



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

STATEMENT OF CORPORATE INTENT

2009 / 2010

**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
2010 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 management 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.

1.2 Our Aspirations

NIWA's mission is to conduct leading environmental science to enable the sustainable management of natural resources for New Zealand and the planet.

In fulfilling this mission NIWA will have a reputation for being New Zealand's leading authority in environmental research and applied services, and be regarded as a high performance organisation. More specifically NIWA will have a reputation for:

- Excellence in environmental science
- Working collaboratively with other researchers to enhance scientific creativity and ensuring efficient use of skills and capital resources;
- Providing objective science-based advice and leadership;
- Partnering with others to ensure our science positively influences environmental, economic, social and cultural outcomes;

- Investing in its people, facilities and equipment so that science capabilities relevant to the needs of New Zealand are maintained and developed;
- Operating with financial efficiency, using best practice systems and processes;
- Being a desirable place to work.

In support of our mission, we are committed to:

- Projecting a professional image, being a good ambassador for NIWA and the wider New Zealand science community;
- Respecting different cultures and recognising that our diverse workforce is part of NIWA's strength;
- Respecting the people we interact with and their right to hold different views;
- Open, honest communication and the free flow of information;
- Interacting with courtesy and consideration;
- Encouraging a positive focus, emphasising strengths and opportunities;
- Meeting deadlines and being responsive;
- Supporting teamwork and promoting a "One NIWA" philosophy;
- Continuous improvement, being open-minded to change;
- Celebrating innovation and creative thinking;
- Taking collective responsibility for ensuring high quality outputs;
- Being flexible, adapting to new demands and opportunities;
- Work practices and behaviour consistent with sustainability principles;
- Maintaining a safe and healthy workplace.

