



2010

Annual Report

NIWA

Taihoru Nukurangi

leading environmental science



From the top of the atmosphere to the bottom of the ocean, NIWA delivers leading environmental science.

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750

staff across 16 sites in New Zealand and Australia

\$127.9

million revenue from research and applied science services

1501

environmental science projects on the go through our national centres

John Morgan, Chief Executive

From the Chairman

“As economic development receives unprecedented focus, attention is turning to Research, Science and Technology to address the challenges we face both nationally and globally.”

So says Neville Jordan, CNZM in his statement as Chair of the Crown Research Institute (CRI) Taskforce. The Board of NIWA agrees with the statement, and with the recommendations of the Taskforce to streamline funding processes, strengthen governance structures, and clarify goals for each CRI.

The past year has set a new course for science and innovation in New Zealand by recognising its potential contribution to all New Zealanders. NIWA, with its specialist skills in environmental science, will join other CRIs and Universities at the forefront of making this contribution a reality.

NIWA continues to work alongside our Minister of Research, Science and Technology Dr Wayne Mapp, the Prime Minister’s Chief Science Advisor Sir Peter Gluckman, and officials to finalise new processes and implement the changes.

Our Chief Executive John Morgan as Chair of Science New Zealand has made a significant contribution to this work on behalf of all CRIs.

In spite of all these ongoing changes, the 2009–10 financial year has been another successful period for NIWA. Our productivity and revenue exceeded budget, our costs were well managed, and as an organisation we were able to invest in our most important asset, our staff, as well as some new and exciting technology.

Aspects of our science, particularly regarding climate data, continue to be scrutinised. While we must accept that scepticism and close scrutiny play a role in the assessment and validation of new knowledge, we must also be prepared to defend our reputation against inaccurate, ideologically or politically motivated criticism.

While the year ahead looks challenging, with changes to purchasing and funding procedures, I would like to sincerely thank the Directors, John Morgan and his hard working executive, and indeed all of the NIWA team, for their ongoing efforts and contribution to NIWA in this important area of environmental science.



Chris Mace
Chairman

Planning for a tough year

The demand for NIWA’s environmental science has grown steadily in recent years; however, it was not clear when we were preparing our business plan for the 2009–10 year quite how much we would be affected by what was being described as the worst economic period the world had faced in a generation.

We planned for a tough year by budgeting for static revenue and cutting back on as many operating costs as we could without damaging our long-term capability. We did so with a determination to retain all permanent staff and to continue to complete the final year of an extensive three year

capital expenditure programme. The aim was to hold all existing business and be well positioned to take advantage of new business opportunities as they emerged by maintaining our research and applied science capability.

To achieve this we focused on being a very lean operation – taking a cautious approach to personnel costs, re-using resources, extending the life of consumables, and cutting key areas like overseas travel. We were acutely aware of how this constrained the professional lives of our staff, and we are grateful for their cooperation and willingness to temporarily suspend some important components of professional operation.

\$127.9 million

revenue from research and applied science services

\$9.55 million

profit before income tax

\$127.4 million

total assets



Right: Chief Executive John Morgan and Chairman Chris Mace

Continued investment in capability

The tighter belts were made more bearable by the professionally inspiring addition of some substantial new science facilities and equipment. As well as major upgrades in state-of-the-art laboratory equipment, we invested in the most powerful supercomputer in the southern hemisphere, an IBM p575 POWER6, at a cost of \$12.7 million, and strengthened our commitment to oceans research with the first stage of a \$20 million upgrade to the capability of our flagship research vessel *Tangaroa*.

NIWA, through its 750 dedicated people, has a well-earned reputation internationally for the calibre and breadth of its science skills, but research and applied science need modern tools as well. For that reason, we were determined to continue the capital investment programme to support our aspiration to remain as one of the most respected environmental science organisations in the world.

As the 2009-10 year progressed, and economic conditions remained tough, the demand for NIWA's environmental services held firm, and our people and resource capability remained fully utilised.

The final result was revenue of \$127.9 million, compared with a budget of \$119.2 million, with earnings before interest and taxation (EBIT) of \$9.5 million, compared with a budget of \$7.09 million.

A change in the treatment of property depreciation announced in the Government's May budget had a one-off negative tax impact of \$2.2 million, resulting in a net surplus after tax of \$4.5 million, compared with a budget of \$4.86 million.

Contributing to New Zealand's prosperity

During the year New Zealand was seeing a new emphasis in the role of science and innovation with the Prime Minister, John Key, announcing it would be one of the pillars for economic and environmental prosperity for our country.

The establishment of a 'CRI Taskforce' resulted in a report making a number of recommendations to enhance the performance of CRIs. In essence, this was to provide clarity about the role and purpose of CRIs, improve the efficiency and administration of core science funding, increase the accountability of CRI boards and executives, and increase the connectedness between CRIs and the economic sectors they serve.

The NIWA Board and Executive have responded enthusiastically to the CRI Taskforce recommendations, recognising that there a number of key outcomes for New Zealand that NIWA's science can contribute to.

Examples include improving economic growth through the sustainable management of our nation's freshwater and ocean resources, and growing renewable energy production utilising aquatic and atmospheric energy resources.

NIWA's science will also help New Zealand better understand the impacts, and exploit the opportunities, of climate variability and change, and enhance New Zealand's international reputation and competitiveness through mitigating changes in atmospheric composition from greenhouse gases and air pollutants.

NIWA's science will also make a key contribution to getting a better understanding of the Antarctic and Southern Ocean climate, oceans, and ecosystems and their longer-term impact on New Zealand, and increasing the resilience of New Zealand and the South-West Pacific Islands to weather and climate related hazards like drought, floods, tsunami, and sea level rise.

Effective and accurate

environmental monitoring

Most New Zealanders recognise that the environment and our unique biodiversity is the bedrock of our economy, and that astute environmental management and balance is essential. NIWA has a key role to play in this in two main areas. The first is effective and accurate environmental monitoring and

measurement. This year we were employed to measure and monitor environmental conditions by local authorities, developers, builders of infrastructure, and users of natural resources. NIWA runs the country's only national-scale river water monitoring system, the National River Water Quality Network.

The network this year provided a picture of the declining quality of our waterways. Although they are still exceptional by international standards, the public discussion about the issue shows that New Zealanders want to stop the decline. Our research is showing ways to fix the problems.

Another example of focus in this field is the Land and Water Forum, a group of key industries and authorities charged with producing a national freshwater strategy for New Zealand that enhances both our economy and the environment. NIWA's freshwater expertise has been a key contributor to the Land and Water Forum's deliberations.

Developing economic opportunities

The second key role for NIWA is to focus its research on areas that are relevant to New Zealand and make ourselves the best at the science involved in these fields in order to identify and realise economic opportunities. These fields include climate, environmental forecasting, freshwater, renewable energy, and finfish aquaculture.

One example which has come to fruition this year is the farming of hapuku and kingfish. Six years ago, NIWA saw that farming of new species of finfish was possible in New Zealand, and that there would be high commercial demand for it. After several years of extensive research we now have a complete understanding of the life-cycle of hapuku, and this year we market-tested the results with our farmed product - to universal acclaim from chefs and buyers in the international fish market. Although we are about two years away from full commercialisation of hapuku, our kingfish research has now

Top right: Minister of Research, Science and Technology, Dr Wayne Mapp, officially opens NIWA's High Performance Computing Facility (HPCF), following successful trials and installation at NIWA's Oreta Point site in Wellington.

The HPCF is the most powerful research computer of its type in the Southern Hemisphere and the 15th largest p575 POWER6 supercomputer in the world. It is one of the largest single investments in New Zealand science and represents a major strategic asset for NIWA and the country. Photo: Iliana Allen, NIWA

Bottom left: NIWA's flagship research vessel *Tangaroa* is getting an upgrade, with the installation of an advanced dynamic positioning system. This will allow *Tangaroa* to stay in one place (within a few metres) or move unerringly along a path to deploy and operate precisely scientific, fishing, or mining equipment.

NIWA's multi-million dollar investment will significantly advance New Zealand's capability for ocean sciences and marine resource exploration. Photo: Daniel Hayward, NIWA

Bottom right: NIWA Chief Executive, John Morgan, along with Minister of Research, Science and Technology, Dr Wayne Mapp, and Chief Scientist, Aquaculture & Biotechnology, Andrew Forsythe, view juvenile hapuku at NIWA's Bream Bay Aquaculture Park.

NIWA has conducted six years of intensive research into farming hapuku, and is the first in the world to close the life cycle of this premium seafood product in captivity.

The team started with the capture of wild broodstock and is now producing young fish from selected breeding stock.



CHAIRMAN & CHIEF EXECUTIVE'S REPORT

advanced to the stage where the next step is the sharp end of commercialisation – production and marketing.

This year we have also identified and invested in upgrading our capability and commercial focus in three other areas – freshwater, climate forecasting, and ocean development. The first two are well underway, but the third is our newest frontier; applying research to working out how to benefit from, and preserve, a massive natural resource – our oceans. New Zealand is surrounded by the fourth largest economic zone in the world. It is wide and deep, it is the single largest factor in our climate (which affects our land resource), and it is filled with minerals, food, and latent energy generation. New Zealand is already a world leader in oceanography. So the step up in research knowledge, capability, and application is not only smart business, it is very achievable.

Difficult conditions ahead

As confident as we are about the opportunities for NIWA to contribute to the economic and environmental wealth of our country in the years ahead, we are mindful that

New Zealand still faces significant economic challenges, because recovery from the global recession is far from over. We expect business conditions to be difficult over the coming year, and will monitor our costs and investments accordingly.

During the past year our staff responded well to the need for cost cutting, yet remained responsive to our customers' ongoing expectations for high quality, cost-effective research and applied science services. We thank them for their commitment and efforts.

Thank you also to the NIWA Executive Team and Board for responding appropriately to the challenges of the past year, and providing the guidance and support that led the organisation to one of its most successful years ever. The following pages highlight some of this year's successes.



John Morgan
Chief Executive

0.009%

lost time from injuries or accidents

3.5 million

data transfers from the Water Resources Archive made to more than 35 agencies in the past year (4000% more than last year)



	2010	2009	2008	2007	2007 Previous NZ GAAP	2006 Previous NZ GAAP
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Total revenue (includes interest income)	127,917	120,438	120,671	113,911	113,911	106,416
- Public good science	65,646	58,883	55,536	53,418	53,418	50,374
- Ministry of Fisheries	16,682	14,121	15,127	17,183	17,183	16,060
- Commercial and other	45,589	47,434	50,008	43,310	43,310	39,980
Net profit before tax	9,550	9,050	14,309	14,279	15,843	15,706
Net profit after tax	4,497	6,011	10,095	9,813	10,461	10,342
Capital expenditure	29,985	21,187	13,985	9,107	9,107	8,480
Adjusted return on average equity (%)	7.0	9.8	17.9	21.2	22.6	24.4
Return on average equity (%)	5.2	7.1	12.8	14.1	22.6	24.4

The Group changed their accounting policies on 1 July 2007 to comply with New Zealand international financial reporting standards. The transition required the statement of comprehensive income to be translated into NZIFRS for the year ended 30 June 2007 which is shown above. The 'adjusted return on average equity' uses a valuation basis comparable to other Crown Research Institutes.

“Our financial strength and flexibility enable us to deliver excellent applied science.”

Kate Thomson, Chief Financial Officer

Highlights

2009–10 was a tough year for most businesses. NIWA began the year cautiously, focusing on staff retention and maintaining capability for the long haul.

In other areas of operational spend we trimmed our planned spending because we expected the financial situation to be extremely tight. Compared with 2008–09, we budgeted to earn slightly less (total budget revenue: \$119.2 million) and to spend slightly more (total budget operating expenditure: \$112.1 million).

This prudent planning, and other revenue initiatives, however, meant that by the end of the year we were ahead of budget on revenue, and almost meeting budget on profit. Our key financial achievements for 2009–10 were:

- total revenue of \$127.9 million (including interest income)
- operational expenditure of \$118.2 million
- underlying net profit (before one-off adjustment for Government budget tax changes) of \$6.7 million
- net profit after tax of \$4.5 million.

The unexpectedly high income reflects NIWA's success at winning public good science funding, strenuous efforts by our senior staff to chase every dollar of appropriate commercial revenue, and the “timing” effect of the deferment of a fisheries research survey from 2008–09 to this year.

Our results are impressive given the gloomy economic context, but the year ahead will be a challenge and not an easy one. During the latter half of 2009–10 we began to see the budgets of many of our key clients, especially in central government, under pressure. We expect this to continue into 2010–11.

In addition, we are in the third year and final year of a \$60 million capital expenditure programme. In 2010–11 the refit of RV *Tangaroa* takes our flagship vessel out of action for almost five months. The company regards the retro-fit and the installation of a dynamic positioning system as essential investments for the future of New Zealand science, so we are taking a short-term hit for long-term gain.

As I signalled last year, NIWA's cost structure is not elastic. Our costs are rightly bound up in our staff, and we continue to pursue a policy of lifting staff remuneration wherever we can. NIWA is a knowledge-based organisation competing for highly skilled people in a global marketplace, and that poses financial challenges.

Despite this note of caution, however, NIWA continues to be a high performing Crown Research Institute. Our financial strength and flexibility enable us to maintain and develop the nation's scientific capability, and contribute to New Zealand's economic improvement by delivering excellent applied science.

Kate Thomson

Chief Financial Officer

Revenue

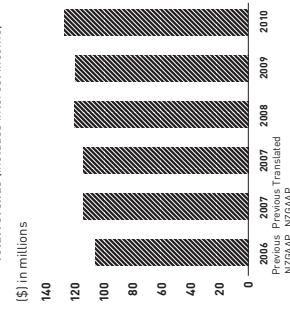
Remarkably, in the face of the global financial crisis, NIWA increased its revenue. In 2009–10, NIWA's total revenue was \$127.9 million (2009: \$120.4 million).

The proportion of NIWA's revenue from its main sources remains reasonably stable. Science staff had another successful year in winning public good science funding, with revenue rising from \$58.9 million in 2008–09 to \$65.6 million in 2009–10. Overall, this represented 51% of NIWA's revenue in 2009–10. This comprises contestable research funding from the Foundation for Research, Science and Technology (41%; \$53 million), and capability funding from the Ministry of Research, Science and Technology (10%; \$12 million).

