091	74,690
Capital expenditure (incl Capital committed)	16,924	19,772	30,160	22,860
<b>Liquidity</b>				
Current Ratio	1.23	1.21	0.95	0.99
Quick Ratio (aka. Acid test)	1.65	1.59	1.22	1.28
<b>Profitability</b>				
Adjusted Return on Equity (Book Values)	18.4%	11.9%	7.4%	7.7%
Return on Equity	13.1%	8.8%	5.6%	5.9%
Return on Assets	13.2%	9.2%	5.9%	6.2%
EBIT Margin (aka. Operating profit margin)	11.9%	8.5%	5.7%	5.9%
<b>Coverage</b>				
Interest Cover	2,467	479	17	12
<b>Financial strength</b>				
Gearing	0%	0%	2%	1%
Equity ratio (aka. Proprietorship)	73.4%	75.2%	73.7%	71.7%
Cash and Short Term Deposits (\$000s)	8,693	7,722	-	-
Financial Debt (\$000s)	-	-	5,938	8,072
<b>WEIGHTED AVERAGE COST OF CAPITAL</b>	<b>11.79%</b>	<b>11.79%</b>	<b>11.65%</b>	<b>11.59%</b>

## 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



- New Zealand Institute of Chartered Accountants (NZICA) 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, and 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 III.

### 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;
- legislative requirements, e.g., ensuring section 4 of the Companies Act 1993 (Solvency test) has been satisfied.

Any dividend would be paid within two months of the financial year-end. At this stage, NIWA has budgeted to pay a dividend of \$860,000 in 2008/09.

### 7.3 Shareholder Consent for Significant Transactions

The Board will obtain prior written consent for any transaction or series of transactions involving full or partial acquisition, disposal, or modification of property (buildings, land, and capital equipment) and other assets with a value equivalent to or greater than \$10 million or 20% of the company's total assets (prior to the transaction), whichever is the lesser.

The Board will obtain the prior written consent of Shareholding Ministers for any transaction or series of transactions with a value equivalent to or greater than \$5.0 million or 30.0% of the company's total assets (prior to the transaction):

- the acquisition, disposal, or modification in a joint venture, partnership, or other similar association;
- the acquisition or disposal in full or in part of shares or interests in external companies, subsidiaries, and business units;
- 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 may have a material effect on the company's science capabilities.

The Board will advise the Shareholding Ministers in writing (in the Quarterly Report) 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			
	2008 Forecast \$000	2009 Plan \$000	2010 Plan \$000	2011 Plan \$000
NIWA Group Equity to Total Assets	0.73:1	0.75:1	0.74:1	0.72:1

*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 Shareholders' Funds) as at 30 June 2007 is a fair and reasonable indication of the commercial value of the Group. The net asset position as shown in accordance with the company's accounting policies for 30 June 2007 was \$74 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 2008/09 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		
	2008/09 Forecast	2009/10 Forecast	2010/11 Forecast
Freshwater	<ul style="list-style-type: none"> <li>• improve water allocation tools for stakeholders</li> <li>• maintain national capabilities in lake and wastewater sciences</li> <li>• continue support for postdoctoral fellows in key areas of stakeholder need</li> <li>• develop capability in urban waterway science and treatment of urban contaminants</li> <li>• enhance national capability in freshwater science through support of two sabbaticals and technical training</li> </ul>	<ul style="list-style-type: none"> <li>• apply new water allocation tools to a demonstration catchment in association with stakeholders</li> <li>• improve models that link freshwater and coastal ecosystems</li> <li>• develop ‘green’ technology solutions for treating urban wastewaters and runoff</li> </ul>	<ul style="list-style-type: none"> <li>• provide training courses to up-skill stakeholders in use of water allocation tools</li> <li>• develop freshwater ecosystem restoration models and guidelines for stakeholders</li> <li>• promote ‘green’ technology solutions through a demonstration project</li> </ul>
Coasts	<ul style="list-style-type: none"> <li>• enhance core skills in key areas of coastal hydrodynamics, near-shore ecology, and effects of marine farming through support of five postdoctoral fellows</li> <li>• strengthen understanding of interactions between coastal aquaculture and land-derived contamination</li> <li>• assist iwi in implementing techniques for managing coastal ecosystems, especially shellfish and pelagic fish</li> </ul>	<ul style="list-style-type: none"> <li>• continue support for postdoctoral fellows in key core skill areas</li> <li>• continue to upskill stakeholders on the use of models and tools in coastal and estuarine management and rehabilitation</li> <li>• strengthen research capability linking climate variability and change to coastal and estuarine management</li> <li>• enhance capability in use of remote sensing technology for decision making on coastal resources</li> </ul>	<ul style="list-style-type: none"> <li>• strengthen basic understanding of nearshore marine environments for development of next phase of resource management tools</li> <li>• enhance skills in real-time sensing of coastal environments</li> </ul>