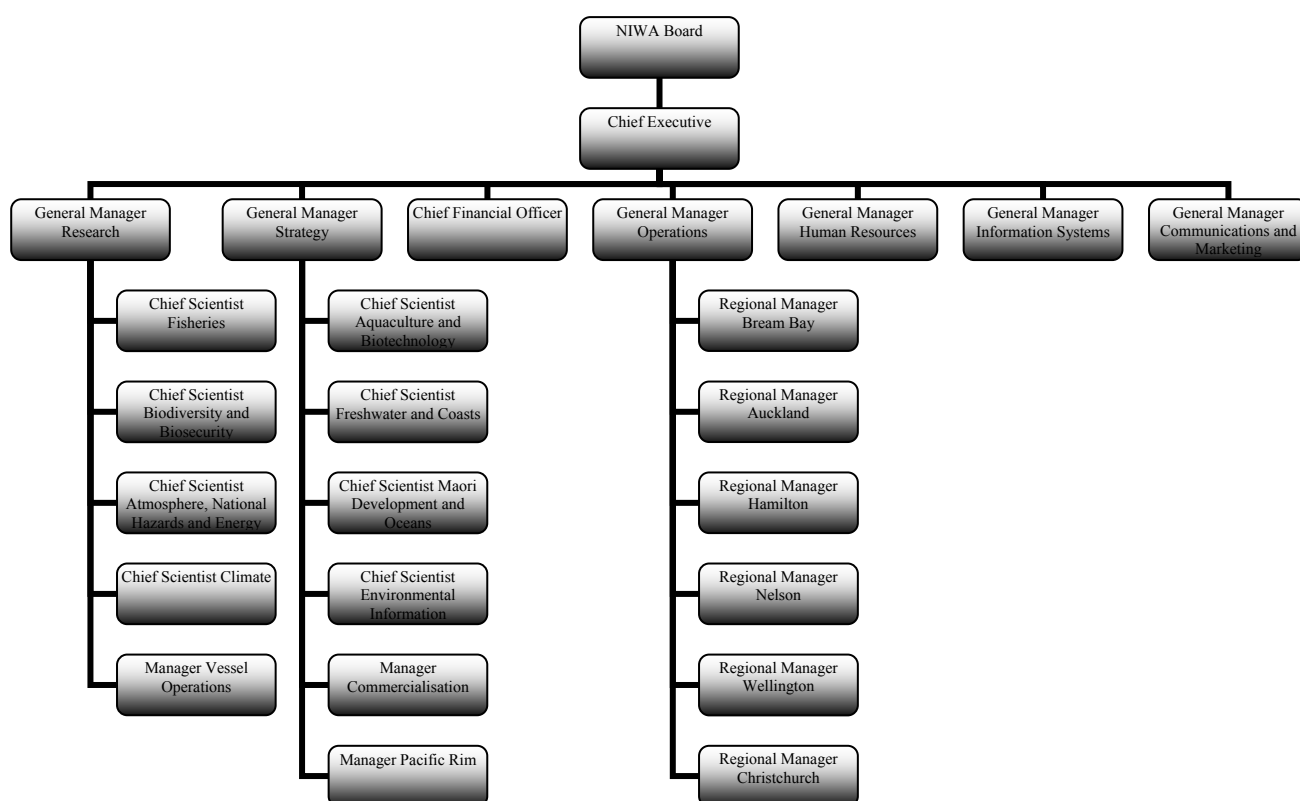
1.3 Governance of the NIWA Group

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 Board of the partly-owned subsidiary Unidata Pty Ltd by senior management appointed by the NIWA Board along with a director representing the minority interests of the other shareholders. All business plans developed by Unidata Pty Ltd must ultimately be approved by the NIWA Board before they may be implemented. Transactions between the parent and subsidiaries are carried out on a full-cost 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 General Managers who guide research, strategy, 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 science activities are carried out in fourteen Centres, led by seven Chief Scientists and four Managers who coordinate activities across the company and lead the engagement with external stakeholders. Regional Managers are responsible for managing operational delivery in the regions, facilitating activities, implementing company policies, and ensuring all contracted outputs are delivered. Regional Managers 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.

2.0 NATURE AND SCOPE OF CURRENT ACTIVITIES

NIWA's core business is based on applying our science capabilities to contribute to the following desired national outcomes:

Freshwater

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

New Zealand's estuaries and coasts will 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.

Oceans

New Zealand manages its marine estate wisely, with decisions being made on the basis of sound knowledge of the ocean system and robust predictive capability.

Māori Environmental Research

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

Aquaculture

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.

Climate

New Zealand is well prepared for and adapts effectively to the impacts and opportunities afforded by our current climate and resulting from future climate variability and change.

Hazards

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

Energy

New Zealand is powered by sustainable and secure energy, optimizing renewable and low emissions solutions at national and local levels.

Atmosphere

New Zealand reduces emissions of greenhouse gases and local air pollutants to mitigate long term climate change and human health impacts.

Aquatic Biodiversity & Biosecurity

New Zealand's aquatic biodiversity is understood, conserved and sustainably-managed. Biosecurity systems reduce arrival of undesirable aquatic species and those that are here are rapidly detected and effectively controlled.

Environmental Information

New Zealand possesses a nationally integrated environmental monitoring 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.

Pacific Rim

New Zealand enhances the capacity of the Asia-Pacific region to sustainably manage natural resources and prepare for and respond to natural disasters as a means of reducing poverty and hardship.

Commercialisation

Wealth creation for New Zealand through the development of new sustainably focussed business and product opportunities based on science and innovation.

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, supported by revenue from both public good research and projects for the wider Government sector and private business. The NIWA Group now has over 750 staff, revenue exceeding \$110 million, and total assets greater than \$110 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 2009 to 2012 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 funding so that core skill bases are maintained above critical mass in areas of science relevant to priority national need;
- Continuing to build 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 uptake of our science and improved economic and environmental outcomes;
- Improving the communication of our science and raising its profile with key stakeholders and communities;
- Continuing to meet our financial targets so that we provide adequate returns to our shareholder and have the financial strength to retain and recruit high quality staff, invest in core infrastructure that improves the working environment and increases efficiencies, and provide new equipment to advance our science.

4.0 CAPABILITY FUND

The Capability Fund is an essential tool for fostering strategic science, supporting under-funded but nationally-important science capability, developing new capability, and conducting ‘risky’ research. In 2008/09, NIWA’s Capability Fund allocation was \$10.534M (excl. GST) and this will rise to \$12.267M (excl. GST) in 2009/10.