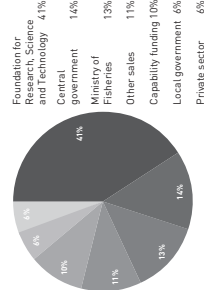
NIWA's second largest single source of revenue was contestable fisheries research contracts from the Ministry of Fisheries (13%; \$16.7 million). This year, NIWA recouped approximately \$2 million in lost revenue through a vessel charter postponed from 2008–09.

The remainder of NIWA's revenue (36%; \$45.4 million) largely consisted of commercial consultancy work. Commercial revenue was down on last year (\$44.8 million).

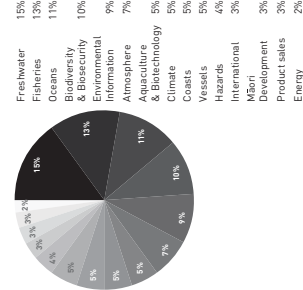
Total revenue (includes interest income)



Revenue by source



Revenue by national centre



Expenditure

Personnel

Our employees are fundamental to NIWA's earnings, and that is reflected in our investment in staff. Even though our overall staff numbers remained relatively static during 2009–10, the average remuneration per staff member continued to rise at a faster rate than New Zealand inflation. This is a very deliberate strategy. In line with the strategy to increase pay to staff during 2009–10, a salary increase of 3.5% was paid to all staff and additional monies were spent in specific areas to more closely align NIWA with market rates. Furthermore, in 2009–10 each eligible full-time equivalent staff member received a one-off, yet enduring, payment as a profit-share buy-back; this represented a further 3.6% increase in personnel costs.

Capital

2009–10 was the second of a planned three-year \$60 million capital expenditure programme designed to:

- strengthen infrastructure and equipment to rapidly advance NIWA's science
- improve the work environment and facilities for NIWA staff
- pursue commercialisation opportunities.

Despite the recession, the company has continued this investment. This year we spent a record \$30 million on capital items, including a high performance computing facility at NIWA Wellington and the beginning of the retro-fit work for RV *Tangaroa*.

Total asset base

Average shareholders' equity at 30 June 2010 totalled \$86.9 million (2009: \$84.5 million). Total average assets were \$121.4 million at 30 June 2010 (2009: \$114.6 million).

More information

The audited financial statements of the National Institute of Water & Atmospheric Research Ltd and Group for the financial year ended 30 June 2010 can be found on pp. 28–57 of NIWA's Annual Report 2010, or at www.niwa.co.nz/pubs/ar.

This financial summary is not part of NIWA's audited accounts. All figures here relate to the NIWA Group as a whole, unless otherwise stated.

On 1 July 2006, the Group changed its accounting policies to comply with the New Zealand International Financial Reporting Standards (NZ IFRS). Where applicable, we show the figures for 2006–07 both as originally reported (NZ GAAP) and “translated” according to the new standards.

Net surplus

This financial year the NIWA Group achieved a net surplus of \$4.5 million (2009: \$4.0 million) against a budgeted net surplus of \$4.9 million.

The result reflects NIWA's success in generating revenue, balanced against the relatively high fixed labour component of our cost structure and our decision to continue to invest for future growth (through major capital expenditure) despite tight economic times.

2010 includes \$2.2 million of unexpected taxation expense from the 2010 Government budget changes.

Dividend

NIWA has a track record of returning healthy dividends to its shareholder (the Government of New Zealand) without compromising investment in scientific research. Being two years through a major three-year capital expenditure programme, NIWA did not make a dividend payment in 2009–10.

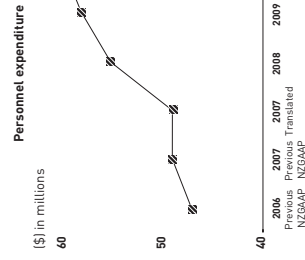
Profitability

NIWA continues to be a profitable company. Our return on equity this year was 5.2%. On the basis of comparable valuations to other Crown Research Institutes (CRIs), NIWA's return on equity was 7.0%. NIWA's return on equity based on underlying profit prior to adjustment for the 2010 Government budget changes for tax treatment was 7.6%. These results are in line with the expectations agreed with our shareholder.

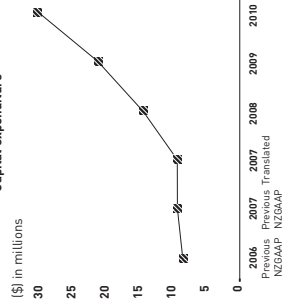
Liquidity

NIWA has healthy liquidity, with greater assets than liabilities, in line with budget expectations.

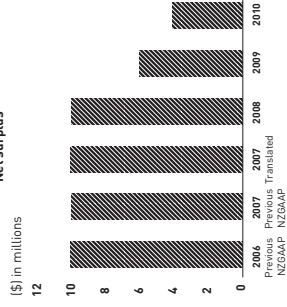
	2009–10	2008–09
Current ratio	0.9	1.2
Quick ratio	1.1	1.6



Capital expenditure



Net surplus



ORGANISATIONAL RESPONSIBILITY

“We are all committed to making a difference.”

Dr Barry Biggs, General Manager, Operations

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.

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.

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', and 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, hapū, 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 our customers' 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
- ongoing 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:

- using 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.

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new or improved products, processes, and services

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 use 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 that all sampling and experiments with live animals comply with the Animal Welfare Act 1999
- ensuring that all material waste production and water use is minimised and that we make maximum practical use of recycling and electronic media
- ensuring that energy consumption and 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 by 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.

1.6 million

external requests for information from our National Climate Archive

87

visits from overseas scientists

912

presentations on technical information and research results

948

hours of video conference

230

research collaborations with overseas organisations

PERFORMANCE AGAINST STATEMENT OF CORPORATE INTENT

Financial performance measures

NIWA continues to fulfil its financial obligations as specified in Section 5 of the Crown Research Institutes Act 1992. These are:

- 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.

	2009-10 Actual	2009-10 Target	2008-09 Actual
Revenue (total including interest income)	\$1,27.9M	\$119.2M	\$120.4M
Current ratio	0.9	0.9	1.2
Quick ratio	1.1	1.2	1.6
Adjusted return on equity (using valuation basis comparable to other CRIs)	7.0%	7.8%	9.8%
Return on average equity after tax	5.2%	5.7%	7.1%
Return on assets	7.8%	6.2%	7.5%
EBIT margin	7.4%	5.9%	7.1%

All figures in this table comply with the New Zealand International Financial Reporting Standards.

Non-financial performance measures

NIWA has a strong commitment to organisational responsibility, as outlined on pp.10-11.

Corporate commitment

Despite the worst international and domestic financial conditions since the 1930s, NIWA considered it essential to our organisation's purpose, and to our commercial value, that we stuck to our non-financial performance goals. In this environment, critical among these goals is our commitment to staff and to innovation. Both factors are at the heart of NIWA's products and services, and therefore are essential to our revenue.

	2009-10 Actual	2009-10 Target	2008-09 Actual
Corporate commitment			
Board reporting and communication of commitment, sustainability one of core values	\$473,806	An annual allocation of up to \$500k per year for sustainability initiatives	0.1%

External advice/services

Indicating the extent of the rise of public, institutional, and commercial interest in climate and water quality matters, demand for our free online data has had a massive increase.

The targets were raised last year after a tripling from the year before. But even this adjustment did not sufficiently anticipate the growth.

This year there were 1.6 million requests for data from our National Climate Database, 700 000 more requests than last year.

Even more astounding, there were 3.5 million requests for data from our water resources archive, an increase of over 4000% from last year.

There was a slight rise in demand for information from our marine invertebrate collection, from 63 last year to 87 requests this year. In addition, scientists working with the collection registered 13 550 new samples, modified 21 256 samples, and updated 6836 identifications.

	2009-10 Actual	2009-10 Target	2008-09 Actual
External advice/services			
External requests for information from our nationally significant databases and collections*	1.6 million	200 000	900 000
National Climate Database	3.5 million	80 000	84 500
Water Resources Archive	1938	1000	2217
NZ Freshwater Fish Database	87	150	63
Marine invertebrate collection and database			

* Measured for calendar year.

Science outputs and collaboration

This year, we achieved large increases in mission-critical and income-producing science outputs.

Commissioned reports continue to climb, up from 581 last year to 624 this year (seven percent increase). The number of peer-reviewed articles was also up to over 300.

Our staff gave 912 presentations on technical research, which is more than double the target. This reflects the effort of NIWA staff in varied interpretation and application of research and data.

Although we started the year looking to reduce operating costs, as revenue remained strong we approved more international travel by our scientists. The result was a total of 269 visits by our scientists overseas – against a target of 100.

The overseas profile matched an increase in the value of international consultancy contracts, which climbed to \$3.74 million from \$3.2 million last year.

The downside of increased practical application of research and increased interaction with the wider science and commercial community has been a reduction in the number of articles for magazines, trade journals and popular books.

Science outputs and collaboration (including international connectedness)

	2009-10 Actual	2009-10 Target	2008-09 Actual
Commissioned reports to users* - papers in trade journals, magazines, series, or books	624	400	581
Presentations on technical information and research results* - research monographs or books - popular books/articles - web-based publications	912	400	563
Publications on technical information and research results* - papers in trade journals, magazines, series, or books	66	150	177
- conference papers and abstracts	449	300	527
- research monographs or books	26	100	144
- popular books/articles	52	200	135
- web-based publications	20	20	33
Peer-reviewed articles*	304	260	349
Keynote and plenary presentations*	39	15	58
Client profile by revenue & national centre	See pp.8-9 of this Annual Report	No target set	See pp.8-9 of this Annual Report 2009

Client feedback
No survey undertaken in 2009-10
50% of clients observe an improvement in client relations with NIWA based on surveys of key sectors

Number of representations on international committees
Data no longer collected
50 organisations (60 staff)

Number of collaborative formal links with overseas organisations
230

Value of international consultancy contracts
\$3,744 m

Number of significant interactions with companies and industry boards in NIWA's key target sectors*
83%

- percentage of significant companies with which NIWA had meaningful interactions
70%

- percentage of significant companies with which NIWA was involved in decision making
24%

- percentage of significant companies providing revenue
70%

- number of positions on industry boards
>8

* Measured for calendar year.

Environmental responsibility

We have been improving the energy efficiency of our facilities and tools for almost a decade. The results have been heartening – keeping our energy use static even though our organisation's size and capability has increased. We may have reached the point where we have achieved practical maximum energy efficiency. The targets will now be much harder to reach, especially with the addition of productive tools such as our new supercomputer.

	2009-10 Actual	2009-10 Target	2008-09 Actual
Environmental responsibility			
Total greenhouse gas emissions for NIWA Science (vehicle fleet, gas, electricity) and vessels	11 810 tonnes CO ₂ e	Reduce total emissions (NIWA Science) to below 2006-07 levels by 2010, and reduce emissions for vessels to 2006-07 levels by 2010	10 195 tonnes CO ₂ e**
Total greenhouse gas emissions per FTE	16.9 tonnes/FTE	Reduce to 15.2 tonnes/FTE by 2010 and a 10% reduction by 2012 compared with 2006-07	15.2 tonnes/FTE**
Hours of video conference	948 hours	>300 hours per year	740 hours
Energy efficiency (kWh/m ²) of research buildings (compared to best in class standard)	242 kWh/m ²	Improve energy efficiency of buildings by 5 kWh/m ² by June 2010	294 kWh/m ²
Energy consumption per FTE	12 860 kWh/FTE	Reduction of energy consumption per FTE by 10% by 2012 compared with 2006-07	14 797 kWh/FTE**
Recycling and solid waste production	Data not available	20% reduction in solid waste and paper usage by 2010 compared with 2003-04	103 kg/FTE all recycling and 168 kg/FTE solid waste
Number of staff using alternative modes of transport	No survey undertaken	>50% by 2010	Wellington staff – 66% travel to work using sustainable means more than three times/week

Number of staff who believe sustainability is core to the NIWA ethos (permanent and fixed term)
47.4%

Total staff FTEs
699.96

Number of staff who believe sustainability is core to the NIWA ethos (permanent and fixed term)
650

Total staff FTEs (permanent and fixed term)
712.2

** Figure adjusted since first reported to enable year-on-year comparisons.

PERFORMANCE AGAINST STATEMENT OF CORPORATE INTENT

Social and cultural responsibility

Under direct pressure and threat from economic conditions we could have cut permanent staff numbers as many other New Zealand organisations did. As a caring employer, keeping staff is one of our highest priorities. So we first chose to cut other costs - which staff embraced bravely. As a result, staff turnover was only 5.3%. This was less than half our target, less than last year, and up to four times less than the national average. Given the critical importance of staff to our capability, it was pleasing that turnover among key staff was less than 1% - against a target of less than 5%.

Staff composition	2009-10 Actual	2009-10 Target	2008-09 Actual
529 in research	260	230	536 in research teams
39 in research support	40	33	33 in research support
182 other	110	110	179 other
Total - 750	410	373	Total - 748
10 Postdocs	20	20	10 Postdocs
20 in staff	20	20	20 in staff
Term staff	20	20	Term staff

Achievement of a desirable work-life balance
 Latest survey shows that 57.1% of staff are able to maintain a balance between their personal and working lives
 76% see themselves working for NIWA in 12 months' time
 Value of financial benefits received by staff \$2.75 m
 No target set

Staff turnover - key staff	5.34%	<12%	6.3%
Number of new jobs created - rural areas	0	5	0
Staff development - staff with personal development plans	19	10	27
- staff days allocated to personal development	0	5	0

91% of staff have an individual Development Plan in place
 Average training leave taken = 7 hours per employee
 400
 439 days

Lost time from injuries/accidents	0.009%	<0.03%	0.014
Number of incident/near-miss reports	55	<90	77
Number of noho marae attendees	20	60	59

Education

Supervising PhD and MSc students is an important contribution to the science sector and safeguards our own interest in access to qualified local staff. Therefore we committed to 75 students this year, 25 more than the target. This is a healthy sign for the science community.

Education	2009-10 Actual	2009-10 Target	2008-09 Actual
PHD and MSc students supervised	60 PhD 15 MSc	50	52
Scholarships awarded	3	10	10
Number of external training courses run	7	10	9

Innovation

NIWA integrates innovation into the daily work of all staff, not only our commercialisation team. This year we created 25 new products, identified 59 totally new commercially saleable processes, and created 105 new services to offer to the market.

As we increase our pool of products and processes we hope to continue with this year's record number of licensing arrangements.

Innovation	2009-10 Actual	2009-10 Target	2008-09 Actual
Patents granted*			
- in New Zealand	0	1	0
- overseas	0	1	0
Licensing arrangements entered into*	12	2	3
New or improved products, processes, and services	Total new products - 25 Total new processes - 59 Total new services - 105	10	Total - 135
Grand total	189		

Joint ventures or formal associations
 Spin-out companies formed*
 Spin-off companies formed*
 5
 0
 0

* Measured for calendar year.