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2008/09 Forecast	2009/10 Forecast	2010/11 Forecast
Oceans	<ul style="list-style-type: none"> <li>maintain critical mass in core skill areas of ocean sciences through support of three postdoctoral fellows</li> <li>develop new capabilities in ocean geology; in particular, new methods for identifying and characterising active submarine faults</li> </ul>	<ul style="list-style-type: none"> <li>support core skill bases in ocean sciences as FRST research time declines</li> <li>'clean' ocean datasets and develop user-friendly data access tools</li> <li>develop improved methods for benthic habitat definition using multibeam backscatter</li> </ul>	<ul style="list-style-type: none"> <li>improve accessibility of ocean data for stakeholders and public, and promote value of ocean science</li> <li>accelerate research linking oceans to climate change</li> </ul>
Fisheries	<ul style="list-style-type: none"> <li>develop tools to quantify effects of fishing on seabirds, bycatch, and the environment</li> <li>improve our core fisheries survey and analytical software tools</li> <li>enhance fisheries modelling skills through in-house training</li> </ul>	<ul style="list-style-type: none"> <li>support studies that integrate fisheries capabilities with those in ocean science and biodiversity</li> <li>develop new ecosystem-based tools for assessing maximum sustainable yield and promote these to stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>continue support for studies that integrate fisheries capabilities with those in coastal and ocean science and biodiversity</li> <li>trial implementation of ecosystem-based tools</li> </ul>
Māori Development	<ul style="list-style-type: none"> <li>build NIWA's Māori research capability by supporting publication in the primary scientific literature</li> <li>support research on the health of central North Island lakes in collaboration with iwi</li> <li>support staff collaborations and technology transfer initiatives with iwi on lake restoration, estuarine health, and eel stock assessment</li> </ul>	<ul style="list-style-type: none"> <li>support demonstration projects with iwi that provide economic, social, or environmental benefits</li> <li>enhance capability in science transfer to iwi through recruitment of appropriate skills</li> <li>develop new species aquaculture and added-value opportunities with Māori business</li> </ul>	<ul style="list-style-type: none"> <li>continue to strengthen the links between NIWA and Māori, through the provision of support tools, training courses, and targeted research projects</li> </ul>

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2008/09 Forecast	2009/10 Forecast	20010/11 Forecast
Atmospheric Trace Gases	<ul style="list-style-type: none"> <li>maintain critical mass in trace gas and air quality research in the face of declining research time</li> <li>develop a regional carbon cycle model utilising new capability from a postdoctorate</li> </ul>	<ul style="list-style-type: none"> <li>maintain critical mass in trace gas and air quality research in the face of declining research time</li> <li>develop new modelling techniques for predicting air dispersal of new biosecurity threats that could arise as a result of climate change</li> <li>continue support for a postdoctorate in carbon cycle modelling</li> </ul>	<ul style="list-style-type: none"> <li>maintain critical mass in trace gas and air quality research in the face of declining research time</li> <li>promote new dispersal models to stakeholders through a demonstration project</li> </ul>
Energy	<ul style="list-style-type: none"> <li>publish guidelines for assessing environmental impacts of marine energy installations</li> <li>develop and refine wind energy forecast technology</li> </ul>	<ul style="list-style-type: none"> <li>in collaboration with a lines company, install demonstration combined source energy solutions with low carbon footprints</li> </ul>	<ul style="list-style-type: none"> <li>promote combined source energy solutions to communities and policymakers</li> </ul>
Climate	<ul style="list-style-type: none"> <li>support collaboration on climate change advice through the NZ Climate Change Centre</li> <li>build capability in climate change modelling through support of a postdoctoral fellow</li> </ul>	<ul style="list-style-type: none"> <li>support collaboration on climate change advice through the NZ Climate Change Centre</li> <li>build capability in climate change modelling through continued support of a postdoctoral fellow</li> </ul>	<ul style="list-style-type: none"> <li>support collaboration on climate change advice through the NZ Climate Change Centre</li> <li>support NIWA input into IPCC report development</li> </ul>
Hazards	<ul style="list-style-type: none"> <li>advance the weather and associated flood prediction models</li> <li>promote the use of forecasting products for floods and coastal hazards</li> </ul>	<ul style="list-style-type: none"> <li>recruit additional staff to provide on-going flood and coastal hazard forecasting</li> <li>develop new forecast products and promote to stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>develop 'seamless' models between weather and short-term climate prediction</li> <li>link hazard skills with economic analysis skills</li> </ul>