The allocation of the Capability Fund within NIWA is driven by our strategic priority setting process. Stakeholders play an important role in establishing NIWA’s strategic priorities, and therefore the allocation of the Capability Fund. The strategy documents of Government, 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 2009/10 Business Plan (which links expenditure to specific tasks).

During 2009/10 our need to preserve relevant national capability during a recession sees a shift in our use of Capability Funds away from building new science capacity (from \$1,905k in 2008/09 to \$610k in 2009/10) to projects that support existing core skill bases that would otherwise be under-funded (from \$2,863k in 2008/09 to \$4,682k in 2009/10).

The allocation of the Capability Fund can be categorised by the following activities:

1. Supporting existing skill bases essential to achieving Government outcomes that would otherwise be under-funded during the recession (\$4,682k).
2. 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 (\$3,553k).
3. 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 (\$610k).

4. 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 (\$980k).
5. Increasing the uptake of science by end-users through training courses, tools development and NIWA National Centre promotional activities (\$1,112k).

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 committed to the principles of operation stated in section 5 of the Crown Research Institute Act, which require:

- that research undertaken by NIWA should be undertaken for the benefit of New Zealand;
- that NIWA should pursue excellence in all its activities;
- that in carrying out its activities, NIWA should comply with any applicable ethical standards;
- that NIWA should promote and facilitate the application of the results of research and technological developments;
- that NIWA should be a good employer; and
- 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. Many of our core business activities contribute directly to the sustainable management 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 operations, and particular care is taken to minimise the impact of our activities on the environment. We have six key Environmental Responsibility Guidelines that help guide our decision-making and improve our business practices across NIWA:

1. Ensuring all operational activities comply with resource consents and relevant environmental, biosecurity and biodiversity regulations.
2. Using best practices to minimise or mitigate the physical effects of our activities on landscapes, habitats, and ecosystems.
3. Using best practices to minimise or mitigate all material waste.
4. Implementing energy efficiency and savings initiatives for our facilities and activities, together with setting best-practice energy conservation targets.
5. Implementing fossil fuel efficiency and savings initiatives for our transport (including vessels), together with setting best-practice fossil fuel conservation targets.

6. Employing best business practices to achieve our environmental responsibility targets, including monitoring, regular audits, and staff training.

These Environmental Responsibility Guidelines will be applied to all our operating areas (workplaces, travel, and field systems). Many of the mitigation initiatives will be led at the Regional level, particularly in carbon emission reduction and energy savings. We will also make better use of initiatives introduced and supported by local industries, councils, and community groups (e.g., to improve waste recycling). An annual allocation of up to \$500k/y will be budgeted for CAPEX to support environmental responsibility initiatives. Energy audits and other processes that generate objective, quantitative information will be used to prioritize investments and efforts wherever practical.

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 environmental issues.

In 2009/10, we will report on the following non-financial performance categories (targets have been set where appropriate).

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 	An annual allocation of up to \$500k per year for sustainability initiatives
External Sustainability Advice/Services	<ul style="list-style-type: none"> ▪ External 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>200,000**</p> <p>80,000**</p> <p>1,000</p> <p>150</p>
Science Outputs and Collaboration (including International Connectedness)	<ul style="list-style-type: none"> ▪ Commissioned reports to users* 	400
	<ul style="list-style-type: none"> ▪ Presentations on technical information and research results* 	400
	<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>150</p> <p>300</p> <p>100</p> <p>200</p> <p>20</p>
	<ul style="list-style-type: none"> ▪ Peer-reviewed articles* 	260
	<ul style="list-style-type: none"> ▪ Keynote and plenary presentations* 	15
	<ul style="list-style-type: none"> ▪ Client profile (by revenue & national centre) 	