CAPABILITY FUNDING

Capability funding is provided to Crown Research Institutes (CRIs) through the Ministry of Research, Science and Technology to support and enhance long-term research capability.

Each CRI's capability funding is based on its proportion of the total government research investment. In 2009–10, NIWA received \$12.27 million (excluding GST) from this source, down from \$10.53 million in 2008–09.

Over the past year we have devoted more funds to supporting our existing expertise and programmes, while maintaining or trimming funds in other categories.

	2009–10 \$ '000 (excl.GST)	%	2008–09 \$ '000 (excl.GST)	%
Support core skill bases	4,951	40	1,879	18
Advance new areas of science & innovation	4,312	35	4,092	39
Transfer knowledge to end-users	1,498	12	1,610	15
Build future research capacity	770	7	2,014	19
Bridge the gap between research & commercialisation of new products	756	6	939	9
Total	12,267		10,534	

Fisheries – development of the CASAL model

Getting a measure of the size of fish stocks is essential to ensuring New Zealand's fishing resources are managed sustainably into the future.

NIWA's CASAL is a highly advanced software package developed to assess New Zealand's fish stocks. By modelling the age structure of fish from catch and survey data, CASAL can estimate both the size and productivity of fish populations, and use these to predict future stock levels.

And although most computer models can cope only with simplified data, CASAL's 'integrated modelling approach' allows a much larger range of observations to be combined within a single model, producing a better informed stock assessment. CASAL also explicitly includes assumptions of uncertainty which can be used to evaluate and compare risks in determining future catch limits.

CASAL is being used for more than a dozen species across New Zealand, including hoki, hake, ling, oreo, orange roughy, and Foveaux Strait oysters. It has also been used to assess the stocks of Antarctic toothfish in the Ross Dependency and to assess Patagonian toothfish around both Heard Island and South Georgia.

“Capability funding is helping us preserve vital research capability and build New Zealand’s economic future.”

Dr Rob Murdoch, General Manager, Research

Capabilities maintained, enhanced, or developed with Capability Fund, 2009–10

Areas of nationally recognised expertise	Forecast	Achievements
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 Tested novel wetland contaminant treatment methods for urban stormwater Support skills in urban contaminant transport and green technology treatment 	<ul style="list-style-type: none"> Assessed nutrient and ecosystem management tools for improving water quality with Environment Canterbury Included nutrient mitigation measures in catchment models Tested novel wetland contaminant treatment methods for urban stormwater
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"> Hydrodynamic model and sedimentation dynamics studies with Auckland and Northland regional councils Study on sediment dynamics of central North Island coastal harbours completed Biogeochemical models developed for regions of marine farm growth and diversification
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"> Supported development of hydrodynamic modelling code and ocean colour algorithms Completed analysis on tides, ocean chemistry and undersea volcanism Contributed to Crown Minerals gas hydrate study
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"> software upgraded and tested for catch per unit effort, catch at age analysis and random station management 15 papers published in refereed journals Participated in Ministry of Fisheries Aquatic Environment research planning and ecological risk assessments
Māori Development	<ul style="list-style-type: none"> Build Māori research capability through supporting publication of Māori based research in the scientific literature Enhance capability in science transfer to iwi through recruitment of appropriate skills in freshwater and mātauranga Māori Assess opportunities in new species aquaculture as a result of iwi settlements and RMA changes Strengthen the links between NIWA and Māori, through the provision of support tools, training courses, and targeted research projects 	<ul style="list-style-type: none"> 2 papers published on traditional knowledge and climate change, hazards and resources 3 joint training wānanga with hapū on tuna management, and iwi liaison person recruited Assessment report and business model developed for finfish culture in Tai Tokerau iwi estuarine health toolkit and water balance framework for catchment management developed with iwi
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"> New techniques developed for in-situ exposure measurements for transport and domestic environments Micro-meteorological techniques developed to assess farm greenhouse gas flux
Energy	<ul style="list-style-type: none"> Maintain and enhance energy-scale 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"> Modelling applied to business-as-usual and oil constrained scenarios High resolution fluid flow model added to weather model to forecast wind-farm scales
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"> Provide briefings to Ministers and government agencies on climate change science 15-day climate forecasts and evaporation information provided for irrigation modelling Enhance weather-generator models for use in regional climate projections
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"> Integrated hazard forecast models initiated on new IBM super computer Linked weather and climate models to catchment models to forecast water availability
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 metadata on NIWA's monitoring systems to stakeholders 	<ul style="list-style-type: none"> 11 sea-level sites and 3 coastal buoys supported Prototype system developed and trialled by field teams New system for web access to metadata developed
Aquaculture & Biotechnology	<ul style="list-style-type: none"> Maintain finfish broods stock 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"> Hapuku and Kingfish broodstock enhanced Hapuku growth trials in sea cages completed Culture feasibility of butterfish assessed Scalable disease management techniques for juvenile fish culture documented
Aquatic Biodiversity & Biosecurity	<ul style="list-style-type: none"> Maintain freshwater biodiversity and biosecurity capability at risk from declining research time Support the upgrade of the River Environment Classification to ensure its integrity for ongoing use Develop skills in control techniques for bio-incursions Improve web access to data and identification guides 	<ul style="list-style-type: none"> Researched native fish biosystematics and new pest fish control techniques Updated information database used to support classification system Post-graduates supported to research control of two invasive sea squirts New guides for marine algae and invertebrates and specimen collection access available via the web

New fish health and nutrition trial units

Management of fish health is crucial to the future success of our aquaculture industry. As NIWA scientists work to breed high-value native finfish such as hapuku and yellowtail kingfish in captivity, a key part of that work is keeping them healthy.

NIWA has constructed and commissioned two new research units to provide future support and R&D capability to the New Zealand aquaculture sector as it diversifies and develops.

The first is a commercial scale nutrition trials unit at Bream Bay Aquaculture Park near Whangarei, set up to investigate such things as growth potential, feed conversion efficiency and nutrition trials to test new ingredients for aquafeeds.

Our newest unit, a fish health investigation and challenge facility at our Greta Point campus in Wellington, is designed to safely contain and study fish health and any issues involving their wellbeing. To support this unit we have a suite of microbiological and molecular (including genetical) tools allowing us to isolate and identify the causes of farmed fish health issues.

Each unit is directly engaged with companies servicing our existing aquaculture sector and also employed addressing aspects of our research under our FRST Programmes for High Value Aquaculture Species, High Performance Aquaculture Broodstock, and Sustainable Aquaculture programmes.

Land and Water Forum tech transfer

The Government's Land and Water Forum is a body of almost 60 organisations that hold a stake in issues relating to the interactions with land and freshwater.

Its mandate is to:

- conduct a stakeholder-led collaborative process to recommend potential reform of the nation's freshwater management
- identify shared goals and outcomes for freshwater
- identify the options to achieve these.

The year-long process that has been run through the Forum has involved the cultural, environmental, social, and economic aspects of New Zealand's freshwater resources and there was an early recognition that science and knowledge would underpin many of the discussions.

As the country's leading research provider in freshwater, NIWA has played a role as a science advisor to the Forum throughout and also hosted a multi-agency water science workshop for Forum members.

BOARD OF DIRECTORS



Dr Wendy Lawson

Dr Wendy Lawson is a glaciologist with a particular interest in the impacts of climate change and Earth systems. She has more than 25 years of remote field science experience in Arctic, Antarctic, and alpine regions. She is Head of the Department of Geography and Professor at the University of Canterbury, and serves on the Board of the Antarctic Research Centre at Victoria University.

Ed Johnson

Ed Johnson, FInstD, is Chair of Fulton Hogan Ltd, Goldpine Industries Ltd, Indevin Ltd and Port Marlborough New Zealand Ltd, and a director of several entities. He retired as Chairman and CFO of Shell New Zealand in 2002. In 2001, Ed became the inaugural Honorary Fellow of Massey University's Centre for Business and Sustainable Development and was made a Fellow of the New Zealand Institute of Directors in 2003.

John Morgan (Chief Executive)

John joined NIWA as CEO in April 2007. He has extensive senior executive and governance experience in the science sector, including as CEO of AgriQuality Ltd, Executive Director of Orica New Zealand Ltd, and Chairman of New Zealand Pharmaceuticals Ltd. John is passionate about the role science can play in contributing to the prosperity of New Zealand's economy and environment. John is also currently Chairman of Science New Zealand.

Dennis Cairns

Dennis Cairns farms a hill property in Southland. He has held management positions in the mercantile and meat industries and currently holds directorships on several private companies. Dennis was Board member and Chair of the Southland District Health Board from 2001 until 2008. He was also an executive member and Chair of DHBNZ before joining the NIWA Board.

Helen Robinson

Helen is the Global Managing Director, Environmental Markets, for Markit Group Ltd, a financial services organisation headquartered in London. Helen has led many technology companies over the past 20 years, including as CEO of Microsoft, NZ and as Vice President of APAC, Pivotal Corporation. Her directorships include NZ Business Excellence Foundation, Auckland Plus, and MGL Services NZ.

Chris Mace (Chairman)

Chris Mace is an Auckland-based businessman. He chaired the Crown Research Institute ESR in the 1990s and later, Antarctica New Zealand. He was a founding trustee of the Sir Peter Blake Trust and continues as a trustee of the Antarctic Heritage Trust. Chris was awarded a CNZM for services to Antarctica and the community and was appointed Chairman of NIWA in July 2009.

Jason Shoebridge

Jason Shoebridge is the Managing Director of TNS New Zealand. Jason has led consulting assignments across a range of industries and disciplines in New Zealand and overseas. Prior to his consulting career, Jason held a number of senior commercial and financial management roles internationally and in New Zealand in large corporates, as well as with an international chartered accounting firm.

Craig Ellison (Deputy Chairman)

Craig Ellison is a director on several boards, including New Zealand Trade & Enterprise, as well as chairing the New Zealand Seafood Standards Council, Dunedin born and bred, Craig now lives in Wellington but also has commercial interests in Australia. He was deeply involved in the settlement of Māori commercial fisheries claims and maintains an interest in Māori governance structures and resource management.



REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The directors take pleasure in presenting the National Institute of Water & Atmospheric Research Ltd (NIWA) and Group (NIWA Group) Annual Report for the financial year ended 30 June 2010.

Business activities

The NIWA Group provided scientific research and consultancy services in New Zealand and overseas during the financial year. In New Zealand, services were provided to the Foundation for Research, Science and Technology, the Ministry of Fisheries, and a range of other public and private sector customers. Internationally, services were provided by NIWA and its subsidiaries to public and private sector customers predominantly in the USA and Australia.

Results

This financial year the NIWA Group achieved a net surplus of \$4.5 million (2009: \$6.0 million) against a budgeted net surplus of \$4.9 million. This was achieved on a turnover of \$127.9 million (2009: \$120.4 million), against budgeted revenue of \$119.2 million. Average shareholders' equity at 30 June 2010 totalled \$86.9 million (2009: \$84.5 million). Total average assets were \$121.4 million at 30 June 2010 (2009: \$114.6 million).

Group actual performance versus Statement of Corporate Intent (SCI)

	Actual 2010 \$ '000	SCI 2010 \$ '000	Actual 2009 \$ '000
Total revenue (includes interest income)	127,917	119,234	120,438
Operating expenses, depreciation, and amortisation	118,240	112,141	111,353
Operating surplus before tax	9,550	6,517	9,050
Net surplus	4,497	4,862	6,011
Average total assets	121,374	114,827	114,559
Average shareholders' funds	86,890	84,991	84,465
Profitability			
EBIT margin (%) (EBIT/revenue)	7.4	5.9	7.1
Adjusted return on average equity after tax (%) (net surplus/adjusted average equity)	7.0	7.8	9.8
Return on average equity after tax (%) (net surplus/average equity)	5.2	5.7	7.1
Return on assets (%) (EBIT/average total assets)	7.8	6.2	7.5
Liquidity and efficiency			
Current ratio	0.9	0.9	1.2
Quick ratio	1.1	1.2	1.6
Financial leverage			
Debt to average equity (%)	44	36	36
Gearing (%)	6	12	1
Proprietorship (%) (shareholders' funds/total assets)	72	73	74

Donations

Donations of \$8,677 were made during the year (2009: \$8,180).

Dividends

No dividend payments (2009: \$5.6 million) were made to the Government of New Zealand (the Crown) as the sole shareholder.

Directors

The appointments of Christopher Mace and Jason Shoebridge to the Board of Directors on 1 July 2009 were the changes to the Board of Directors for the year ended 30 June 2010.

Auditors

In accordance with Section 21(1) of the Crown Research Institutes Act 1992, the auditors, Deloitte on behalf of the Auditor-General, continue in office. Their audit remuneration and fees paid for other services are detailed in note 5 of the Notes to the Group Financial Statements.

Interests register

The following are transactions types recorded in the interests register for the year.

Parent and subsidiary companies

Interested transactions

Any business the NIWA Group has transacted in which a director has an interest has been carried out on a commercial 'arms-length' basis. Any potential conflict is recorded and minuted in Board meetings.

Directors' remuneration

Details of the directors' remuneration are provided in the remuneration of directors section of the corporate governance statement.

Use of company information by directors

Pursuant to Section 145 of the Companies Act 1993 there were no recorded notices from directors requesting to use company information received in their capacity as directors that would not otherwise have been available to them.

Share dealings

During the year no director purchased, disposed or had recorded dealings of any equity securities of the NIWA Group.

Directors' loans

There were no recorded loans by the NIWA Group to any director.

The directors are pleased with the state of affairs of the NIWA Group.

For and on behalf of the Board:



Christopher Mace
Chairman
27 August 2010



Craig Ellison
Director

Statement of responsibility

The following statement is made in accordance with Section 155 of the Crown Entities Act (2004).

- The Board of the company is responsible for the preparation of these financial statements and the judgements used therein.
- The Board of the company is responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.
- In the opinion of the Board, these financial statements fairly reflect the financial position and operations of the National Institute of Water & Atmospheric Research Ltd and Group for the year ended 30 June 2010.



Christopher Mace
Chairman
27 August 2010



Craig Ellison
Director

CORPORATE GOVERNANCE STATEMENT

Approach and principles to corporate governance

We strongly believe as a company and as a Board of Directors (‘the Board’) that corporate governance is of fundamental importance no matter what the economic or financial climate.

