NIWA
Taihoro Nukurangi

NIWA Statement of Corporate Intent for 2010/11

National Institute of Water & Atmospheric Research

leading environmental science

National Institute of Water & Atmospheric Research Limited

Statement of Corporate Intent

for 2010/11

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 2011 AND THE FINANCIAL FORECASTS FOR THE NEXT TWO YEARS.

Table of Contents

1. 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 freshwater, atmospheric, and marine research, together with related services. NIWA's diverse range of activities and skills benefit New Zealand by providing opportunities for economic growth, enhancing human well-being, and enabling 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 four other entities:

NIWA Group employs c. 750 staff spread across 15 locations. Revenue is generated principally from Government research contracts and applied science services to a diverse array of clients. Its main sites are in Bream Bay, Auckland, Hamilton, Wellington, Nelson, Christchurch, and Lauder.

NIWA Vessel Management Ltd, NIWA Australia, and NIWA ERI (USA) are all wholly owned by NIWA. NIWA Vessel Management Ltd owns and operates three research vessels (*Tangaroa*, *Kaharoa*, and *Ikatere*). 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 support the sustainable use and enhance the value of New Zealand's atmospheric, freshwater, and marine resources.

NIWA will fulfil this mission by undertaking research and applied science services, utilising existing global knowledge, providing advice, and promoting knowledge transfer to industry, government, and iwi to support New Zealand's economic, environmental, and social prosperity.

More specifically, the application of NIWA's science will support New Zealand's ability to:

- sustainably manage freshwater resources for economic benefit;
- improve water quality and the ecosystem health of its rivers, lakes, estuaries, coasts, and oceans;
- extract resources from its oceans in a manner that minimises environmental risk;
- sustainably develop and manage fishery resources for economic benefit;
- grow the aquaculture sector through the production of high value finfish;
- increase the use of aquatic and atmospheric energy resources;
- be more resilient to weather, coastal, and marine hazards;

- prepare for the impacts and opportunities afforded by the current and future climate;
- reduce emissions of air pollutants and greenhouse gases to mitigate human health and long-term climate change impacts;
- conserve aquatic biodiversity, and reduce the impact of aquatic pest incursions;
- access integrated environmental data and information;
- realise the innovative potential of Maori knowledge, resources, and people.

In addition, the application of NIWA science will:

- support central and local government in policy and decision-making associated with atmospheric, freshwater, and marine resources;
- help New Zealand meet its international obligations associated with atmosphere, climate, fisheries, and ocean management;
- help New Zealand support South-West Pacific communities.

NIWA will collaborate with other CRIs, universities, and research organisations, nationally and internationally, to avoid duplication and overlap of research, and ensure its research and applied science services meet stakeholder needs. *It will determine those needs by:*

- engaging with relevant stakeholders to guide the development of research strategies, science programmes, and technology transfer activities;
- establishing Independent Scientific Advisory Panels to review its science strategies, activities, and operations;
- developing partnerships with industry, government, and iwi.

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 ERI (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 the Group

The Executive Management Team of NIWA 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. The company's core science activities are carried out in twelve Centres, led by Chief Scientists, who coordinate activities across the company and lead engagement with external stakeholders, including associated knowledge transfer and commercialisation. 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.

Project management forms the basis of all operations within the NIWA Group. A Project Director is chosen for each contracted project. The Project Director establishes the project's budget, oversees the activities of all staff in the project, and has responsibility for ensuring the project runs to budget, is completed on time, and produces outputs of high standard.

2. 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 utilised for economic benefit and have measurably improved water quality and ecosystem health, with resource management decisions being made on the basis of sound knowledge of the resource and robust predictive capability.

Coasts
New Zealand's estuaries and coasts are wisely utilised for economic benefit 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.

Oceans
New Zealand manages its marine estate wisely, maximising economic potential within environmental limits through a 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 and Biotechnology
New Zealand aquaculture will be a financially and environmentally sustainable billion dollar export industry by 2025 through the production of high value species and value-added products with a verifiable provenance of quality and sustainability.

Fisheries
New Zealand maximises long-term economic benefit from its fishing industry through a fisheries management system that is based upon robust scientific knowledge of the resource, including prediction of sustainable harvest and ecosystem effects of fishing.

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, optimising renewable and low emissions solutions at national and local levels.

Atmospheric Composition

New Zealand reduces emissions of greenhouse gases and local air pollutants to mitigate long-term climate change and human health impacts and help protect our export markets and tourism potential.