Category	Performance Monitoring and Reporting	Performance Targets
	<ul style="list-style-type: none"> ▪ Client feedback 	50% of clients observe an improvement in client relations with NIWA based on surveys of key sectors
	<ul style="list-style-type: none"> ▪ Number of representations on international committees 	50
	<ul style="list-style-type: none"> ▪ Number of collaborative formal links with overseas organisations 	50
	<ul style="list-style-type: none"> ▪ Number of international visits/visiting scientists 	100
	<ul style="list-style-type: none"> ▪ Number/value of international consultancy contracts 	\$1.5m
	<ul style="list-style-type: none"> ▪ Number of significant interactions with companies and industry boards in NIWA's key target sectors* <ul style="list-style-type: none"> - percentage of significant companies with which NIWA had meaningful interactions - percentage of significant companies with which NIWA was involved in decision-making - percentage of significant companies providing revenue - number of positions on industry boards 	70% 20% 80% 3
Environmental Sustainability	<ul style="list-style-type: none"> ▪ Total greenhouse gas emissions for NIWA Science (vehicle fleet, gas, electricity) and vessels 	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"> ▪ Total ghg emissions/FTE 	Reduce to 2006/07 levels by 2010 and a 10% reduction by 2012 compared with 2006/07
	<ul style="list-style-type: none"> ▪ Hours of video conference 	>300 hours per year
	<ul style="list-style-type: none"> ▪ Energy efficiency (kWh/m²) of research buildings (compare with best in class standard) 	Improvement in building efficiency of 5 kWh/m ² by June 2010
	<ul style="list-style-type: none"> ▪ Energy consumption per FTE 	Reduction of energy consumption per FTE by 10% by 2012 compared with 2006/07
	<ul style="list-style-type: none"> ▪ Change in recycling and solid waste production 	20% reduction in solid waste and paper usage by 2010 compared with 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 the NIWA ethos 	>50% by 2010 70%
Social and Cultural Sustainability	<ul style="list-style-type: none"> ▪ Total staff FTEs (permanent and fixed term)* 	650
	<ul style="list-style-type: none"> ▪ Staff composition (number of staff, see Appendix II)* <ul style="list-style-type: none"> - 710 Permanent Staff 	260 Scientists 230 Technicians 40 Research Support 110 General Support 30 Management 10 Postdocs 20 Fixed Term staff

Category	Performance Monitoring and Reporting	Performance Targets
	<ul style="list-style-type: none"> ▪ Achievement of a desirable work-life balance 	>50% of staff are able to maintain a balance between their personal and working lives
	<ul style="list-style-type: none"> ▪ Value of financial benefits received by Staff 	No target set
	<ul style="list-style-type: none"> ▪ Staff turnover - key staff 	<12% <5%
	<ul style="list-style-type: none"> ▪ Number of new jobs created - main city centre - rural areas 	10 5
	<ul style="list-style-type: none"> ▪ Staff development - staff with personal development plans - staff days allocated to personal development 	90% 400
	<ul style="list-style-type: none"> ▪ Lost time from injuries/accidents 	<0.03%
	<ul style="list-style-type: none"> ▪ Number of incident/near-miss reports 	<90
	<ul style="list-style-type: none"> ▪ Number of Noho Marae attendees 	60
Education	<ul style="list-style-type: none"> ▪ Number of postdocs funded, teaching fellowships awarded, PhD and MSc students supervised, scholarships awarded - PhD and MSc students supervised - postdocs funded 	50 10
	<ul style="list-style-type: none"> ▪ Number of external training courses run 	10
Innovation	<ul style="list-style-type: none"> ▪ Patents granted* - in New Zealand - overseas 	1 1
	<ul style="list-style-type: none"> ▪ Licensing arrangements entered into* 	2
	<ul style="list-style-type: none"> ▪ New or improved products, processes, and services* 	10
	<ul style="list-style-type: none"> ▪ Joint ventures or formal associations* 	5
	<ul style="list-style-type: none"> ▪ Spin-out companies formed* 	0
	<ul style="list-style-type: none"> ▪ Spin-off companies formed* 	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 2009/10, 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 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>

The Return on Equity target for 2009/10 is below the 9% target for CRIs. This target has been agreed with shareholding Ministers.