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2008/09 Forecast	2009/10 Forecast	20010/11 Forecast
Environmental Information	<ul style="list-style-type: none"> <li>maintain integrity of environmental networks under threat from static FRST funding</li> <li>develop new tools for real-time data capture, transfer, and display</li> </ul>	<ul style="list-style-type: none"> <li>maintain integrity of environmental networks under threat from static FRST funding</li> <li>continue to develop new tools for data capture, transfer, and display</li> <li>improve provision of metadata on NIWA's monitoring systems</li> </ul>	<ul style="list-style-type: none"> <li>maintain integrity of environmental networks under threat from static FRST funding</li> <li>promote use of tools and data to key stakeholders</li> <li>complete integration of data systems</li> </ul>
Aquaculture & Biotechnology	<ul style="list-style-type: none"> <li>maintain skills in biotechnology and finfish broodstock development</li> <li>continue sea-cage trial for finfish aquaculture</li> <li>support proof-of-concept research on novel biotechnologies and added-value opportunities</li> </ul>	<ul style="list-style-type: none"> <li>begin commercial scale trials on finfish species with sector partners</li> <li>conduct proof-of-concept trials on the next finfish species</li> <li>begin trial of novel methods for mitigating environmental effects of finfish farming</li> </ul>	<ul style="list-style-type: none"> <li>promote industry uptake of new species aquaculture and associated added-value opportunities</li> <li>complete trial of novel methods for mitigating environmental effects of finfish farming</li> </ul>
Aquatic Biodiversity & Biosecurity	<ul style="list-style-type: none"> <li>maintain biodiversity capability at risk from declining research time</li> <li>enhance core skills in freshwater biosecurity through support of two visiting scientists</li> <li>continue support for postdoctorate studies in marine biodiversity</li> </ul>	<ul style="list-style-type: none"> <li>maintain biodiversity capability at risk from declining research time</li> <li>develop predictive models and tools for biodiversity management and bio-incursion spread and effects</li> <li>increase skills in control techniques for bio-incursions</li> <li>improve web access to data and identification guides</li> </ul>	<ul style="list-style-type: none"> <li>maintain biodiversity capability at risk from declining research time</li> <li>continue development of control techniques for bio-incursions</li> <li>continue web access improvements</li> </ul>

## **APPENDIX II - Definitions of Staff Composition**

**Researchers (scientists and science technicians)** - all staff directly involved in actual research or scientific work. If they could conceivably be an author named on a scientific publication, they should be included.

**Research support** - any staff whose work logistically supports the research effort directly, but whose work could not have itself been 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, 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, and 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 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 profit-orientated 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 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.

### **Nature of activities**

The NIWA Group conducts research in water and atmospheric sciences in New Zealand and internationally.

### **Critical accounting estimates and judgements**

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions concerning the future. It also requires the company to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

### **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**

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.

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.

**(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***

The income tax expense for the period is the tax payable on the current period's taxable income, based on the income tax rate for each jurisdiction. This is then adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and changes in unused tax losses.

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 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 at 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 profit or loss, 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 and cash equivalents comprise cash on hand, cash in banks, and investments in the 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***

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing, and investing activities.

Derivative financial instruments such as forward exchange contracts are initially recognised in the Statement of Financial Position at fair value, and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

***i) cash flow hedges***

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. If the hedge is ineffective, changes in the fair value are recognised in profit or loss.

### ***Non-Derivative Financial Instruments***

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Subsequent to initial recognition, investments in subsidiaries are measured at cost. 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 the time of initial recognition and re-evaluates this designation at each reporting date:

***i.) 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, and changes resulting in a gain or loss are recognised in profit or loss.

***ii.) Held to Maturity Investments:***

Held to Maturity investments are fixed or have determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity. These are recorded at amortised cost using the effective interest method less impairment; revenue is recognised on an effective yield basis.

***iii.) Available for sale financial assets:***

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

***iv.) Loans and receivables:***

Loans and receivables have fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods, or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the Statement of Financial Position, which are classified as non-current assets. These are recorded at amortised cost less impairment.



## **DIRECTORY**

### **BOARD OF DIRECTORS**

Sue Suckling (*Chair*)  
Craig Ellison (*Deputy Chair*)  
John Hercus  
Graham Hill  
Ed Johnson  
Wendy Lawson  
Troy Newton

### **CHIEF EXECUTIVE**

John Morgan

### **COMPANY SECRETARY**

Kate Thomson

### **SOLICITORS**

Bell Gully Buddle Weir

### **AUDITORS**

Deloitte on behalf of the Auditor-General

### **BANKERS**

ANZ 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>