Aquatic Biodiversity and 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 an integrated environmental data and information collection, storage, processing, and dissemination system so that environmental state and trend reporting, wise resource use, and responses to environmental hazards are improved.

Pacific Rim

New Zealand enhances the capacity to sustainably manage natural resources and prepare for and respond to natural disasters in the Asia-Pacific region.

Commercialisation

Wealth is created for New Zealand through the development of new sustainably focused business and product opportunities based on science and innovation.

3. FUTURE DEVELOPMENT

NIWA is a successful science organisation with a reputation for quality science and applied science services, supported by sound financial performance. Our 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 in the vicinity of c. 750 staff, revenue exceeding $120 million, and total assets greater than $125 million.

Enhancing the value to be derived from NIWA's science and securing our future success will require us to:

- Conduct science that is relevant to the priority issues faced by our stakeholders;
- Utilise effective knowledge transfer mechanisms so that uptake is maximised;
- Strengthen our science planning process so that core funding is effectively and efficiently allocated to priority areas;
- Leverage collaborations and alliances to optimise value creation;
- Maintain science excellence so that findings are robust and credible.
- Improve the communication of our science and raise its profile with key stakeholders and communities;
- Continue to meet our financial targets so that we have the financial strength to retain and recruit high quality staff, and invest in core infrastructure that improves the working environment and provides new equipment to advance our science.

4. CAPABILITY FUND

The Capability Fund is an essential tool for implementing our science strategies by supporting under-funded but relevant science capability, developing new capability and conducting new science where gaps exist, and accelerating engagement and knowledge transfer to stakeholders.

The allocation of the Capability Fund within NIWA is driven by our science strategy process. This process is informed by analysis of science trends, external science reviews, and stakeholder needs. 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.

In 2010/11, NIWA's Capability Fund allocation is $12.108M (excl. GST), which can be categorised by, and includes, the following activities:

1. Supporting existing skill bases essential to achieving Government outcomes that would otherwise be underfunded ($2,200k);
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 ($4,800k);
3. 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 ($760k);
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 ($880k);
5. Increasing the uptake of science by end-users through training courses, tools development and NIWA National Centre promotional activities ($2,570k).

In response to the directions signalled in the CRI Taskforce Report, we have more than doubled our use of Capability Funds for knowledge transfer activities (from $1,112k in 2009/10 to $2,570k in 2010/11). Beyond 2010/11, the Capability Fund will become part of NIWA's core purpose funding.

5. Performance Measures and Targets

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

5.1 Organisational Responsibility – Non-Financial Performance

NIWA is committed to the principles of operation stated in section 5 of the Crown Research Institutes Act 1992, 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;
- 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 Organisational Responsibility objectives, and we will provide appropriate commentary in our annual report. NIWA is committed to making a positive contribution to New Zealanders' well-being. This commitment is reflected in a set of guiding principles that cover our social, economic, and environmental responsibilities. We are dedicated to continual improvement of our policies, practices, and strategies that deliver on these responsibilities.

Social Responsibility

NIWA is committed to work practices, operations, and science outcomes that support its staff and the wider community. Our approach is one of partnership and inclusion to ensure that we incorporate the interests of others in our activities, communicate our science well, and maximise societal benefits from our science.

Caring for our people

We are committed to providing:

A safe and healthy working environment with zero harm;
A work-life balance that maintains job satisfaction;
A working environment, including learning and development opportunities, that enables people to reach their full potential;
Suitable equipment so that staff can do the job that is asked of them;
Remuneration and rewards that fairly reflect an individual's contribution to the organisation's success;
A professional, participative, and collegial workplace where people are respected and supported and enjoy being part of.

Working in the community

We are committed to:

Engaging positively with local communities in which we are conducting our science, explaining what we propose to do, respecting local traditions and culture, and keeping them informed of our results;

Supporting science education and knowledge transfer to communities (e.g., Kelly Tarlton's, Science & Technology Fairs, work placements, supervision of postgraduates, educating community environmental groups);
Raising public awareness of the value of science and innovation through public talks, media interviews and releases, our website, and sponsoring local relevant events;
Transferring our knowledge to stakeholders in a way that ensures enduring benefits for communities;
Being an active member of the 'science community', collaborating with others to provide a cohesive science system that is effective and efficient;
Contributing to national policy development and decision-making so that our expertise benefits all New Zealanders and helps New Zealand meet its obligations as a global citizen.