As stated in our 2009/10 Business Plan, we aim to achieve the following specific targets:

NIWA Group Ratios and Statistics

Business Plan	Forecast 08/09	Plan 09/10	Plan 10/11	Plan 11/12
Revenue (\$000s)	118,391	119,234	128,030	136,245
Operating results				
Operating expenses & depreciation (\$000s)	110,962	112,141	118,363	122,855
EBIT & dividend received (\$000s)	7,429	7,093	9,667	13,390
Profit before income tax (\$000s)	7,863	6,517	8,797	12,466
Profit after Tax (\$000s)	5,804	4,862	6,458	9,027
Average total assets (\$000s)	92,365	114,827	126,089	134,191
Average equity (\$000s) (Shareholders' funds)	68,271	84,991	85,642	88,385
CCMAU Average total assets (\$000s)	78,747	87,590	98,852	106,954
CCMAU Average equity (\$000s)	56,840	62,129	62,780	65,523
Capital expenditure (incl Capital committed)	20,362	26,893	24,750	22,750
Liquidity				
Current Ratio	1.11	0.91	0.96	0.99
Quick Ratio (aka. Acid test)	1.63	1.19	1.27	1.29
Profitability				
CCMAU Return on Equity	10.2%	7.8%	10.3%	13.8%
Return on Equity	8.5%	5.7%	7.5%	10.2%
Return on Assets	8.0%	6.2%	7.7%	10.0%
EBIT Margin (aka. Operating profit margin)	6.3%	5.9%	7.6%	9.8%
Coverage				
Interest Cover	-	12	11	14

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 \$5,000,000 in 2009/10.

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			
	2009 Forecast \$000	2010 Plan \$000	2011 Plan \$000	2012 Plan \$000
NIWA Group Equity to Total Assets	0.73:1	0.73:1	0.68:1	0.66:1

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.

Shareholders' Funds and Total Assets are averaged over two years.

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 2008 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 2008 was \$84 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 2009/10 Business Plan.

8.4 Other Matters Specifically Requested by the Shareholder

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



Chris Mace
Chair



Craig Ellison
Director

APPENDIX I – CAPABILITY FUND OUTLOOK

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Freshwater	<ul style="list-style-type: none"> Establish project in Canterbury to test new water resource management tools, in association with stakeholders Improve tools for managing effects of land use on water quality in rural catchments Support skills in urban contaminant transport and green technology treatment 	<ul style="list-style-type: none"> Continue Canterbury water resources project in association with stakeholders Test tools for managing effects of land use on water quality in rural catchments Support skills in urban contaminant transport and green technology treatment 	<ul style="list-style-type: none"> Complete Canterbury project, report and upskill stakeholders in use of the tools, transfer findings Conduct training courses to upskill stakeholders in use of tools Promote ‘green’ technology solutions through a demonstration project with stakeholders
Coasts	<ul style="list-style-type: none"> Initiate project on coastal resource management tools, using the Kaipara Harbour as a test-bed, in association with stakeholders Support and enhance existing skills in coastal modelling and beach sedimentation continue support for post-doctoral fellows in key core skill areas Develop skills in environmental studies on co-culture in marine farms 	<ul style="list-style-type: none"> Continue project on coastal resource management tools, using the Kaipara Harbour as a test-bed, in association with stakeholders Continue to support and enhance existing skills in coastal modelling and beach sedimentation Continue support for skills in environmental studies on co-culture in marine farms 	<ul style="list-style-type: none"> Upskill stakeholders on the use of coastal resource management tools and transfer findings Enhance coastal modelling skills through support of a post-doctoral fellow Combine environmental studies on co-culture with production studies and publicize benefits to stakeholders

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Oceans	<ul style="list-style-type: none"> • Support core skill bases in ocean modelling and satellite data interpretation • Support the analysis of datasets from previous voyages • Commence collaborative study on Hikurangi margin clathrates 	<ul style="list-style-type: none"> • Improve accessibility of ocean data for stakeholders and public and promote value of ocean science • Continue collaborative study on Hikurangi margin clathrates • Enhance skills in research linking oceans to climate 	<ul style="list-style-type: none"> • Accelerate research on climate-oceans interactions • Complete Hikurangi margin clathrates study • Develop new skills in ocean ecosystems modelling
Fisheries	<ul style="list-style-type: none"> • Support the upgrade of core fisheries survey and analytical software tools • Support the publication of fisheries research in international journals • Conduct a gap analysis on fisheries-environment interactions research 	<ul style="list-style-type: none"> • Support the publication of fisheries research in international journals • Initiate 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 	<ul style="list-style-type: none"> • Support the publication of fisheries research in international journals • Continue studies that integrate fisheries capabilities with those in coastal and ocean science and biodiversity. • Enhance skills in fisheries-ecosystem modelling • Trial implementation of ecosystem based tools