Doing the right things for our shareholders and stakeholders by applying our highest standards to ensure compliance is not an exercise in ticking boxes.

We strive for continuous improvement to ensure we achieve full and fair transparent disclosure to the public, stakeholders, and shareholders so they are provided with relevant, reliable, and complete information.

Our corporate governance deals with how the NIWA Group is directed and controlled to ensure good ethical behaviour and promote shareholders’ interests in a sustainable way. In particular, corporate governance applies to the role of the Board and the need to ensure a framework of effective accountability and transparency.

Our key elements of effective governance are:

- an **effective board** that has a balance of independence, skills, knowledge, experience, and perspectives
- input to the company’s **strategic approach and direction**
- a proactive **audit and legislative committee** with an emphasis on internal audit
- a **remuneration committee** that promotes transparency, fairness, and reasonableness;
- a sound **internal control framework**
- a relevant **code of conduct** to promote our responsible ethical behaviour
- clear, enforced **policies and procedures** which include a delegated authority framework
- **effective management of risk**
- independent, effective **external auditors**
- transparent **disclosure and effective communication** with the public, our shareholders, and our stakeholders.

The NIWA Group is a Crown Research Institute, established under the terms of the Crown Research Institutes Act 1992 and the Public Finance Act 1989, and all shares are held by the Minister of Finance and the Minister of Research, Science and Technology on behalf of the Crown.

The Board’s authority and accountability is based upon the two acts noted above and the Statement of Corporate Intent (SCI). The SCI is produced annually, and sets out the Board’s strategic objectives, specific goals, and performance targets. The SCI is submitted to the Shareholding Ministers for acceptance.

For Crown Research Institutes, the Crown Ownership Monitoring Unit (COMU) issues an ‘Owner’s expectations manual’ to assist boards to operate efficiently in their roles and to clarify their responsibilities. In particular it takes account of expectations of the board members of a company owned by the Crown, as opposed to private or publicly listed companies. The manual focuses on governance, reporting, and their role and responsibilities in general rather than operational activities.

We are committed to ensure that best practice governance principles and ethical standards are upheld and applied consistently. This governance statement outlines the main corporate governance practices as at 30 June 2010. Unless otherwise stated, they reflect the over-arching practices in place throughout the financial year ending on that date.

Key elements of effective governance

An effective board has a balance of independence, skills, knowledge, experience, and perspectives.

Board composition and activity

Shareholding Ministers appoint Board members under the Crown Entities Act 2004 and the Board are required to meet the same obligations as directors of private sector companies.

Board directors are selected and appointed on the basis of their skills and experience. Additionally the balance of these skills and experience is required to match the strategic direction and needs of the NIWA Group.

Appointment of directors is for a term of up to three years.

Directors may be reappointed for a second term of up to three years, although this is not automatic, with Ministers basing their decision on the Group’s needs. Both the Chair and Deputy Chair are appointed by the Shareholding Ministers.

During the financial year ended 30 June 2010, the Board comprised seven independent non-executive directors (including the Chair). The directors’ profiles are presented on page 18. Board meetings are held monthly. The Board met formally twelve times during the financial year.

Membership and attendance

Director	Date of appointment	Appointment term expires	Board	Audit Committee	Remuneration Committee
Ed Johnson	9 June 2005	30 June 2011	12	5	1
Dennis Cairns	1 July 2008	30 June 2011	11	5	1
Helen Robinson	1 July 2008	30 June 2011	11		1
Wendy Lawson	1 July 2006	30 June 2012	10		1
Christopher Mace (Chairman)	1 July 2009	30 June 2012	12	5*	1
Jason Shoebridge	1 July 2009	30 June 2012	12		1
Craig Ellison (Deputy Chairman)	1 July 2007	30 June 2013	12	5	1

* The Chairman is an ex-officio member of the Audit Committee.

Membership of subsidiary Boards

Director	NIWA Vessel Management Ltd	NIWA Australia Pty Ltd	NIWA Environmental Research Institute	Unidata Pty Ltd
Christopher Mace	v*	v*	v*	v*
Craig Ellison	v	v	v	v
Dennis Cairns	v	v	v	v
Ed Johnson	v	v	v	v
Helen Robinson	v	v	v	v
Jason Shoebridge	v	v	v	v
Wendy Lawson	v	v	v	v
Bryce Cooper [†]				v
David Saunders [‡]				v
Kate Thomson [†]				v*
Matt Saunders [‡]				v

* Chairman.

[†] Director representing minority interest.

[‡] Management members of the parent company.

[§] Management member of Unidata Pty Ltd.

CORPORATE GOVERNANCE STATEMENT

Responsibilities of the Board and management

The Board of the NIWA Group are responsible for managing the business and the affairs of the Group as stated within the Companies Act.

The NIWA Group is a Crown entity and the Board differs in some respects from a board of a privately owned company. For example, all operation decisions must be in accordance with the company's SOI.

The responsibilities of the Board include but are not limited to:

- establishing objectives
- reviewing and approving major strategies for achieving objectives
- managing risks
- reviewing and approving capital investments
- ensuring compliance with statutory requirements
- providing leadership in the relationship with key stakeholders
- determining the overall policy framework within which the business is conducted
- establishing appropriate governance structures
- monitoring management's performance with respect to these matters.

The Board delegates management of the day-to-day affairs and management responsibilities of the NIWA Group to the Chief Executive Officer (CEO) who, with the support of his executive team, delivers the strategic direction and goals determined by the Board. A formal delegations authority framework establishes the operational and expenditure delegations within which the CEO must operate.

Director development

A sector-specific induction programme is conducted for all new directors by COMU. A formal induction into all aspects of the NIWA Group is provided by the Chair and management representatives.

All directors are responsible for keeping up to date their knowledge of the legal and professional duties of Board members.

Ongoing professional development is agreed between the directors and the Chair as part of the annual review process.

Directors' insurance

The NIWA Group has arranged policies for directors liability insurance which, with a deed of indemnity, ensures that generally directors will incur no monetary loss as a result of lawful actions undertaken by them as directors. Certain actions are specifically excluded; for example, incurring penalties and fines which may be imposed in respect of breaches of the law.

A proactive audit and legislative committee with an emphasis on internal audit

Audit and Legislative Compliance Committee (Audit Committee)

The Audit and Legislative Compliance Committee is a sub-committee of the Board. During the financial year, the Audit and Legislative Compliance Committee comprised three members of the Board and met formally five times with the NIWA Chair as an ex-officio member.

Four main principles underlie the effectiveness of the Audit Committee:

- independence – all of the members are independent of the executive team, therefore they are able to provide objective and impartial advice
- competence – the members have the required skills and experience to serve on the committee
- clarity of purpose – the role and purpose of the committee is clearly defined and linked to risk management
- open and effective relationships – the committee believes in and encourages open and transparent communication with all management, employees, stakeholders, and internal and external auditors.

The core responsibilities of the Audit Committee include:

- legislative and regulatory compliance
- the risk management framework
- the internal control environment
- internal audit and assurance
- external audit
- financial reporting.

Our Audit Committee is enhanced by regular scheduled meetings, with prearranged dates and written agendas, papers, and minutes which incorporate an action list.

A Remuneration Committee that promotes transparency, fairness, and reasonableness

The Remuneration Committee is comprised of all Board members.

The Remuneration Committee reviews the remuneration policies applicable to the Chief Executive Officer on an annual basis and makes recommendations on remuneration packages and terms of employment to the Board. The Remuneration Committee also ratifies the remuneration packages of the direct reports to the Chief Executive Officer.

Remuneration packages are reviewed with due regard to performance and other relevant factors.

Directors' remuneration is annually reviewed and approved by the Shareholding Ministers. Remuneration is set at levels that are fair and reasonable in a competitive market for the skills, knowledge, and experience required by the NIWA Group.

Primarily the annual review is a tool to help boards to analyse their performance and identify any areas where performance could be improved. The review assists to provide input into the Chair's succession planning and identification of director training needs.

Boards are additionally reviewed as a whole through a set of performance measures on an ongoing basis.

Directors' remuneration received or due and receivable during the year is:

Parent	2010 \$ 000	2009 \$ 000
Directors of the National Institute of Water & Atmospheric Research Ltd		
Christopher Mace (Chairman) (appointed 1 July 2009)	72	–
Craig Ellison (Deputy) (Chairman)	45	45
Dennis Cairns	36	36
Ed Johnson	36	36
Graham Hill (resigned 30 June 2009)	–	36
Helen Robinson	36	36
Jason Shoebriegel (appointed 1 July 2009)	36	–
Sue Suckling (resigned 30 June 2009)	–	72
Wendy Lawson	36	36

No fees were paid in respect of directors of the subsidiaries NIWA Vessel Management Ltd, NIWA Environmental Research Institute, NIWA Australia Pty Ltd, NIWA Natural Solutions Ltd, EcoConnect Ltd, and Unidata Pty Ltd, other than those shown above.

Remuneration of employees

The NIWA Group aims to provide a skills-influenced remuneration system that rewards people appropriately, recognising contribution to the business and individual performance.

Our remuneration system supports our business plan and values:

- we have the right people
- we produce high quality science
- we challenge and reward staff.

Our remuneration system will continue to be upgraded and reviewed as required to meet the NIWA Group's and employees' needs.

Remuneration packages for all employees are reviewed with due regard to performance and other relevant factors.

The numbers of employees (not including directors) whose total remuneration exceeded \$100,000 is:

Group	2010	2009
\$		
100,000–109,999	35	36
110,000–119,999	23	17
120,000–129,999	14	12
130,000–139,999	10	6
140,000–149,999	3	3
150,000–159,999	3	3
160,000–169,999	5	2
170,000–179,999	2	3
180,000–189,999	3	4
190,000–199,999	4	–
200,000–209,999	2	–
210,000–219,999	–	1
220,000–229,999	–	1
230,000–239,999	1	–
250,000–259,999	1	–
260,000–269,999	–	1
270,000–279,999	2	1
550,000–559,999*	1	1

* Chief Executive Officer's remuneration band.

A sound internal control framework

An internal control framework is essential to ensure that there are controls in place to mitigate significant business risk. The internal control framework is embedded across the NIWA Group and is clearly understood and reinforced by management through the documented policies and procedures which are regularly reviewed.

The framework is effective in ensuring:

- compliance with laws and regulations
- that all transactions are properly accounted for to allow the preparation of the financial statements
- that assets are safeguarded against improper or unauthorised use.

CORPORATE GOVERNANCE STATEMENT

A relevant code of conduct to promote our responsible ethical behaviour

The reputation and standing of the NIWA Group is determined to a large degree by public perception of the conduct of its staff (including the Board and management). We promote the highest standards of integrity, discretion, and ethical conduct.

The NIWA Group encourages staff to:

- perform to the best of their ability, and be committed to a high quality of work performed in a safe manner
- take the initiative and be creative in resolving problems, seeking improved productivity, and responding to opportunities within areas of responsibility
- make decisions and be responsible for those decisions and the actions that flow from them
- be supportive of their work teams
- treat staff and equipment with care and respect.

It is expected that managers will guide staff in accordance with management's philosophy, policies, and standards.

In making decisions about conflicts of interest, management are guided by the concepts of integrity, honesty, transparency, openness, independence, and good faith. Situations may not be clear-cut, and judgement is exercised when necessary on a case-by-case basis.

Both employees and directors must disclose any financial, professional, or personal interests (direct or indirect) that may create a conflict with the NIWA Group's interests. We expect our employees and directors to be open and honest with disclosures.

Clear, enforced policies and procedures which include a delegated authority framework

The effectiveness of the NIWA Group's governance system relies on the defined 'rules' in which the NIWA Group operates. A comprehensive set of policies and procedures is located on our intranet which all employees have access to. It is important that these are documented, accessible, understood, and enforced, as they create the foundation of right and wrong in our business processes and activities. The policies and procedures are reviewed on a regular basis to ensure new developments and processes are reflected.

Effective management of risk

Risk-averse governance is not necessarily good governance.

Effective risk management is the key to success. Each director requires a clear understanding of the current and potential risks the NIWA Group may be exposed to, especially in the ever-changing economic environment.

Risk management has been incorporated into the normal business processes of the NIWA Group, with practices such as business planning and budgeting, operational management, and project management. Appropriate processes are regularly verified by the Board to identify and manage potential and relevant risks.

The Board reviews the delegations authority framework which sets authorities for operational and expenditure delegations, including authority for undertaking treasury activities of the NIWA Group. Regardless of the terms of the delegated authority, ultimate responsibility rests with the Board.

The Audit Committee receives reports on internal audit and risk management reviews. The committee also meets with the external auditors to discuss findings and management's comments from the annual audit.

Independent, effective, external auditors

The appointment of auditors to conduct statutory audit work, and the annual audit fees, are approved annually by the Auditor-General.

The Board and the auditors are jointly responsible for ensuring that the audit is conducted with independence, integrity, and objectivity.

Rotation of audit partners promotes independence and objectivity. Audit partners are rotated every six years; the 2007-08 and 2008-09 years had an audit partner change.

To ensure the independence of the external auditors, NIWA does not consult the external auditor for tax or management related services and takes care not to make use of the external auditors for any work which they may need to evaluate as part of the external audit.

Transparent disclosure and effective communication with the public, our shareholders, and our stakeholders

Effective communication underpins the trust relationship among the shareholders, the Board, management, and stakeholders.

As expressed in the owner's expectations manual, all Crown entities should engage with stakeholders to assist with the Government's industrial, environmental, and social development objectives, particularly for science and innovation to raise productivity and add value. To achieve this we build on existing knowledge, develop new knowledge, and transfer this knowledge for the benefit of New Zealand.

Details of how the NIWA Group transfers our knowledge to the public, end users, and our peers, are contained within the non-financial performance measures section. Examples of this transfer of knowledge include the access of information on our free databases, presentations of work from scientists to users and peers, reports to users, and sponsorships of various science fairs.

Our direct customers are those who fund our research and applied science services. The Government is our largest customer, but we also conduct research for, and provide advice and information to, many others, ranging from international conglomerates to local commercial fishers and schools.

Most of our research and applied science is aimed at addressing issues which are relevant to the general public – the sustainability of our society and civilisation.

Each year an operating framework is issued to Crown Research Institutes and is the cornerstone document in which Shareholding Ministers communicate their yearly expectations.

From the operating framework, the Board develops a Statement of Corporate Intent (SCI) which Shareholding Ministers need to approve before it is tabled in Parliament and becomes a public document. Shareholding Ministers are then accountable for the performance against the SCI to Parliament.

