

HIGHER

Climate & Atmosphere

CLEARER

Freshwater

DEEPER

Coasts & Oceans

Half Yearly Report

for the six months ended 31 December 2015

Overview

At the half year stage NIWA's profit and cash flow metrics are close to or better than budget while revenue is below budget. Challenges in the research funding environment this year will make achieving full year revenue and profit budget targets a significant challenge.

All science objectives as outlined in the 2015/16 Statement of Corporate Intent are on track, and excellent progress has been made with the implementation of initiatives to improve NIWA's operational efficiency and effectiveness.

An ongoing focus on collaborating with other science providers has strengthened NIWA's research capability and supported the application of NIWA's science to industry and government agencies, as illustrated below.

Financial Results

NIWA's turnover at \$57.990 million was below the budgeted revenue of \$62.627 million. An after taxation loss of \$(0.415) million was better than budget by \$0.698 million.

While good progress has been made in securing additional revenue to meet the full year budget, changes in the research funding environment are making this an increasingly challenging objective.

Expenses were \$1.782 million lower than during the same period last year, due to lower spending on science collaboration activity in respect of revenue generating projects.

The closing cash position continues to be favourable, being \$10.521 million ahead of the budgeted cash balance of \$2.483 million due to being \$2.5 million lower than budget capital spending (timing of capital purchases) combined with positive working capital movements (mainly lower uninvoiced receivables).

Overall, while NIWA expects to be profitable this year, securing sufficient research funding in the second half of the year to achieve the budget revenue and profit targets is likely to present a significant challenge.

Financial KPIs

The majority of NIWA's financial KPIs for the first half of the year were in line with or exceeded the budget set out in its Statement of Corporate Intent (SCI), as illustrated in the table below.

NIWA Group Ratios and Statistics as at 31 December 2015	Actual YTD	SCI YTD	SCI Full Year
Revenue (\$000s)	57,990	62,627	137,038
Liquidity			
Current Ratio	1.42	1.25	1.37
Quick Ratio (aka Acid test)	2.26	1.75	1.54
Profitability			
Adjusted Return on Equity*	-0.5%	-1.4%	4.5%
Return on Equity	-0.4%	-1.1%	3.5%
Return on Assets	-0.4%	-1.2%	3.8%
EBITDAF Margin (aka Operating profit margin)	11.2%	9.4%	15.1%
Operational Risk			
Profit volatility	34.2%	36.2%	6.5%
Forecasting Risk (non-adjusted ROE)	-0.1%	-0.3%	0.6%
Coverage			
Interest Cover	N/A	N/A	N/A
Growth/Investment			
Capital renewal	89.5%	166.6%	79.9%
Financial strength			
Cash and Short Term Deposits (\$000s)	13,004	2,483	11,237

*Agreed with Officials after adjustment in 2006/07 for restatement of certain land and buildings cost figures.

Collaboration

End-user collaboration

Increased focus on the application of NIWA's science for the benefit of New Zealand has continued this year. Some examples of the benefits of this end-user collaboration are included in the *Positive impacts of NIWA Science* section below.

Research collaboration

One measure of the importance and scale of collaborative relationships NIWA has with many national and international organisations, in order to deliver our Core Purpose and ensure that we deliver internationally leading science, is the publication of jointly-authored papers.

113 papers were published involving NIWA staff. Of these, 28 had only NIWA authors, with the rest involving collaboration with one or more organisations. 36 papers reflected collaboration with New Zealand organisations, the most frequent collaborations being with the University of Auckland, the University of Waikato, the University of Otago, Victoria University of Wellington, the University of Canterbury and Auckland Museum. 61 papers involved collaboration with international organisations from 13 countries, most frequently with the USA, Australia, the UK, Germany and France. In many cases, collaboration occurs with more than one other country.