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Maori Development	<ul style="list-style-type: none"> • Build Maori research capability through supporting publication of Maori based research in the scientific literature • Enhance capability in science transfer to iwi through recruitment of appropriate skills in freshwater and matauranga Maori • Assess opportunities in new species aquaculture as a result of iwi settlements and RMA changes • Strengthen the links between NIWA and Maori, through the provision of support tools, training courses, and targeted research projects 	<ul style="list-style-type: none"> • Build Maori research capability through supporting publication of Maori based research in the scientific literature • Develop with Maori business opportunities in new species aquaculture • Strengthen the links between NIWA and Maori, through the provision of support tools, training courses, and targeted research projects 	<ul style="list-style-type: none"> • Build Maori research capability through supporting publication of Maori based research in the scientific literature • Strengthen the links between NIWA and Maori, through the provision of support tools, training courses, and targeted research projects
Atmospheric Composition	<ul style="list-style-type: none"> • Maintain and develop capability in air quality measurement and modelling • Develop new capability in agricultural emissions measurements to support collaborative research projects 	<ul style="list-style-type: none"> • Maintain and develop capability in air quality measurement and modelling • Test new methods for agricultural emissions measurement and compare with current methods 	<ul style="list-style-type: none"> • Maintain and develop capability in air quality measurement and modelling • Apply a chemistry-climate model to long range transport of air pollutants

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Energy	<ul style="list-style-type: none"> • Maintain and enhance energy-scape modelling skills by applying to various nationwide transport scenarios • Develop wind forecasting tools for use in the Electricity Commission's Wind Integration Project 	<ul style="list-style-type: none"> • Promote outputs of transport energy modelling to policy-makers • Test prediction accuracy of wind forecasting tools through a demonstration project 	<ul style="list-style-type: none"> • Enhance energy modelling skills through support of new staff and/or post doctorates • Incorporate wind forecasting tools into energy-scape model for use by the sector
Climate	<ul style="list-style-type: none"> • Support collaboration on climate change advice through the NZ Climate Change Centre • Contribute to Canterbury water resources project (see Freshwater) through developing complementary climate information tools • Build capability in climate statistics and extreme analysis 	<ul style="list-style-type: none"> • Support collaboration on climate change advice through the NZ Climate Change Centre • Continue support for Canterbury water resources project (see Freshwater) • Build capability in climate statistics and extreme analysis 	<ul style="list-style-type: none"> • Support collaboration on climate change advice through the NZ Climate Change Centre • Complete Canterbury project, report and upskill stakeholders in use of the tools, transfer findings • Support NIWA input into IPCC 5th assessment report development
Hazards	<ul style="list-style-type: none"> • Maintain and enhance weather, flood and coastal hazard forecasting capability • Contribute to Canterbury water resources project (see Freshwater) through developing seamless suite of forecasting tools 	<ul style="list-style-type: none"> • Maintain and enhance weather, flood and coastal hazard forecasting capability • Continue support for Canterbury water resources project (see Freshwater) 	<ul style="list-style-type: none"> • Enhance weather, flood and coastal hazard forecasting capability through support of new staff • Complete Canterbury project, report and upskill stakeholders in use of the tools, transfer findings

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Environmental Information	<ul style="list-style-type: none"> • Maintain sea-level and coastal buoy networks • Develop tools for real-time data quality assurance • Improve provision of meta-data on NIWA's monitoring systems to stakeholders 	<ul style="list-style-type: none"> • Maintain sea-level and coastal buoy networks • Continue develop tools for real-time data quality assurance • Promote use of tools and data to key stakeholders • Complete integration of data systems 	<ul style="list-style-type: none"> • Maintain sea-level and coastal buoy networks • Incorporate tools for real-time data quality assurance in web and forecasting services for stakeholders
Aquaculture & Biotechnology	<ul style="list-style-type: none"> • Maintain finfish broodstock for research and early industry start-up • Begin sea-cage trials on finfish aquaculture • Conduct proof of concept trials on the next finfish species • Develop capability in finfish disease treatment 	<ul style="list-style-type: none"> • Maintain finfish broodstock for research and early industry start-up • Continue sea-cage trials on finfish aquaculture, including scale-up trial with industry • Promote industry uptake of new species aquaculture and associated added-value opportunities • Develop capability in finfish disease treatment 	<ul style="list-style-type: none"> • Maintain finfish broodstock for research and early industry start-up • Develop production model for finfish and continue scale-up trial with industry • Develop protocols for disease management in finfish aquaculture