The NIWA Group reports quarterly against its SCI to the COMU, yearly to Treasury, and half-yearly and yearly reports are generated for shareholders and stakeholders.

The NIWA Group reports annually to Parliament on its performance in its half-yearly and annual report. Quarterly progress reports are also prepared for Shareholding Ministers and performance is measured against the objectives in the SCI. This continuous disclosure is a major contributor to the high standard of information provided to our shareholders.

Governance achievements

The internal audit function has grown from its infancy when it was first introduced in 2007-08 to delivering four robust and clear reports to the Audit Committee throughout 2009-10.

A thorough and robust banking facility review was completed during the 2009-10 year with a full tender process conducted. This resulted in a preferred institution being awarded NIWA's banking arrangements and provided NIWA with assurances that our expectations and requirements would continue to be exceeded.

During the 2009-10 year the delegated authorities document was completely revised, reviewed, and reconfigured to ensure the document met NIWA's requirements for all revenue, expenditure, and contract authorisation.

Our employees are the core ingredient of NIWA's success. Interactions between staff and the Board are valuable in assisting the Board to remain up to date with our science, people, and activities. By holding Board meetings and luncheons at NIWA Group's various locations, the Board's visibility has increased.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2010

In thousands of New Zealand dollars	Notes	Group 2010 Actual	Group 2010 Budget	Group 2009 Actual	Parent 2010 Actual	Parent 2009 Actual
Revenues and other gains	4					
Public good science and technology						
Contract funding		53,379	51,760	48,349	53,379	48,349
Capability Fund		12,267	12,267	10,534	12,267	10,534
Ministry of Fisheries		16,682	16,018	14,121	16,682	14,121
Commercial		45,394	39,189	46,751	37,641	39,786
Other gains		13	-	193	13	190
Total income		127,735	119,234	119,948	119,982	112,980
Operating expenses	5					
Employee benefits expense		(60,939)	(57,874)	(57,345)	(56,610)	(52,144)
Other expenses		(42,623)	(39,604)	(41,989)	(47,496)	(44,864)
		(103,562)	(97,478)	(99,334)	(102,106)	(97,008)
Profit/(loss) before interest, income tax, depreciation, and amortisation		24,173	21,756	20,614	17,876	15,972
Depreciation and impairment	16	(13,674)	(14,428)	(11,355)	(11,612)	(9,985)
Amortisation	18	(984)	(235)	(464)	(953)	(417)
Profit/(loss) before interest and income tax		9,495	7,093	8,595	5,311	5,570
Interest income		182	-	490	154	481
Finance expense		(127)	(576)	(35)	(92)	(111)
Net interest and other financing income	6	55	(576)	455	62	470
Profit/(loss) before income tax		9,550	6,517	9,050	5,372	6,040
Income tax credit/(expense)	7	(2,838)	(1,655)	(3,039)	(1,640)	(1,921)
Income tax credit/(expense) relating to the 2010 Budget changes	7	(2,215)	-	-	(2,319)	-
Profit/(loss) for the period		4,497	4,862	6,011	1,394	4,119
Other comprehensive income						
Foreign currency translation differences for foreign operations		(32)	-	23	-	-
Total comprehensive income for the period		4,465	4,862	6,034	1,394	4,119
Profit/(loss) attributable to:						
Parent interest		4,470	4,909	5,993	1,394	4,119
Non-controlling interest		27	(47)	18	-	-
Profit for the period		4,497	4,862	6,011	1,394	4,119
Total comprehensive income attributable to:						
Parent interest		4,438	4,809	6,016	1,394	4,119
Non-controlling interest		27	(47)	18	-	-
Total comprehensive income for the period		4,465	4,862	6,034	1,394	4,119

The accompanying 'Notes to the financial statements' are an integral part of, and should be read in conjunction with, these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2010

Group in thousands of New Zealand dollars	Notes	Share capital	Retained earnings	Non-controlling interest	Foreign currency translation reserve	Total equity
Balance at 1 July 2008		24,799	59,399	49	26	84,273
Profit for the year		-	5,993	18	-	6,011
Translation of foreign operations		-	-	-	23	23
Total comprehensive income		-	5,993	18	23	6,034
Dividends to equity holders	8	-	(5,649)	-	-	(5,649)
Balance at 30 June 2009		24,799	59,743	67	49	84,658
Balance at 1 July 2009		24,799	59,743	67	49	84,658
Profit for the year		-	4,470	27	-	4,497
Translation of foreign operations		-	-	-	(32)	(32)
Total comprehensive income		-	4,470	27	(32)	4,465
Dividends to equity holders	8	-	-	-	-	-
Balance at 30 June 2010		24,799	64,213	94	17	89,123
Parent in thousands of New Zealand dollars						
Balance at 1 July 2008		24,799	51,125	24,799	51,125	75,924
Profit for the year		-	4,119	-	4,119	4,119
Total comprehensive income		-	4,119	-	4,119	4,119
Dividends to equity holders		-	(5,649)	-	(5,649)	(5,649)
Balance at 30 June 2009		24,799	49,595	24,799	49,595	74,394
Balance at 1 July 2009		24,799	49,595	24,799	49,595	74,394
Profit for the year		-	1,394	-	1,394	1,394
Total comprehensive income		-	1,394	-	1,394	1,394
Dividends to equity holders		-	-	-	-	-
Balance at 30 June 2010		24,799	50,989	24,799	50,989	75,788

The accompanying 'Notes to the financial statements' are an integral part of, and should be read in conjunction with, these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

in thousands of New Zealand dollars	Note	Group 2010 Actual	Group 2010 Budget	Group 2009 Actual	Parent 2010 Actual	Parent 2009 Actual
EQUITY AND LIABILITIES						
Equity						
Share capital	9	24,799	24,799	24,799	24,799	24,799
Equity reserves		64,230	60,113	59,792	50,989	49,595
Shareholders' interest		89,029	84,912	84,591	75,788	74,394
Non-controlling interest		94	2	67	-	-
Total equity		89,123	84,914	84,658	75,788	74,394
Non-current liabilities						
Unsecured loans	10	279	285	260	-	-
Borrowings	11	-	7,300	-	-	-
Provision for employee entitlements	12	727	827	726	625	638
Deferred tax liability	13	5,026	3,324	3,542	3,732	2,223
Forward exchange derivatives		-	-	-	-	-
Total non-current liabilities		6,032	11,636	4,528	4,357	2,861
Current liabilities						
Payables and accruals	14	10,493	9,538	10,580	8,874	9,113
Revenue in advance	14	5,513	4,976	7,094	5,528	7,086
Borrowings	11	5,905	-	650	5,905	650
Overdraft		-	3,866	-	-	-
Provision for employee entitlements	12	1,333	8,564	1,269	1,277	1,237
Accrued employee entitlements	12	7,328	-	6,646	6,668	5,796
Taxation payable		1,525	-	-	643	-
Intercompany	15	-	-	-	6,303	9,225
Forward exchange derivatives		98	-	-	98	-
Total current liabilities		32,195	26,944	26,239	35,296	34,007
Total equity and liabilities		127,350	123,494	115,425	115,441	111,242

The accompanying 'Notes to the financial statements' are an integral part of, and should be read in conjunction with, these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2010

in thousands of New Zealand dollars	Note	Group 2010 Actual	Group 2010 Budget	Group 2009 Actual	Parent 2010 Actual	Parent 2009 Actual
ASSETS						
Non-current assets						
Property, plant, & equipment	16	99,552	95,798	84,287	76,193	66,631
Identifiable intangibles	18	6	-	37	-	-
Investments	19	-	-	-	12,709	12,709
Receivables	21	803	-	314	803	314
Prepayments		69	-	-	69	-
Forward exchange derivatives		1	-	-	1	-
Intercompany	15	-	-	-	703	1,022
Total non-current assets		100,431	95,798	84,638	90,478	82,676
Current assets						
Cash and cash equivalents		2,396	-	3,099	1,401	2,094
Receivables	21	16,510	18,175	18,472	16,309	18,190
Prepayments		1,299	1,000	1,380	1,194	1,360
Taxation receivable		-	2,141	886	-	1,033
Uninvoiced receivables	22	4,138	4,098	4,686	4,048	4,686
Inventory	23	2,549	2,282	2,264	1,578	1,195
Intercompany		-	-	-	406	28
Forward exchange derivatives		27	-	-	27	-
Total current assets		26,919	27,676	30,787	24,943	28,586
Total assets		127,350	123,494	115,425	115,441	111,242

The accompanying 'Notes to the financial statements' are an integral part of, and should be read in conjunction with, these financial statements.

For and on behalf of the Board:



Christopher Mace

Chairman

27 August 2010



Craig Ellison

Director

CASH FLOW STATEMENT

for the year ended 30 June 2010

NOTES TO THE FINANCIAL STATEMENTS

as at 30 June 2010

	Group 2010 Actual	Group 2010 Budget	Group 2009 Actual	Parent 2010 Actual	Parent 2010 Actual	Parent 2009 Actual
in thousands of New Zealand dollars						
Cash flows from operating activities						
Cash was provided from:						
Receipts from customers	128,158	120,360	120,820	120,437	113,201	
Dividends received	6	-	5	6	5	
Interest received	182	-	490	154	481	
Cash was disbursed to:						
Payments to employees and suppliers	(103,006)	(94,892)	(99,035)	(101,780)	(97,953)	
Interest paid	(127)	(576)	(35)	(92)	(10)	
Taxation paid	(1,158)	(1,955)	(2,714)	(795)	(1,198)	
Net cash inflow from operating activities	24,055	22,937	19,551	17,930	14,526	
Cash flows from investing activities						
Cash was provided from:						
Sale of property, plant, & equipment	110	-	301	110	298	
Cash was applied to:						
Purchase of property, plant, & equipment	(29,032)	(26,865)	(20,770)	(19,271)	(14,515)	
Purchase of intangible assets	(953)	-	(417)	(953)	(417)	
Net cash (outflow) in investing activities	(29,875)	(26,865)	(20,886)	(20,114)	(14,634)	
Cash flows from financing activities						
Cash was applied to:						
Dividends paid to shareholders	-	(5,000)	(5,649)	-	(5,649)	
Short-term advance facility (repaid)	5,255	7,338	650	5,255	650	
Subsidiary loan proceeds	-	-	-	19,010	15,308	
Subsidiary loan (repaid)	-	-	-	(22,692)	(17,317)	
Net cash inflow (outflow) from financing activities	5,255	2,338	(4,999)	1,573	(7,008)	
Net increase/(decrease) in cash and cash equivalents	(565)	(1,590)	(16,354)	(611)	(7,116)	
Effects of exchange rate changes on the balance of cash held in foreign currency	(138)	-	150	(82)	150	
Opening balance of cash and cash equivalents	3,099	(2,276)	9,303	2,094	9,060	
Closing cash and cash equivalents balance	2,396	(3,866)	3,099	1,401	2,094	
Made up of:						
Cash	2,396	(3,866)	3,099	1,401	2,094	
Short-term deposits	-	-	-	-	-	
Closing cash and cash equivalents balance	2,396	(3,866)	3,099	1,401	2,094	

The accompanying 'Notes to the financial statements' are an integral part of, and should be read in conjunction with, these financial statements.

1. Reporting entity

The National Institute of Water & Atmospheric Research Ltd (NIWA) and Group is a profit-oriented company registered in New Zealand under the Companies Act 1993.

The consolidated (or 'Group') financial statements comprise NIWA (the 'parent company'), its subsidiaries, and the Group's interest in associates and joint ventures. The financial statements for NIWA and the Group are presented in accordance with the requirements of the Crown Research Institutes Act 1992, the Crown Entities Act 2004, the Public Finance Act 1989, the Companies Act 1993, and the Financial Reporting Act 1993. The NIWA financial statements are for the parent company as a separate entity.

2. Nature of activities

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

3. Statement of 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 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 financial reporting standards (IFRS). The financial statements were authorised for issue by the directors on 27 August 2010.

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 presentation 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. The accounting policies have been applied in preparing the financial statements for the year ended 30 June 2010 and the comparative information for the year ended 30 June 2009.

Adoption of new and revised standards

Standards and interpretations effective in the current period
There are no new standards and interpretations effective in the current period with a material impact.

Standards and interpretations approved but not yet effective

The following are the new or revised standards or interpretations in issue that are not yet required to be adopted by entities preparing their financial statements for periods ending on 30 June 2010.

- improvements to New Zealand equivalents to International Financial Reporting Standards 2009 (effective for accounting periods beginning on or after 1 January 2010)
- amendments to NZ IFRS 2 'Share-Based Payment' - group cash-settled share-based payment transactions (effective for accounting periods beginning on or after 1 January 2010)
- amendments to NZ IAS 32 'Financial Instruments: Presentation' - classification of rights issues (effective for accounting periods beginning on or after 1 February 2010)
- amendments to NZ IAS 24 'Related Party Disclosures' (effective for accounting periods beginning on or after 1 January 2011)
- New Zealand IFRS 9 'Financial Instruments' (effective for accounting periods beginning on or after 1 January 2013)
- New Zealand IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for accounting periods beginning on or after 1 July 2010)
- amendments to NZ IFRIC 14 'Prepayments of a Minimum Funding Requirement' (effective for accounting periods beginning on or after 1 January 2011)

- New Zealand Improvements to International Financial Reporting Standards 2010 (effective for accounting periods beginning on or after 1 July 2010, and 1 January 2011).

All standards and interpretations above are expected to be initially applied when they become mandatory.

With the exception of NZ IFRS 9, the directors anticipate that the above Standards and Interpretations will have no material impact on the financial statements of the Group or Parent in the period of initial application. It is likely that the changes arising from NZ IFRS 9 will affect the recognition and measurement, and classification of amounts recognised in the Group and Parent financial statements. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

Accounting judgements and major sources of estimation uncertainty

In the application of the Group's accounting policies, the directors are required to make judgements, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Judgements in applying accounting policies

The following are the judgements, apart from those involving estimations that the directors have made in the process of applying the entity's accounting policies, and that have the most significant effect on the amounts recognised in these financial statements.

Revenue recognition

In determining the revenue to be recognised in the year from the rendering of services, the directors have exercised their judgement in respect of the percentage of completion of contracts as outlined in policy (b).

In making their judgement, the directors considered:

- whether total contract revenue could be measured reliably
- the probability that economic benefits associated with the contract will flow to the Group
- whether the contract costs to complete the contract and the stage of contract completion at balance date could be reliably measured
- whether contract costs attributable to the contract can be clearly identified and measured reliably so that the actual contract costs incurred can be compared with prior estimates.