Working in partnership with Māori

We are committed to:
Developing and maintaining effective long-term relationships with iwi, hapu, and other Māori organisations throughout New Zealand;
Developing Māori research capability and capacity within NIWA and in our partner Māori organisations;
Sharing our knowledge and skills so that Māori are better enabled to realise the potential of their resources and exercise kaitiakitanga;
Increasing the capability of our staff to interact with Māori through training in te reo and tikanga.

Working with our customers

We are committed to:
Listening to our customers and understanding their needs and expectations;
Proposing and delivering innovative services and solutions;
Regularly informing customers of progress and maintaining a 'no surprises' policy;
Providing deliverables on time, to budget, and to agreed specifications;
Maintaining professional and ethical standards;
Developing long-term relationships so that their success is our success.

Economic Responsibility

NIWA is committed to operating with financial discipline so that we retain our long-term viability and thus meet our core purpose science responsibilities. NIWA's knowledge and expertise provides significant opportunities for generating economic benefit for New Zealand and we have a responsibility to ensure that it does.

Continuing to be financially viable

We are committed to:
Making fiscally responsible decisions and maintaining NIWA's short- and long-term financial viability;
On-going investment in capital items that enable us to conduct excellent science and continue to generate revenue.

Generating economic benefit for New Zealand

We are committed to:
Utilising our knowledge to help others derive economic benefit from the efficient and effective use of New Zealand's natural resources and infrastructure;
Providing solutions that reduce or eliminate risks from natural or human-induced environmental impacts on economic activities;
Conducting technical and market assessments of business opportunities arising from our science, so that investment risk is better understood;

Being open to joint ventures with the private sector where this encourages start-up of new economic activity;
Working collaboratively with other parts of government to ensure that 'first adopters' are appropriately supported and that government investment is aligned and effective.

Environmental Responsibility

NIWA is committed to ensuring that we take due care of the environment when carrying out our activities. Whilst our science contributes strongly to better environmental outcomes for New Zealand, we do have environmental effects when conducting that science, and such effects must be minimised. We need to encourage others to utilise our knowledge to improve the environmental outcomes they have responsibility for.

Ensuring our activities are environmentally responsible

We are committed to:
Ensuring that all operational activities and assets comply with resource consents, relevant environmental standards, biosecurity and biodiversity regulations, and permitting requirements;
Ensuring all sampling and experiments with live animals comply with the Animal Welfare Act 1999;
Ensuring all material waste production and water use is minimised and that we make maximum practical use of recycling and electronic media;
Ensuring energy consumption/greenhouse gas emissions are compliant, and best cost-effective and efficient practice for the activities they relate to;
Making use of environmental initiatives introduced and supported by local industries, councils, and community groups;
Encouraging our employees to take positive actions to reduce the effects of their activities on the environment.

Imparting our knowledge to others to improve environmental outcomes

We are committed to:
Helping others meet their environmental responsibilities through providing objective advice on the impacts of their activities and solutions to mitigate those impacts;
Providing appropriate tools and training for community groups and others to implement environmental monitoring and habitat rehabilitation projects;
Providing information on the nation's unique aquatic biodiversity and threats to it so that wise decisions can be made.

Key Performance Indicators

Social
100% compliance with Health & Safety legislation, Health & Safety incident rate continues to decline and we aim to achieve zero harm;
Staff engagement increases from the baseline survey in 2009 and meets or exceeds sector benchmarks;
Staff remuneration is competitive with industry benchmarks;
Narrative describing NIWA's key activities with respect to public awareness of science, science education, and outreach initiatives;
Narrative describing our collaborations with Māori and our capability and capacity building initiatives within NIWA;
Conduct a survey of customer satisfaction in 2010/11 and use it as a baseline for tracking change and measurement against sector benchmarks.

Economic
Meeting NIWA's budgeted targets for return on equity (2010/11 = 9.1%) and gearing ratio (< 20%);

Narrative describing examples of economic benefits derived from the uptake of our science (NB: methods for reporting on this KPI will need to be developed during 2010/11).

Environmental
100% compliance with all environmental, biosecurity, and animal welfare legislation;
During 2010/11 develop appropriate benchmarks for our carbon footprint (greenhouse gas emissions per FTE) by reference to industry best practice;
Narrative describing examples of environmental benefits derived from the uptake of our science.

Financial Performance

NIWA will continue to fulfill its financial obligations as specified in section 5 of the Ac,t 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;
to operate as a going concern.