Areas of nationally recognised expertise	Capabilities to be maintained, enhanced, or developed with Capability Fund		
	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Aquatic Biodiversity & Biosecurity	<ul style="list-style-type: none"> • Maintain freshwater biodiversity and bio-security capability at risk from declining research time • Support the upgrade of the River Environment Classification to ensure its integrity for on-going use • Develop skills in control techniques for bio-incursions • Improve web access to data and identification guides 	<ul style="list-style-type: none"> • Maintain freshwater biodiversity and bio-security capability at risk from declining research time • Continue development of control techniques for bio-incursions • Continue web access improvements 	<ul style="list-style-type: none"> • Maintain freshwater biodiversity and bio-security capability at risk from declining research time • Transfer bio-incursion control techniques to stakeholders • 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 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

Statement of Compliance

The Financial Statements have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with the New Zealand equivalents to international financial reporting standards (NZ IFRS) and other applicable financial reporting standards appropriate for profit-oriented entities.

The Financial statements comply with international reporting standards (IFRS).

Basis of Preparation

The measurement basis adopted in the preparation of these financial statements is historical cost, except for financial instruments as identified in specific accounting policies below. Cost is based on the fair value of consideration given in exchange for assets.

The reporting and functional currency used in the preparation of these financial statements is New Zealand dollars.

Accounting policies are selected and applied in a manner to ensure that the resulting financial information meets the concepts of relevance and reliability, ensuring that the substance of the underlying transaction or event is reported.

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.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial reports and have been applied consistently to all periods, unless otherwise stated.

(a) Basis of consolidation

i) Consolidation of subsidiaries

Subsidiaries are those entities controlled by NIWA. The Group's 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 in its Statement of Financial Performance. The Group recognises its share of other post-acquisition movements in reserves in its Statement of Changes in Equity. Dividends received from associates are recognised directly against the carrying value of the investment. In the Statement of Financial Position 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 joint and 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 consolidation method.

(b) Revenue recognition

Rendering of Services

Revenue from services rendered is recognised in the Statement of Financial Performance in proportion to the stage of completion of the transaction at reporting date. The amount of revenue unbilled is represented by 'Uninvoiced Receivables', which is stated at the proportion to the stage of completion in the Statement of Financial Position. Revenue received but not earned is recognised as revenue in advance in 'Payables and Accruals' in the Statement of Financial Position.

Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances. Revenue is recognised when the significant risk and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Transfers of risks and rewards vary depending on the individual terms of the contract sale. For sales of Instruments transfer occurs upon receipt by the customer.

Dividend revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

(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. The primary condition is that the Group should undertake research activities as defined under the contractual agreements which award the funding.

Government grants relating to this funding are recognised as income in the Statement of Financial Performance on a systematic basis in the equivalent period in which the expense is recognised.

(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

Liabilities for wages and salaries, including non-monetary benefits and annual leave, long service leave, retirement leave and training leave are recognised when it is probably 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. Employee benefits are separated into current and non-current liabilities. Current Liabilities are those benefits that are expected to be settled within 12 months of balance date.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

(f) Impairment of Assets

Intangible and tangible assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 higher of fair value less cost to sell and value in use.

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.

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 to profit or loss.

(g) Income Tax

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 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 generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that sufficient taxable amount will be available against which those deductible temporary differences can be utilised.

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.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 in the Statement of Financial Performance, 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. The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

(h) Identifiable intangible assets

Purchased identifiable intangible assets, comprising copyrights, software, 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.

The estimated useful life for the copyrights is 5 years.

The estimated useful life for Software is 1 year.

(i) Development costs

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

- the product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the ability to use or sell the intangible asset;
- 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 recognised as an expense.

Development costs recognised as an asset are amortised in the Statement of Financial Performance on a straight-line basis over the period of expected benefits.

When the unamortised balance of development costs exceeds the recoverable amount, the excess is written down and recognised immediately as an expense.