Following review of the Group's contract transactions the directors are satisfied that the above criteria have been met and the recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate unimpaired receivables/revenue in advance.

Major sources of estimation uncertainty

The following are the key assumptions concerning the future, and other major sources of estimation uncertainty at 30 June 2010, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property, plant, and equipment

As described in policy (l), the Group reviews the estimated useful lives of property, plant, and equipment at the end of each annual reporting period.

Credit, interest, and currency sensitivity

As described in note 26, the Group is subject to credit, interest, and currency risks which will impact upon the Group's assets and liabilities. The note details how the Group reduces this risk exposure.

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

The Group financial statements incorporate the financial statements of the company and entities (including special-purpose entities) controlled by the company (its subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

NOTES TO THE FINANCIAL STATEMENTS

as at 30 June 2010

Non-controlling interests in the net assets of the consolidated subsidiaries may be initially measured either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquirer's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests consist of the amount attributed to such interests at initial recognition and the non-controlling interest's share of changes in equity since the date of the combination. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-group transactions, balances, income, and expenses are eliminated in full on consolidation.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between:

- the aggregate of the fair value of the consideration received and the fair value of any retained interest, and
 - the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.
- Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e., reclassified to profit or loss, or transferred directly or retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under NZ IAS 39. Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Investments in subsidiaries are recorded at cost less any impairment in the parent company's financial statements.

i) Accounting for jointly controlled operations

Where the Group has joint control in a jointly controlled operation, the Group recognises the assets that it controls and the liabilities that it incurs, along with expenses that it incurs and the Group's share of income it earns from the sale of goods and services by the joint venture.

ii) Accounting for goodwill

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest (if any) in the acquiree over the fair value of the identifiable net assets recognised.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell, and value in use. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of a subsidiary or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

b) Revenue recognition

Rendering of services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at reporting date. The amount of revenue unrecognised is represented by 'unvoiced 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 on the face of 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 risks 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 Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. 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 profit or loss on a systematic basis in the equivalent period in which the expense is recognised.

There were no government grants received during the year (2009: nil).

d) Finance costs

Interest expense is accrued on a time basis using the effective interest method.

e) 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.

f) 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 at 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.

g) Impairment of tangible and intangible assets (excluding goodwill)

Intangible assets that have an indefinite life are not subject to amortisation and are tested annually for impairment. Other assets 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 than its carrying value, the carrying value is reduced to its recoverable amount. An impairment loss is recognised in 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 in profit or loss.

(h) 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 differences 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 and they are expected to reverse in the foreseeable future.

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 in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred or current tax is also recognised in other comprehensive income or directly in equity, or where it arises from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities, and contingent liabilities over the cost of the business combination. 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.

(i) Purchased 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. The estimated useful life and amortisation method are reviewed each balance date.

The estimated useful life for the copyrights is five years.

The estimated useful life for software is one year.

(j) Development costs

Intangible assets which arise from 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 ability to use or sell the product or process
- 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 any further related costs, is likely to be recovered from related future economic benefits. Any excess is recognised 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 purchased identifiable intangible assets.

(k) Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation to date, less any impairment losses.

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.

The gain or loss arising on the disposal or retirement of an item of property, plant, and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

(l) 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 lives, which are as follows.

Buildings & leasehold improvements

Buildings 40 years
Leasehold improvements, freehold property 10 years
Leasehold improvements, rented property 5-12 years

Vessels

RV Tangaroa hull 26 years
RV Kaharoa hull 16 years
RV Katerer hull 20 years

Plant & equipment

Plant & equipment 10 years
Scientific equipment 4 years

Electronic data processing equipment

Supercomputer 8 years
Electronic data processing equipment 3 years
Office equipment 5 years
Furniture & fittings 10 years
Motor vehicles 4 years
Small boats 5 years

m) Receivables

Receivables are categorised 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 profit or loss.

(n) 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.

(o) Foreign currencies

i) Transactions

Transactions in foreign currencies are converted to the functional currency of New Zealand dollars, by applying the spot exchange rate between the functional currency and the foreign currency at the date of transaction. At the end of each reporting period, 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 profit or loss.

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 other comprehensive income and accumulated as a separate component of equity in the Group's foreign currency translation reserve. Such exchange differences are reclassified from equity to profit or loss (a reclassification adjustment) when the foreign operation is disposed of.

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.

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as at 30 June 2010

(p) Leases

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

The Group has not contracted for any leases which would be classified as finance leases.

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

(q) 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 comprehensive income. 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, intangible assets, 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.

(r) Financial instruments

Derivative financial instruments

The Group may use 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 categorised as held for trading (unless they qualify for hedge accounting), and are initially recognised in the statement of financial position at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss unless the derivative is designated and effective as a hedging instrument in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The fair value of outstanding derivative financial instruments at 30 June 2010 is \$70k (2009: nil).

Other financial assets

Non-derivative financial assets comprise receivables, cash and cash equivalents, unvoiced receivables, and intercompany and are initially recorded at fair value plus transaction costs (except for financial assets at fair value through profit or loss which are initially recorded at fair value).

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.

- (i) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss where the financial asset is either held for trading or it is designated at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been incurred principally for the purpose of selling 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 asset other than a financial asset 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 asset 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 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 derivative, and it is allowable to be designated at fair value through profit or loss.

Financial assets at fair value through profit or loss are classified as current assets and are stated at fair value, and changes resulting in a gain or loss are recognised in profit or loss.

- (ii) Loans and receivables

Loans and receivables have fixed or determinable payments and 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 date which are classified as a non-current asset. These are subsequently recorded at amortised cost less impairment.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, 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.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cashflows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities. Financial liabilities are classified as at fair value through profit or loss 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 meets similar criteria as financial assets held for trading.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon recognition if it meets similar criteria as financial assets designated as at fair value through profit or loss.

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

Other financial liabilities are initially measured at fair value through profit or loss, 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 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(s) Changes in accounting policies

There have been no changes in accounting policies this period.

4. Revenues and other gains

Revenue

	In thousands of New Zealand dollars		Parent 2009	
	Group 2010	Group 2009	Parent 2010	Parent 2009
Sale of goods	10,856	10,637	2,188	2,713
Rendering of services	116,860	109,113	117,775	110,072
Dividends	6	5	6	5
Total operating revenue	127,722	119,755	119,969	112,790

Other gains

	In thousands of New Zealand dollars		Parent 2009	
	Group 2010	Group 2009	Parent 2010	Parent 2009
Net gain on sale from property, plant and equipment	13	193	13	190
Total other gains	13	193	13	190

5. Operating expenses and other gains

Operating expenses

	In thousands of New Zealand dollars		Parent 2009	
	Group 2010	Group 2009	Parent 2010	Parent 2009
Operating expenses include:				
Rental and operating lease costs	2,383	1,791	2,284	1,702
Remuneration of directors	297	298	297	298
Bad debts written off	1	8	1	8

Other gains included in operating expenses

	In thousands of New Zealand dollars		Parent 2009	
	Group 2010	Group 2009	Parent 2010	Parent 2009
Other expenses include:				
Movement within doubtful debt provision	(654)	(9)	(654)	(9)
Change in the fair value of derivatives	(70)	-	(70)	-
Foreign currency gain (loss)	(181)	(66)	(125)	44

In 2009-10, the Parent and Group paid compensation or other benefits to two people who ceased to be an employee during the financial year. The total value of the payment was \$56,042.32 (2008-09: \$189,757.82).

Auditor's remuneration

	In thousands of New Zealand dollars		Parent 2009	
	Group 2010	Group 2009	Parent 2010	Parent 2009
Auditor's remuneration to Deloitte comprise:				
Audit of the financial statements	162	165	139	143
Other assurance services	-	-	-	-
Total auditor's remuneration	162	165	139	143

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6. Net interest and other financing income

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Interest income on bank deposits	182	490	154	481
Finance income	182	490	154	481
Finance expense	(127)	(35)	(92)	(11)
Net interest and other financing income	55	455	62	470

7. Income tax

The income tax expense is determined as follows:

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Income tax expense				
Current tax	3,640	2,943	2,488	1,767
Deferred tax relating to temporary differences	(802)	96	(828)	154
Deferred tax relating to budget changes	2,215	-	2,319	-
Income tax expense	5,053	3,039	3,979	1,921

Reconciliation of income tax expense

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Operating profit before income tax	9,550	9,050	5,373	6,040
Tax at current rate of 30%	2,865	2,715	1,612	1,812
Adjustments to taxation:				
Other non-deductible expenses	38	32	50	11
Depreciation changes to buildings	2,603	-	2,603	-
Reduction in the taxation rate	(388)	-	(284)	-
Other deferred taxation adjustments	(94)	-	-	-
Under/over provision in previous year	29	292	13	98
Income taxation expense	5,053	3,039	3,979	1,921

The 2010 Crown budget introduced the reduction in the company tax rate from 30% to 28% effective from the 2011/12 tax year and removed depreciation on buildings from the 2010/11 year. The rate reduction and the change in depreciation impact the deferred tax calculation for the 2010 year. The change recognised from the reduction of the rate on deferred tax is recognised in the taxation expense in profit or loss.

8. Dividends

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Dividend per share				
Payments were made on:				
5 December 08	-	(649)	-	(649)
5 June 09	-	(860)	-	(860)
29 June 09	0.17	(4,140)	-	(4,140)

These dividend payments were made to the Government of New Zealand (the Crown) as the sole shareholder.

9. Share capital

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Issued and fully paid capital	24,798	24,799	24,799	24,799
24,798,700 ordinary shares (2009: 24,798,700 ordinary shares)				

All shares carry equal voting and distribution rights; if the company is to be wound down, all proceeds are distributed equally amongst the shareholders.

10. Unsecured loan

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Loan	279	260	-	-

The loan is unsecured and relates to a vendor finance agreement on the acquisition of a subsidiary, Unidata Pty Ltd. The loan is not subject to any interest charge. Repayment will be made when, and in such amounts as, the cash flow and profitability of Unidata Pty Ltd permit, with full repayment due on 7 May 2014. The loan is recognised at amortised cost using the effective interest rate method.

11. Borrowings

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Borrowings	5,905	650	5,905	650

The facility is unsecured, but subject to various covenants that were complied with during the year. The facility is operated on an on-call basis and a short-term advance with a limit available to borrow of \$11.5 million. (2009: \$4.9m). The facility was operated on an on-call basis. Interest rates that were applicable during this period are referred to in note 29.

12. Employee entitlements

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Accrued remuneration:				
Salary accrual	2,447	2,081	2,180	1,758
Annual leave	4,880	4,565	4,486	4,238
Training leave	130	115	130	115
Long service leave	1,208	1,154	1,147	1,122
Retirement leave	723	726	627	638
Total employee entitlement and accrual provision	9,388	8,641	8,570	7,871
Comprising:				
Current	8,661	7,915	7,945	7,233
Non-current	727	726	625	638

The provisions for long-service leave, retirement leave and training leave are dependent upon a number of factors that are determined by the expected employment period of employees, current remuneration, and the timing of employees using the benefits. Any changes in these assumptions will impact on the carrying amount of the liability. In determining long-service leave the employment period is based upon historical length of service to determine the appropriate liability. Training leave is based upon historical usage of the benefit to calculate the likelihood of further benefits incurring.

16. Property, plant, and equipment

Group in thousands of New Zealand dollars	Land	Buildings & leasehold improvements	Vessels	Plant & equipment	Electronic data processing equipment	Office equipment	Furniture & fittings	Motor vehicles	Small boats	Work in progress	Total
Cost											
Balance at 1 July 2009	12,429	46,786	18,423	48,703	16,964	7,846	2,216	3,739	2,031	3,962	183,099
Additions	21	2,520	1,189	8,972	10,259	680	3	14	1,336	4,038	29,032
Disposals	-	(8)	-	(377)	(637)	(657)	(20)	(61)	(131)	-	(1,891)
Foreign currency	-	-	-	(3)	(2)	-	(3)	-	-	-	(8)
Balance at 30 June 2010	12,450	49,298	19,612	77,295	26,584	7,869	2,196	3,692	3,236	8,000	210,232
Accumulated depreciation and impairment losses											
Balance at 1 July 2009	-	12,255	10,259	48,929	14,708	6,831	1,929	2,562	1,339	-	98,812
Depreciation charge	-	2,430	775	6,382	2,219	581	43	410	248	-	13,088
Impairment	-	986	-	-	-	-	-	-	-	-	986
Disposals	-	(7)	-	(354)	(643)	(590)	(20)	(61)	(131)	-	(1,804)
Balance as at 30 June 2010	-	15,264	11,034	54,957	16,284	6,822	1,952	2,911	1,456	-	110,680
Net book value at 30 June 2010	12,450	34,034	8,578	22,338	10,300	1,047	244	781	1,780	8,000	99,552
Group in thousands of New Zealand dollars	Land	Buildings & leasehold improvements	Vessels	Plant & equipment	Electronic data processing equipment	Office equipment	Furniture & fittings	Motor vehicles	Small boats	Work in progress	Total
Cost											
Balance at 1 July 2008	12,429	42,526	18,423	40,627	16,525	7,193	2,215	3,569	1,786	2,133	167,425
Additions	-	5,155	-	8,953	2,388	1,393	32	711	309	1,829	20,770
Disposals	-	(895)	-	(848)	(1,938)	(735)	(27)	(539)	(64)	-	(5,064)
Foreign currency	-	-	-	(9)	(11)	(5)	(4)	(2)	-	-	(30)
Balance at 30 June 2009	12,429	46,786	18,423	48,703	16,964	7,846	2,216	3,739	2,031	3,962	183,099
Accumulated depreciation and impairment losses											
Balance at 1 July 2008	-	10,778	9,520	44,500	15,145	6,636	1,914	2,607	1,228	-	92,887
Depreciation charge	-	2,420	739	5,323	1,518	874	67	442	172	-	11,555
Impairment	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	(943)	-	(893)	(1,985)	(739)	(52)	(487)	(61)	-	(5,130)
Balance as at 30 June 2009	-	12,255	10,259	48,929	14,708	6,831	1,929	2,562	1,339	-	98,812
Net book value at 30 June 2009	12,429	34,531	8,164	19,774	2,256	1,015	287	1,177	692	3,962	84,287
Parent in thousands of New Zealand dollars	Land	Buildings & leasehold improvements	Vessels	Plant & equipment	Electronic data processing equipment	Office equipment	Furniture & fittings	Motor vehicles	Small boats	Work in progress	Total
Cost											
Balance at 1 July 2009	12,429	46,606	-	59,189	14,681	7,521	1,757	3,605	1,785	694	148,247
Additions	21	2,520	-	6,348	10,224	659	-	14	145	(660)	19,271
Disposals	-	(8)	-	(374)	(637)	(654)	(20)	(60)	(135)	-	(1,888)
Balance at 30 June 2010	12,450	49,118	-	65,163	24,268	7,526	1,737	3,559	1,795	34	165,650
Accumulated depreciation and impairment losses											
Balance at 1 July 2009	-	12,107	-	42,721	13,153	6,577	1,507	2,469	1,102	-	79,636
Depreciation charge	-	2,417	-	5,575	1,854	537	37	393	213	-	11,026
Impairment	-	986	-	-	-	-	-	-	-	-	986
Disposals	-	(7)	-	(354)	(633)	(586)	(20)	(60)	(131)	-	(1,791)
Balance as at 30 June 2010	-	15,103	-	47,942	14,374	6,528	1,524	2,802	1,184	-	89,657
Net book value at 30 June 2010	12,450	34,015	-	17,221	9,894	998	213	757	611	34	76,193
Parent in thousands of New Zealand dollars	Land	Buildings & leasehold improvements	Vessels	Plant & equipment	Electronic data processing equipment	Office equipment	Furniture & fittings	Motor vehicles	Small boats	Work in progress	Total
Cost											
Balance at 1 July 2008	12,429	42,346	-	53,674	15,259	6,884	1,780	3,418	1,537	1,513	138,640
Additions	-	5,155	-	6,452	1,374	1,377	30	637	309	(819)	14,515
Disposals	-	(895)	-	(937)	(1,952)	(740)	(53)	(450)	(61)	-	(5,088)
Balance at 30 June 2009	12,429	46,606	-	59,189	14,681	7,521	1,757	3,605	1,785	694	148,247
Accumulated depreciation and impairment losses											
Balance at 1 July 2008	-	10,640	-	38,673	13,947	6,483	1,501	2,495	998	-	74,739
Depreciation charge	-	2,407	-	4,939	1,156	835	59	424	165	-	9,985
Disposals	-	(940)	-	(893)	(1,980)	(741)	(53)	(450)	(61)	-	(5,088)
Balance as at 30 June 2009	-	12,107	-	42,721	13,153	6,577	1,507	2,469	1,102	-	79,636
Net book value at 30 June 2009	12,429	34,499	-	16,468	1,528	944	250	1,136	683	694	68,631