In 2010/11, NIWA will report against the following key financial performance measures:

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

As stated in our 2010/11 Business Plan, we aim to achieve the following specific targets:

NIWA Group

Ratios and Statistics

Business Plan	**Forecast 09/10**	**Plan 10/11**	**Plan 11/12**	**Plan 12/13**
Revenue ($000s)	127,923	133,411	140,924	146,729
Operating results				
Operating expenses & depreciation ($000s)	118,388	124,401	131,225	136,309
EBIT & dividend received ($000s)	9,534	9,010	9,698	10,421
Profit before income tax ($000s)	9,527	8,869	9,856	10,906
Profit after tax ($000s)	6,669	6,508	7,199	7,935
Average total assets ($000s)	119,828	130,367	139,570	148,481
Average equity ($000s) (shareholders' funds)	87,976	94,554	101,415	108,982
Adjusted average total assets ($000s)	92,591	103,130	112,333	121,244
Adjusted average equity ($000s)	65,114	71,692	78,553	86,120
Capital expenditure (incl. capital committed)	28,510	22,137	18,600	16,600
Liquidity				
Current ratio	0.91	0.89	1.06	1.31
Quick ratio (aka Acid test)	1.23	1.16	1.42	1.76
Profitability				
Adjusted return on equity	10.2%	9.1%	9.2%	9.2%
Return on equity	7.6%	6.9%	7.1%	7.3%
Return on assets	8.0%	6.9%	6.9%	7.0%
EBIT margin (aka operating profit margin)	7.5%	6.8%	6.9%	7.1%
Coverage				
Interest cover	77	36	1,386	0
Financial strength				
Gearing	4.7%	0.0%	0.0%	0.0%
Equity ratio (aka proprietorship)	73.4%	72.5%	72.7%	73.4%
Cash and short-term deposits ($000s)	0	0	7,029	17,864
Financial debt ($000s)	4,506	11	0	0

Key: Statement of Corporate Intent indicators

6. Information to be reported 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 (31 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 reporting, 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. POLICY AND PROCEDURE STATEMENTS

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

7.1 Accounting Policies

NIWA adopts generally accepted accounting practice in New Zealand as prescribed by the Institute of Chartered Accountants of New Zealand. The accounting policies for the measurement and reporting of financial performance, movements in equity, financial position, and cash flows are detailed in Appendix II.

7.2 Dividend Policy

The profit retention and dividend policy will be determined from year to year by the Board. The objective is to ensure that an appropriate level of funds is maintained in the company to sustain financial viability, whilst providing an adequate return to the shareholders. In considering this objective, the Board each year determines the level of surplus funds by reference to NIWA's:

- Medium- and long-term capital investment requirements (including equity investments);
- ability to maintain and expand operational capability;
- ability to repay debt (if any);
- funding requirements for subsidiaries;
- capacity to replace RV *Tangaroa* in event of loss;
- working capital requirements;
- 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. In-line with the expectations in the CRI Taskforce, NIWA will retain and reinvest surplus cash in capital expenditure. To this end, NIWA has budgeted to pay no dividend in 2010/11.

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. 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			
	2010 Forecast $000	*2011 Plan $000*	*2012 Plan $000*	*2013 Plan $000*
NIWA Group equity to total assets	0.73:1	0.73:1	0.73:1	0.73:1

Shareholders' funds are defined as the sum of the 'share capital' and 'equity reserves' (otherwise called 'total equity').

Total assets are defined as the sum of the net book value of 'current' and 'non-current assets'. This is 'as disclosed' in the company's balance sheet as 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 2009 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 2009 was $85 million.

8.3 Activities where Shareholder Compensation would be Required

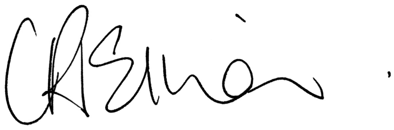
The Board would look to seek compensation from the shareholders in the following circumstances:

- 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 2010/11 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 – 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 in 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 organisation as a whole – research and non-research or infrastructural components. 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 who are an overhead, and not accounted for directly within a programme or project budget.

APPENDIX II – 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 polices 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 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. 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 the higher of fair value less cost to sell and value in use.

If the recoverable amount of the asset is estimated to be less that 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 and 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 intangible asset can be used or sold;
- 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 *Tangaroa* hull	26 years
RV *Kaharoa* 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	
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 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.