All other development and research costs are expensed as incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The estimated useful life is between 1 and 5 years.

(j) Property, plant and equipment

Property, plant and equipment (except land and certain buildings) are stated at historical cost less accumulated depreciation to date less any impairment losses. Assets are reviewed annually for indications of impairment.

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 and work in progress, are depreciated on a straight-line basis at rates estimated to write off the cost of the property, plant and equipment over their estimated useful life, which are as follows:

Buildings & Leasehold improvements

Buildings	40 years
Leasehold improvements, freehold property	10 years
Leasehold improvements, rented property	5 years

Vessels	
RV <i>Tangaroa</i> hull	26 years
<i>Kaharoa</i> hull	16 years
Plant & equipment	
Plant & equipment	10 years
Scientific equipment	4 years
Electronic data processing equipment	
Supercomputer	5 years
Electronic data processing equipment	3 years
Office equipment	5 years
Furniture & fittings	10 years
Motor vehicles	4 years
Small boats	5 years

(l) Receivables

Receivables are classified as loans and receivables.

Loans and receivables are stated at amortised cost using the effective interest rate, less any impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off against the provision, once approved by the Board of Directors. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Changes in the carrying amount of the provision are recognised in the Statement of Financial Performance.

(m) Inventory

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

(n) Foreign currencies

i) Transactions

Transactions in foreign currencies are converted to the functional currency of New Zealand dollars, by applying the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of transaction. Monetary assets and liabilities are translated to New Zealand dollars using the closing rate of exchange at balance date, and any exchange gains or losses are taken to the Statement of Financial Performance.

ii) Translation of foreign operations

On consolidation, revenues and expenses of 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 foreign operations are recognised in the Statement of Financial Performance.

Goodwill and fair value adjustment arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operations and translated at the exchange rate ruling at balance date.

(o) Leases

Leases are classified as finance leases whenever the terms of the lease transfer a significant portion of all of the risks 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 exclusive of GST, which is consistent with the method used in the Statement of Financial Performance. Operating activities comprise the provision of research services, consultancy, and manufacture of scientific instruments and other activities that are not investing or financing activities. 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 and cash equivalents comprise cash on hand; cash in banks and investments in money market, net of outstanding bank drafts.

(q) Net Interest and other financing costs

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in the Statement of Financial Performance. Interest income is recognised as it accrues, using the effective interest method. Finance expenses comprise interest expense on borrowings and losses on hedging instruments that are recognised in the Statement of Financial Performance. All borrowing costs are recognised using the effective interest method.

(r) Financial instruments

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 the Statement of Financial Performance. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

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 the Statement of Financial Performance.

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 recorded at cost 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 or 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 the Statement of Financial Performance.
- 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 Statement of Financial Performance.
- 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 a non-current asset. These are recorded at amortised cost less impairment.

Impairment of financial assets

Financial assets, other than those at fair value, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cashflows of the investment have been impacted.

Financial Liabilities

Financial liabilities are classified as either financial liabilities at fair value or other financial liabilities.

Financial liabilities are classified as at fair value where the liability is either held for trading or it is designated as at fair value. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a derivative that is not designated and effective as a hedge instrument; or
- it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-making.

A financial liability other than a financial liability held for trading may be designated as at fair value upon recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance either the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and it is allowable to be designated at fair value.

Financial liabilities at fair value are stated at fair value with any resultant gain or loss recognised in the Statement of Financial Performance. This incorporates and interest paid on the financial liability.

Other financial liabilities, including borrowings are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

The effective interest method is the method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial liability.

DIRECTORY

BOARD OF DIRECTORS

Chris Mace (*Chair*)
Craig Ellison (*Deputy Chair*)
Ed Johnson
Wendy Lawson
Dennis Cairns
Helen Robinson
Jason Shoebridge

CHIEF EXECUTIVE

John Morgan

COMPANY SECRETARY

Kate Thomson

SOLICITORS

Bell Gully

AUDITORS

Deloitte on behalf of the Auditor-General

BANKERS

ANZ National Bank of NZ Ltd
Westpac Banking Corporation Ltd

INSURANCE BROKER

Marsh Ltd

REGISTERED OFFICE

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