The opening net book value for the Group at 1 July 2008 was \$75,038k. The opening net book value for the Parent at 1 July 2008 was \$64,101k.

Assumptions underlying the estimated useful lives of assets include timing of technological obsolescence and future utilisation plans.

NOTES TO THE FINANCIAL STATEMENTS

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17. Heritage assets

NIWA has one collection and three databases that have been defined as heritage assets. Heritage collection assets are those assets held for the duration of their physical lives because of their unique scientific importance and databases are maintained as an incidental part of existing business operations.

NIWA has the following heritage assets:

Type	Description
Marine Benthic Biology Collection	A national reference collection of marine invertebrates.
National Climate Database	A national electronic database of high-quality climate information, including temperatures, rainfall, wind, and other climate elements.
Water-Resources Archive Database	A national electronic database of river and lake locations throughout New Zealand, including levels, quality, and flows.
New Zealand Freshwater Fish Database	A national electronic database of the occurrence of fish in the fresh waters of New Zealand, including major offshore islands.

The nature of these heritage assets, and their significance to the science NIWA undertakes, makes it necessary to disclose them. In the directors' view the cost of these heritage assets cannot be assessed with any reliability, and accordingly these assets have not been recognised for reporting purposes.

18. Identifiable intangibles

Group	Software	Copyrights	Total
in thousands of New Zealand dollars			
Cost			
Balance as at 1 July 2009	5,392	215	5,607
Additions	953	-	953
Disposals	(723)	-	(723)
Currency movements	-	-	-
Balance as at 30 June 2010	5,622	215	5,837
Accumulated amortisation and impairment losses			
Balance as at 1 July 2009	5,392	178	5,570
Amortisation	953	31	984
Impairment	-	-	-
Disposals	(723)	-	(723)
Currency movements	-	-	-
Balance as at 30 June 2010	5,622	209	5,831
Net book value at 30 June 2010	-	6	6

The opening net book value at 1 July 2009 was \$87k.

Group

in thousands of New Zealand dollars	Software	Copyrights	Total
Cost			
Balance as at 1 July 2008	5,067	215	5,282
Additions	417	-	417
Disposals	(92)	-	(92)
Currency movements	-	-	-
Balance as at 30 June 2009	5,392	215	5,607
Accumulated amortisation and impairment losses			
Balance as at 1 July 2008	5,067	128	5,195
Amortisation	417	48	465
Impairment	-	-	-
Disposals	(92)	-	(92)
Currency movements	-	2	2
Balance as at 30 June 2009	5,392	178	5,570
Net book value at 30 June 2009	-	37	37

Parent

in thousands of New Zealand dollars	Software	Copyrights	Total
Cost			
Balance as at 1 July 2009	5,094	-	5,094
Additions	953	-	953
Disposals	(723)	-	(723)
Currency movements	-	-	-
Balance as at 30 June 2010	5,324	-	5,324
Accumulated amortisation and impairment losses			
Balance as at 1 July 2009	5,094	-	5,094
Amortisation	953	-	953
Impairment	-	-	-
Disposals	(723)	-	(723)
Currency movements	-	-	-
Balance as at 30 June 2010	5,324	-	5,324
Net book value at 30 June 2010	-	-	-

The opening net book value at 1 July 2008 was \$nil.

NOTES TO THE FINANCIAL STATEMENTS as at 30 June 2010

18. Identifiable intangibles (continued)

Parent	Software	Copyrights	Total
Cost			
Balance as at 1 July 2008	4,769	-	4,769
Additions	417	-	417
Disposals	(92)	-	(92)
Currency movements	-	-	-
Balance as at 30 June 2009	5,094	-	5,094
Accumulated amortisation and impairment losses			
Balance as at 1 July 2008	4,769	-	4,769
Amortisation	417	-	417
Impairment	-	-	-
Disposals	(92)	-	(92)
Currency movements	-	-	-
Balance as at 30 June 2009	5,094	-	5,094

Net book value at 30 June 2009

	Group 2010	Group 2009	Parent 2010	Parent 2009
Net book value at 30 June 2009	-	-	12,709	12,709

19. Investments

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Investment in subsidiaries	-	-	12,709	12,709

Investments in subsidiaries

Name	Principal activities	Ownership and voting interest	
		2010 %	2009 %
NiWA Vessel Management Ltd	Vessel charters for scientific research	100	100
NiWA Australia Pty Ltd	Scientific research and consultancy services	100	100
NiWA Environmental Research Institute	Scientific research and consultancy services	100	100
Unidata Pty Ltd	Supplier of environmental technology products	80	80
NiWA Natural Solutions Ltd	Non-trading shell company	100	100
EcoConnect Ltd	Non-trading shell company	100	100

All subsidiaries have a balance date of 30 June.

NiWA Vessel Management Ltd, NiWA Natural Solutions Ltd, and EcoConnect Ltd are incorporated in New Zealand. NiWA Australia Pty Ltd and Unidata Pty Ltd are incorporated in Australia. NiWA Environmental Research Institute is incorporated in the USA.

20. Joint ventures

The Group has a 50% participating interest in Riskscape NZ, an unincorporated joint venture of equal interests with Geological Risk Limited (a wholly owned subsidiary company of GNS Science Ltd). Riskscape NZ commenced operations in April 2005 and had a first balance date of 30 June 2005. The Group's interests in this joint venture had an immaterial effect on the financial statements.

The following amounts are from the financial statements of Riskscape NZ.

in thousands of New Zealand dollars	Group 2010	Group 2009
Current assets	-	-
Non-current assets	-	-
Current liabilities	-	-
Non-current liabilities	-	-
Income	741	1,778
Expenses	741	1,778

21. Receivables

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Trade receivables	17,967	18,787	17,767	18,505
Provision for doubtful debts	(655)	(1)	(655)	(1)
Total	17,312	18,786	17,112	18,504

Classified as:

Non-current	803	314	803	314
Current	16,509	18,472	16,309	18,190
	17,312	18,786	17,112	18,504

Included in the Group and Parent's trade receivables balance at the end of the year is one debtor's balance which equates to 45% (2009 Group 37% and Parent 45%) of the total trade receivables balance. Contracts with a Crown-owned debtor specify retentions are held on each invoice until the individual contracts are complete, which can take up to five years. The non-current component of receivables relates to the long-term portion of these contract retentions.

A large proportion of the Group's commercial customers are from central, local government, and private sectors which the Group considers to be low credit risk.

Before accepting a new customer, a credit check is undertaken when deemed appropriate to ensure validity of the customer before any service or goods are provided to the customer.

The Group reserves the right to charge interest at a rate of two percent per month, calculated daily, on all invoices remaining unpaid at the due date.

Included in the Group's trade receivable balance are debtors with a carrying amount of \$506k (2009: \$1,135k) which are past due at the reporting date for which the Group has not provided as the amounts are still considered recoverable. The Group does not hold any collateral over past due or impaired balances.

Included in the Parent's trade receivable balance are debtors with a carrying amount of \$506k (2009: \$1,123k) which are past due at the reporting date for which the Parent has not provided as the amounts are still considered recoverable. The Parent does not hold any collateral over past due or impaired balances.

The below balances indicate the past due receivables which have not been provided for as the amounts are still recoverable. The balances below exclude the Crown-owned debtor who has a significant amount owing to the Group as indicated above for which management consider there is low credit risk.

NOTES TO THE FINANCIAL STATEMENTS

as at 30 June 2010

Ageing past due but not impaired trade receivables

In thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Between 60 and 90 days	196	158	161	157
Between 91 and 180 days	38	735	38	724
Over 181 days	373	242	373	242
	607	1,135	572	1,123

Included in the provision for doubtful debts are individually selected debtors of \$455k (2009, \$1k) for the Group and the Parent which are unlikely to be recoverable. The provision recognises the difference between the carrying amount of these trade receivables and the expected recoverable amount. The net carrying amount is considered to approximate their fair value.

Movement in the provision for doubtful debts

In thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Balance at the beginning of the year	1	10	1	10
Impairment loss recognised	655	-	655	-
Impairment losses reversed	-	-	-	-
Amounts written off as uncollectible	(1)	-	(1)	-
Amounts recovered during the year	-	(9)	-	(9)
	655	1	655	1

22. Uninvoiced receivables

In thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Uninvoiced receivables	4,138	4,686	4,048	4,686

The amount of revenue unbilled at balance date is represented by 'uninvoiced receivables', which is stated at the proportion to the stage of completion in the statement of financial position. Once this balance is invoiced it is transferred to trade debtors. Management believe there are no significant concentrations of risk relating to this balance.

23. Inventory

In thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Consumables	510	659	38	22
Finished goods	1,974	1,532	1,490	1,145
Work in progress	65	73	50	28
Total	2,549	2,264	1,578	1,195

Inventories are not pledged as security for liabilities, nor are any inventories subject to retention of title clauses.

24. Reconciliation of the profit for the period to net cash from operating activities

In thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Profit for the period	4,497	6,011	1,394	4,119
Add/(less) items classified as investing activities				
Net loss/(gain) on disposal of property, plant, & equipment	(13)	(193)	(13)	(190)
	(13)	(193)	(13)	(190)
Add/(less) non-cash items				
Depreciation and impairment	13,374	11,555	11,612	9,985
Amortisation of identifiable intangibles	984	464	953	417
Increase/(decrease) in unsecured loan	(19)	(18)	-	-
Net foreign currency (gain)/loss	138	(122)	82	(150)
Increase/(decrease) in deferred tax liability	1,484	66	1,509	118
	16,261	11,945	14,156	10,370
Add/(less) movements in working capital items				
Increase/(decrease) in payables and accruals and revenue in advance	(1,648)	390	(1,797)	(426)
Increase/(decrease) in employee entitlements	746	222	700	30
Increase/(decrease) in receivables and prepayments	1,486	883	1,489	269
Increase/(decrease) in inventory and uninvoiced receivables	264	14	255	(251)
Increase/(decrease) in taxation receivable	2,412	259	1,676	605
Increase/(decrease) in other financial assets and liabilities	70	-	70	-
	3,210	1,768	2,393	227
Net cash flows from operating activities	24,955	19,531	17,930	14,524

25. Related party transactions

In addition to the disclosures in note 15 and 21, the Government of New Zealand (the Crown) is the ultimate shareholder of the NIWA Group. All transactions with other Government-owned entities are not considered to fall within the intended scope of related party transactions. No related party debts have been written off or forgiven during the year.

Key management personnel compensations

In thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Short-term benefits	6,230	5,937	6,101	5,621

The table above includes remuneration of the Chief Executive Officer and all key management positions.

NOTES TO THE FINANCIAL STATEMENTS as at 30 June 2010

26. Financial instruments

Capital management

The Group has externally imposed requirements under the Crown Research Institutes Act 1992:

- 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.
- Specifically the Shareholding Ministers expect the targeted COMU return on equity to be 9.0%. The Ministers have indicated that the target is to be delivered as a long-term average due to the potential cyclical profitability that can be involved in research outputs.

The Group has historically met the targeted adjusted return on equity each year. This year return on equity has decreased from 9.8% to 7.0%.

The Group's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business.

The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

The advance facility available from The National Bank is subject to two covenants:

- maintains shareholders funds of not less than \$50m of net tangible assets, and
- reserves the right to review the facility in the event of a change in the shareholding structure.

Capital refers to the equity and borrowings of the Group and Parent.

There have been no material changes in the Group's management of capital during the period.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with valuation techniques based on discounted cash flow analysis using prices from observable recent market transactions, or dealer quotes for similar instruments.
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optimal derivatives, and option pricing models for optional derivatives.

The Group has no level 3 financial instruments. The carrying value of all financial instruments is considered to approximate fair value.

Categories of financial instruments

Group

in thousands of New Zealand dollars	Note	Loans and receivables	Held for trading	Financial liabilities at amortised cost	Total
Balance at 30 June 2010					
Assets					
Cash and cash equivalents		2,396	-	-	-
Trade receivables	21	17,312	-	-	-
Investments	19	-	-	-	-
Uninvoiced receivables	22	4,138	-	-	-
Forward exchange derivatives		-	28	-	-
Total financial assets		23,846	28	-	23,874
Total non-financial assets		-	-	-	103,476
Total assets					127,350
Liabilities					
Payables and accruals	14	-	-	10,493	-
Unsecured loans	10	-	-	279	-
Borrowings	11	-	-	5,905	-
Employee entitlements	12	-	-	9,388	-
Forward exchange derivatives		-	98	-	-
Total financial liabilities		-	98	26,065	26,163
Total non-financial liabilities		-	-	-	12,064
Total liabilities					38,227

Fair value through profit or loss financial instruments are all Level 2 of the hierarchy.