Technology and Knowledge transfer

Technology and knowledge transfer activities continued at a high level for the first half of the year. Some qualitative information on transfer activities to New Zealand industry, government and Māori is contained in the *Positive impacts of NIWA Science* section below. Quantitative information follows:

End-user reports and presentations

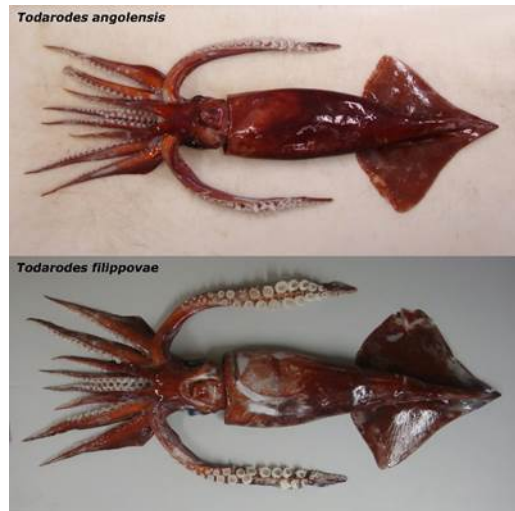
NIWA has completed 240 reports for end users to date, which supported the information needs of a range of central and local government agencies and industry organisations. Many of these reports were specifically focused on the technical staff in stakeholder organisations, directly supporting their operations.

NIWA staff made 150 presentations during the first half of the year at a very wide variety of national and international conferences, workshops, seminars and meetings. There was some overlap in audience sectors, but 55% were aimed at assisting central and/or local government audiences, while 27% were targeted to industry stakeholders and to the public or education. In addition, many were aimed at science audiences.

Positive impacts of NIWA Science

NIWA's science covers a broad range of activities, as indicated by our National Centre structure (refer to the 2015/16 Statement of Corporate Intent). Some examples of how we have advanced science in our spectrum, and the resulting benefits to end users, are given below.

Industry-linked discovery of new species in the New Zealand region. In order to address some of the concerns about the effects of fishing, a requirement of the Ministry for Primary Industries is the retention of unidentified bycatch benthic invertebrates from research trawl surveys and commercial fishing vessels. Over the last year, 785 samples were authoritatively identified from 48 research trawls and 159 observer trips, the level of identification ranging from species to family depending on the expertise available or the state of the sample. Identifications included five new species of sponge, and a specimen of the nudibranch *Armina aoteana* that was the first individual known since the original description of the species (and only the fourth known specimen of this species). We also established that *Todarodes* squid captured in sub-Antarctic waters are perhaps exclusively the *T. angolensis* species, and that there appears to be a northern (*T. filippovae*) and southern species (*T. angolensis*) in New Zealand waters. The results contribute significantly to our understanding of these invertebrate groups, expand New Zealand's biodiversity science data and fill knowledge gaps.