Other financial assets

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 non-current assets. 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, and its performance is evaluated on a fair value basis, in accordance with 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 any 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

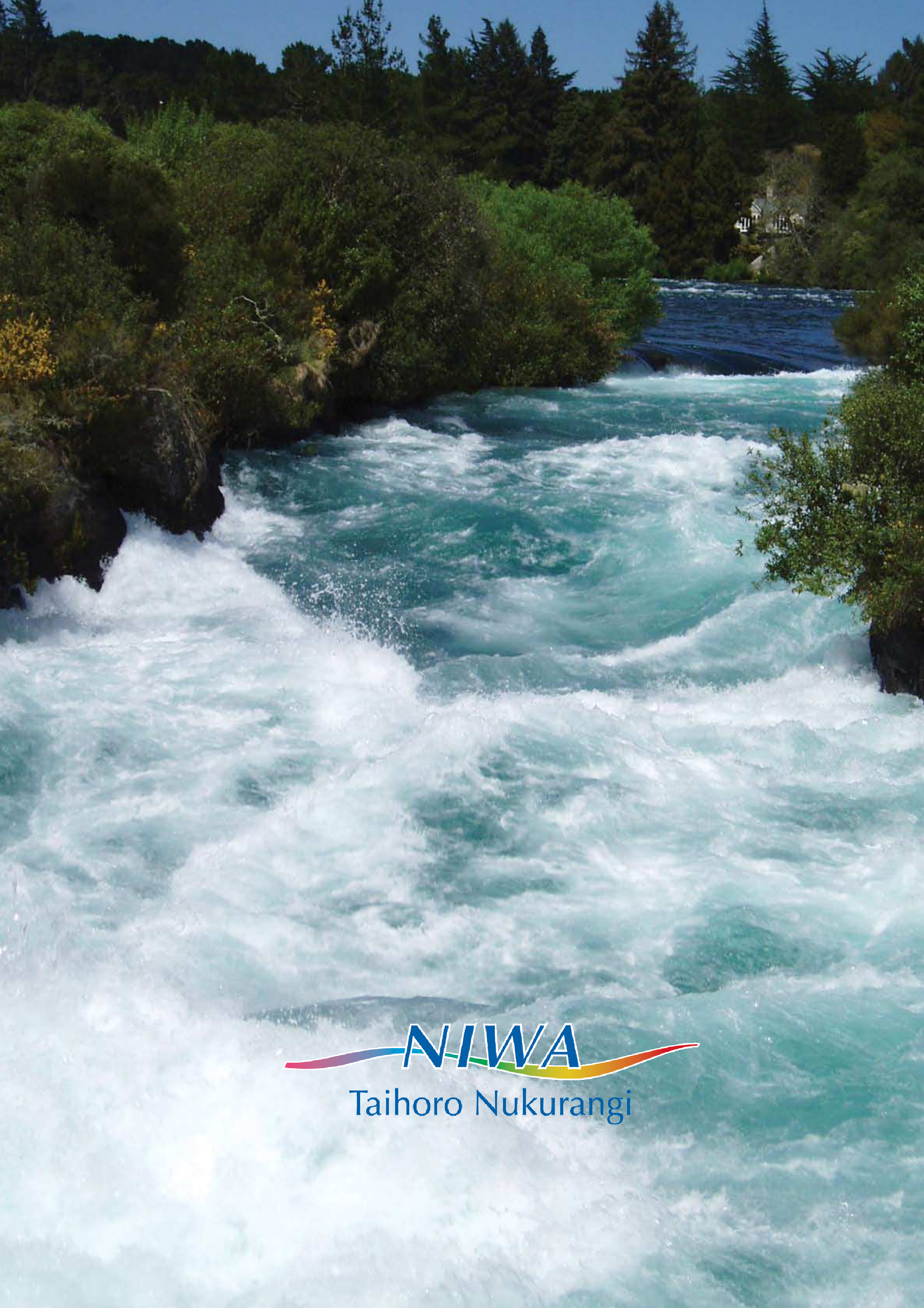
BANKERS
ANZ National Bank of NZ Ltd
Westpac Banking Corporation Ltd

INSURANCE BROKER
Marsh Ltd

REGISTERED OFFICE
41 Market Place
Auckland Central 1010
NEW ZEALAND

Private Bag 99 940
Newmarket
Auckland 1149
NEW ZEALAND

WEBSITE
http://www.niwa.co.nz


NIWA
Taihoro Nukurangi