Group	in thousands of New Zealand dollars	Note	Loans and receivables	Financial liabilities at amortised cost	Total
Balance at 30 June 2009					
Assets					
Cash and cash equivalents			3,099	-	-
Trade receivables		21	15,786	-	-
Investments		19	-	-	-
Uninvoiced receivables		22	4,686	-	-
Forward exchange derivatives			-	-	-
Total financial assets			23,571	-	23,571
Total non-financial assets			-	-	88,854
Total assets					112,425
Liabilities					
Payables and accruals		14	-	10,580	-
Unsecured loans		10	-	260	-
Borrowings		11	-	650	-
Employee entitlements		12	-	8,641	-
Forward exchange derivatives			-	-	-
Total financial liabilities			-	20,131	20,131
Total non-financial liabilities			-	-	10,636
Total liabilities					30,767

NOTES TO THE FINANCIAL STATEMENTS

as at 30 June 2010

Parent

In thousands of New Zealand dollars	Note	Loans and receivables	Held for Trading	Financial liabilities at amortised cost	Investment in subsidiary accounted for at cost	Total
Balance at 30 June 2010						
Assets						
Cash and cash equivalents		1,401	-	-	-	-
Trade receivables	21	17,112	-	-	-	-
Investments	19	-	-	-	12,709	12,709
Uninvoiced receivables	22	4,048	-	-	-	-
Intercompany	15	1,109	-	-	-	-
Forward exchange derivatives		-	28	-	-	-
Total financial assets		23,670	28	-	12,709	36,407
Total non-financial assets		-	-	-	-	79,034
Total assets						115,441
Liabilities						
Payables and accruals	14	-	-	8,874	-	-
Borrowings	10	-	-	5,905	-	-
Intercompany	15	-	-	6,303	-	-
Employee entitlements	12	-	-	8,570	-	-
Forward exchange derivatives		-	98	-	-	-
Total financial liabilities		-	98	29,652	-	29,750
Total non-financial liabilities		-	-	-	-	9,903
Total liabilities						39,653

In thousands of New Zealand dollars	Note	Loans and receivables	Financial liabilities at amortised cost	Investment in subsidiary accounted for at cost	Total
Balance at 30 June 2009					
Assets					
Cash and cash equivalents		2,094	-	-	-
Trade receivables	21	18,504	-	-	-
Investments	19	-	-	12,709	12,709
Uninvoiced receivables	22	4,686	-	-	-
Intercompany	15	1,050	-	-	-
Forward exchange derivatives		-	-	-	-
Total financial assets		26,334	-	12,709	39,043
Total non-financial assets		-	-	-	72,219
Total assets					111,262
Liabilities					
Payables and accruals	14	-	9,113	-	-
Borrowings	10	-	650	-	-
Intercompany	15	-	9,925	-	-
Employee entitlements	12	-	7,871	-	-
Forward exchange derivatives		-	-	-	-
Total financial liabilities		-	27,559	-	27,559
Total non-financial liabilities		-	-	-	9,309
Total liabilities					36,868

Credit risk

Credit risk is the risk that a third party will default on its obligations to NIWA and the Group, causing a loss.

In the normal course of business, the Group incurs credit risk from trade receivables, uninvoiced receivables, and transactions with financial institutions (cash and short-term deposits and derivatives).

The Group has a credit policy that is used to manage this risk. As part of this policy, limits are placed on the amounts of credit extended to third parties, and care is taken to ensure the credit-worthiness of third parties dealt with. All credit risk exposures are monitored regularly.

The Group does not require any collateral or security to support financial instruments, because of the quality of financial institutions and counterparties dealt with. There are no significant concentrations of credit risk.

The maximum exposure to credit risk for the Group is \$23,874k (total exposed to credit risk, which is cash and cash equivalents \$2,396k, uninvoiced receivables \$4,138k, trade receivables net of provisions \$17,312 and other financial assets \$28k) [2009: 26,571k].

The maximum exposure to credit risk for the Parent is \$23,698k (total exposed to credit risk, which is cash and cash equivalents \$1,401k, uninvoiced receivables \$4,048k, trade receivables net of provisions \$17,112, intercompany \$1,109k, and other financial assets \$28k) [2009: \$25,284k].

(Note 21, Receivables and prepayments, includes further analysis on the trade receivables.)

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

NOTES TO THE FINANCIAL STATEMENTS as at 30 June 2010

The Group's maximum exposure to credit risk by geographic regions is as follows:

in thousands of New Zealand dollars	Group 2010	Group 2009
New Zealand	21,005	23,376
Australia	1,717	1,288
USA	1,614	1,076
United Kingdom	-	56
Other European countries	26	349
Other Asia Pacific countries	32	20
Other regions	135	387
Provision for doubtful debts	(655)	(1)
Total credit risk	23,874	26,571

Interest rate risk

Interest rate risk is the risk that cashflows will fluctuate because of changes in market interest rates. This could particularly affect the cost of borrowing and the return on investments.

The interest rates on the Group and Parent borrowings as at 30 June are as follows:

	2010	2009
Borrowings	3.75%	3.7%

The interest rates on the Group and Parent investments as at 30 June:

	2010	2009
Cash (on call)	2.5%	-

The directors do not consider there is any significant exposure to interest rate risk.

All borrowings and intercompany balances are managed by NIWA on behalf of the Group.

NIWA has a regularly reviewed treasury policy in place which ensures the appropriate management of currency and interest rate risk.

Currency risk

The Group undertakes transactions in foreign currencies from time-to-time, and, resulting from these activities, exposures in foreign currency arise. It is the Group's policy to economically hedge foreign currency trading transaction risk as they arise, unless explicitly authorised otherwise by the Board. To manage these exposures, the Group uses forward foreign exchange contracts. At balance date the Group had forward foreign exchange arrangements in place with a NZD contract value of \$6,320k (2009: \$nil).

The following table details the forward foreign currency exchange contracts outstanding as at 30 June 2010 for the Parent and the Group:

in thousands of New Zealand dollars	Average exchange rates			Foreign currency		Contract value		Fair value	
	2010	2009	2009	2010	2009	2010	2009	2010	2009
Buy NOK									
Less than 3 months	4,903	-	-	3,244	-	794	-	70	-
3 to 6 months	4,071	-	-	1,101	-	270	-	24	-
Buy SGD									
Less than 3 months	0,976	-	-	4,249	-	4,387	-	(8)	-
3 to 6 months	1,002	-	-	355	-	354	-	(14)	-
7 to 12 months	0,950	-	-	243	-	255	-	(1)	-
13 to 18 months	0,935	-	-	243	-	260	-	(1)	-

The Parent and Group has entered into forward exchange contracts to economically hedge the exchange rate risk for the forecasted purchase of goods and services for the fit out of the RV *Tangaroa*.

The Group's exposure to foreign currency denominated non-derivative financial instruments was as follows, based on notional amounts:

in thousands of New Zealand dollars	AUD	EUR	USD	YEN	AUD	EUR	USD	YEN
	30 June 2010				30 June 2009			
Cash balances	992	16	1,237	-	996	249	1,095	1
Trade receivables	315	-	191	-	333	43	35	-
Trade payables	(253)	(2)	(121)	-	(247)	(19)	(219)	(1)
Statement of financial position exposure	1,054	14	1,307	-	1,082	273	911	-

The Parent's exposure to foreign currency denominated non-derivative financial instruments (excluding derivatives) was as follows, based on notional amounts:

in thousands of New Zealand dollars	AUD	EUR	USD	YEN	AUD	EUR	USD	YEN
	30 June 2010				30 June 2009			
Cash balances	34	16	1,197	-	58	202	972	1
Trade receivables	77	-	105	-	38	35	-	-
Trade payables	(180)	(2)	(151)	-	(67)	(16)	(206)	(1)
Statement of financial position exposure	(69)	14	1,151	-	29	221	766	-

The following significant exchange rates applied:

in thousands of New Zealand dollars	Reporting date	Reporting date	Reporting date	Reporting date
	2010	2009	2010	2009
AUD	0.8508	-	0.8508	0.8059
USD	0.6936	-	0.6936	0.6521
NOK	4.4268	-	4.4268	4.0726
SGD	0.9550	-	0.9550	0.9195

A 10% strengthening of the NZD against the following currencies at 30 June would have increased (decreased) the profit and the equity by the amounts shown below.

This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
AUD	117	120	(8)	5
EUR	2	30	2	81
USD	145	101	131	139
YEN	-	-	-	-
NOK	(108)	-	(108)	-
SGD	(587)	-	(587)	-

A 10% weakening of the NZD against the above currencies at 30 June would have had approximately an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risks

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The following tables detail the Group's and the Parent's contractual maturity analysis. The tables have been based on the earliest date on which the Group and the Parent can be required to pay.

NOTES TO THE FINANCIAL STATEMENTS

as at 30 June 2010

Group

in thousands of New Zealand dollars	On demand	Less than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
As at 30 June 2010					
Payables and accruals	-	10,493	-	-	10,493
Unsecured loan	1,905	19	457	-	476
Borrowings	-	4,012	-	-	5,917
Employee entitlements	-	8,661	727	-	9,388
Forward exchange contracts	-	70	-	-	70
Total	1,905	23,255	1,184	-	26,344

in thousands of New Zealand dollars	On demand	Less than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
As at 30 June 2009					
Payables and accruals	-	10,580	-	-	10,580
Unsecured loan	-	19	457	-	476
Borrowings	650	-	-	-	650
Employee entitlements	-	7,915	726	-	8,641
Total	650	18,514	1,183	-	20,347

Parent

in thousands of New Zealand dollars	On demand	Less than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
As at 30 June 2010					
Payables and accruals	-	8,874	-	-	8,874
Intercompany	6,303	-	-	-	6,303
Borrowings	1,905	4,012	-	-	5,917
Employee entitlements	-	7,945	625	-	8,570
Forward exchange contracts	-	70	-	-	70
Total	8,208	20,901	625	-	29,734

in thousands of New Zealand dollars	On demand	Less than 1 year	Later than 1 year and not later than 5 years	Later than 5 years	Total
As at 30 June 2009					
Payables and accruals	-	9,113	-	-	9,113
Intercompany	9,925	-	-	-	9,925
Borrowings	650	-	-	-	650
Employee entitlements	-	7,233	638	-	7,871
Total	10,575	16,346	638	-	27,559

Financing facilities

The Group has access to financing facilities; the total amount available is \$11.5 million (2009: \$4.9 million). \$5.9 million was drawn down at 30 June 2010 (2009: \$0.65 million). The available amount of \$11.5 million relates to an overdraft facility of \$0.5 million (on-call) and an overnight placement and short-term advance facility of \$11 million. (2009: \$4.4 million). These facilities are available for the Parent company.

27. Commitments

27a. Operating lease arrangements

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Obligations payable after balance date on non-cancelable operating leases:				
Within 1 year	2,187	1,532	2,101	1,466
Between 1 and 2 years	1,861	1,835	1,861	1,835
Between 2 and 5 years	4,804	4,968	4,804	4,968
Over 5 years	10,920	12,258	10,920	12,258
	19,772	20,613	19,486	20,527

Operating leases relate to office and laboratory facilities within New Zealand and Australia with lease terms between 1 to 11 years, with various options to extend.

27b. Capital commitments

in thousands of New Zealand dollars	Group 2010	Group 2009	Parent 2010	Parent 2009
Commitments for future capital expenditure:				
Contracted, but not provided for	6,034	1,670	-	532
	6,034	1,670	-	532

28. Contingent liabilities

There are no material contingent liabilities that were identified during the normal course of activities (2009: \$nil).

29. Subsequent events

There were no subsequent events.

AUDIT REPORT

TO THE READERS OF

NATIONAL INSTITUTE OF WATER & ATMOSPHERIC RESEARCH LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

The Auditor-General is the auditor of National Institute of Water & Atmospheric Research Limited (the Company) and Group. The Auditor-General has appointed me, Andrew Dick, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the Company and Group, on her behalf, for the year ended 30 June 2010.

Unqualified Opinion

In our opinion:

The financial statements of the Company and Group on pages 20 to 57:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of:

- the Company and group's financial position as at 30 June 2010; and
- the results of operations and cash flows for the year ended on that date.

The audit was completed on 27 August 2010, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards. We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

- Audit procedures generally include:
- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
 - verifying samples of transactions and account balances;
 - performing analyses to identify anomalies in the reported data;
 - reviewing significant estimates and judgments made by the Board of Directors;
 - confirming year-end balances;
 - determining whether accounting policies are appropriate and consistently applied; and
 - determining whether all financial statement disclosures are adequate.
- We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.
- We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.



Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company and group as at 30 June 2010 and the results of operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Research Institutes Act 1992.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Other than the audit, we have no relationship with or interests in the Company or any of its subsidiaries.

Andrew Dick
Deloitte
On behalf of the Auditor-General
Auckland, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the National Institute of Water & Atmospheric Research Limited and Group for the year ended 30 June 2010 included on the National Institute of Water & Atmospheric Research Limited's website. The National Institute of Water & Atmospheric Research Limited's Board of Directors is responsible for the maintenance and integrity of the National Institute of Water & Atmospheric Research Limited's website. We have not been engaged to report on the integrity of the National Institute of Water & Atmospheric Research Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 27 August 2010 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.



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National Institute of Water & Atmospheric Research Ltd

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Deloitte on behalf of the Auditor-General

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NIWA's Māori name Taihoro Nukurangi describes our work as studying the waterways and the interface between the Earth and the sky.

Taihoro is the flow and movement of water (from tai 'coast, tide', and horo which means 'fast moving').

Nukurangi is the interface between the sea and the sky (i.e., the atmosphere).

Together, we have taken it to mean 'where the waters meet the sky'.

This 'Annual Report' is a companion volume to NIWA's 2010 Year in Review, which gives an illustrated description of NIWA's environmental science.

This report is available at www.niwa.co.nz/pubs/ar or request a hard copy through xxxxxx@xxxx.xx.xx

For enquiries, contact Michele Hollis, Communications Manager, x.xxxxx@xxxx.xx.xx

National Institute of Water & Atmospheric Research Ltd



Taihoru Nukurangi

leading environmental science