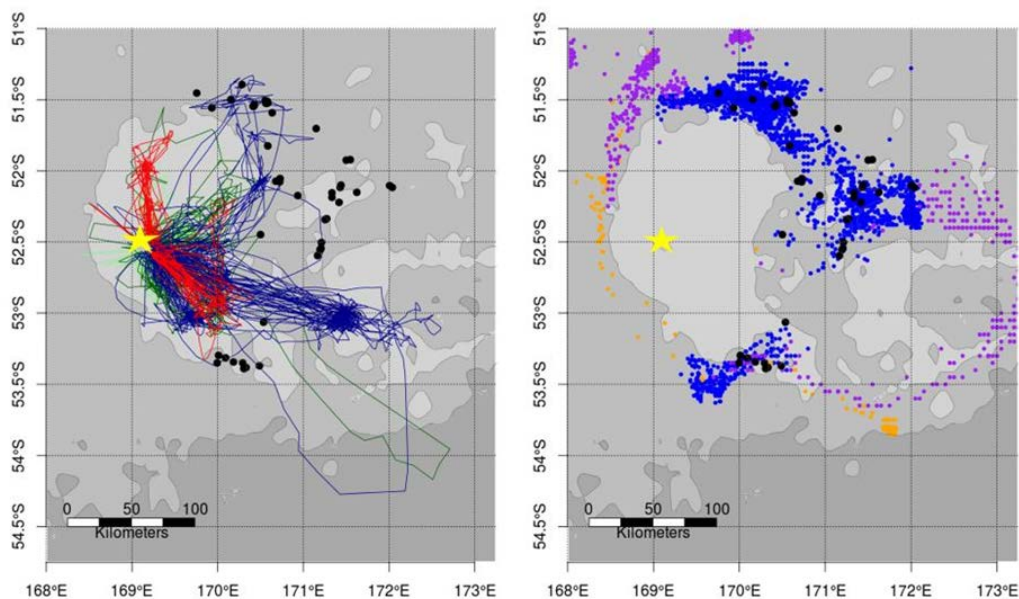


Whale populations in New Zealand. Since the decimation of the southern right whale population in New Zealand by whaling, research on its recovery has focused on the wintering ground at the Auckland Islands. For the first time in 20 years we conducted an expedition to Campbell Island in the sub-Antarctic to document and describe southern right whales occupying this wintering habitat. We used a variety of methods, including photo-identification, genetic and stable isotope analyses of tissue samples, and visual surveys of abundance and distribution, to provide details on the demography, population connectivity and ecology of southern right whales wintering at Campbell Island. Our primary findings include (1) a lack of calves observed at Campbell Island, (2) nine photo-identification matches between individuals observed at Campbell Island and previously documented elsewhere in New Zealand, (3) no genetic differentiation between southern right whales at Campbell Island and the broader New Zealand population, (4) increased abundance estimates of southern right whales at Campbell Island over the last 20 years, and (5) indications that southern right whales forage within the sub-Antarctic region. Our results confirm that the Auckland Islands are currently the *only* significant calving area for southern right whales in New Zealand, and therefore previous abundance estimates based on demographic data from the Auckland Islands are applicable to the *entire* New Zealand population of southern right whales.

Education – starting early. Linking our science with young people and education has always been a focus of NIWA, from 15 years ago when we had a programme of taking students aboard *Kaharoa*, to today, where we apply for funding from MBIE's new scheme, *Unlocking Curious Minds*. We successfully obtained some *Curious Minds* funding, which is being used in a short project to work with a consortium of five Early Childhood Centres in Mangere, South Auckland, to develop educational

activities around the theme of air quality for the under-fives. It is never too early to stimulate an appropriate-level interest in science! We have already trialled a prototype device enabling children under 5 years old to experience air quality science in two Early Childhood Centres. The device, designed and built by NIWA with assistance from Fisher & Paykel, uses the low-cost sensors previously used in our "PACMAN" indoor air quality sensor package to help children "visualise" properties of the air. Final revisions to the design are being made now before the project is finalised and evaluated.

Tracking the world's rarest sea lion reveals the nature of overlap with fisheries. As part of the MBIE-funded *Threatened Marine Megafauna* project, we tracked the Nationally Critical New Zealand sea lion at the species' southernmost breeding site, Campbell Island, using sophisticated satellite tags. This challenging research revealed that different components of the population utilised largely separate areas around Campbell Island, and that these differences in distribution help explain why it is predominantly sub-adult males that tend to be captured in fishing gear. The figure below shows (left) the tracks of New Zealand sea lions from Campbell Island (yellow star) during 2012–14. Four age classes are illustrated: adult females (red), juvenile females (light green), juvenile males (dark green) and sub-adult males (dark blue). On the right are locations of fishing events for southern blue whiting (dark blue), hoki (orange) and ling (purple). Locations of the 46 sea lion bycatch fatalities between 2003 and 2014 are indicated by black dots. These data will now be used to develop maps of predicted relative overlap between sea lions of different age classes and fishing vessels. This research has benefitted from a collaboration with the University of Tasmania.



Christopher Mace

Chairman

January 2016

John Morgan

Chief Executive

National Institute of Water & Atmospheric Research Ltd
Statement of comprehensive income
for the 6 months ended 31 December 2015

in thousands of New Zealand dollars	Note	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Revenues and other gains	4			
Revenue		57,990	61,051	126,190
Other gains		9	20	69
Total income		57,999	61,071	126,259
Operating expenses	5			
Employee benefits expense		(30,799)	(30,590)	(60,536)
Other expenses		(20,883)	(22,874)	(43,735)
		(51,682)	(53,464)	(104,271)
Profit/(loss) before interest, income tax, depreciation and amortisation		6,317	7,607	21,988
Depreciation and impairment		(6,673)	(6,662)	(13,684)
Amortisation		(412)	(324)	(694)
Profit/(loss) before interest and income tax		(768)	621	7,610
Interest income		237	201	432
Finance expense		(25)	–	(37)
Net interest and other financing costs		212	201	395
Profit/(loss) before income tax		(556)	822	8,005
Income tax credit/(expense)		165	(230)	(2,250)
Profit/(loss) for the period		(391)	592	5,755
Other comprehensive income				
Foreign currency translation differences for foreign operations		(74)	(22)	40
Total comprehensive income for the period		(465)	570	5,795
Profit/(loss) attributable to:				
Parent interest		(376)	605	5,745
Minority interest		(15)	(13)	10
Profit for the period		(391)	592	5,755
Total comprehensive income attributable to:				
Parent interest		(450)	583	5,785
Minority interest		(15)	(13)	10
Total comprehensive income for the period		(465)	570	5,795

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

National Institute of Water & Atmospheric Research Ltd
Statement of changes in equity
for the 6 months ended 31 December 2015

in thousands of New Zealand dollars	Note	Share capital	Retained earnings	Minority interest	Foreign currency translation reserve	Total equity
Balance at 1 July 2014 Unaudited		24,799	78,863	169	(224)	103,607
Profit for the year		–	605	(13)	–	592
Translation of foreign operations		–	–	–	(22)	(22)
Total comprehensive income		–	605	(13)	(22)	570
Dividends to equity holders		–	(4,000)	–	–	(4,000)
Balance at 31 December 2014		24,799	75,468	156	(246)	100,177
Balance at 1 July 2014 Audited		24,799	78,863	169	(224)	103,607
Profit for the year		–	5,745	10	–	5,755
Translation of foreign operations		–	–	–	40	40
Total comprehensive income		–	5,745	10	40	5,795
Dividends to equity holders		–	(4,000)	–	–	(4,000)
Balance at 30 June 2014		24,799	80,608	179	(184)	105,402
Balance at 1 July 2015 Unaudited		24,799	80,608	179	(184)	105,402
Profit for the year		–	(376)	(15)	–	(391)
Translation of foreign operations		–	–	–	(74)	(74)
Total comprehensive income		–	(376)	(15)	(74)	(465)
Balance at 31 December 2015		24,799	80,232	164	(258)	104,937

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

National Institute of Water & Atmospheric Research Ltd
Statement of financial position
as at 31 December 2015

in thousands of New Zealand dollars	Note	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Equity				
Share capital	7	24,799	24,799	24,799
Equity reserves		79,974	75,222	80,424
Shareholders' interest		104,773	100,021	105,223
Minority interest		164	156	179
Total equity		104,937	100,177	105,402
Non-current liabilities				
Provision for employee entitlements		440	449	436
Deferred tax liability		7,661	7,621	7,653
Total non-current liabilities		8,101	8,070	8,089
Current liabilities				
Payables and accruals		8,082	9,551	9,305
Revenue in advance		11,557	10,802	4,507
Provision for employee entitlements		1,209	1,218	1,231
Accrued employee entitlements		6,181	5,904	6,001
Tax payable		–	–	650
Forward exchange derivatives		35	61	–
Total current liabilities		27,064	27,536	21,694
Total equity and liabilities		140,102	135,783	135,185
Non-current assets				
Property, plant and equipment		100,310	98,733	100,872
Identifiable intangibles		1,240	1,084	1,649
Prepayments		59	47	19
Total non-current assets		101,609	99,864	102,540
Current assets				
Cash and cash equivalents		13,004	10,016	9,863
Receivables		8,668	10,662	13,964
Prepayments		2,576	2,395	1,942
Taxation receivable		953	438	–
Uninvoiced receivables		11,226	10,066	4,937
Inventories		2,066	2,342	1,926
Forward exchange derivatives		–	–	13
Total current assets		38,493	35,919	32,645
Total assets		140,102	135,783	135,185

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

National Institute of Water & Atmospheric Research Ltd
Cash flow statement
for the 6 months ended 31 December 2015

in thousands of New Zealand dollars	Note	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Cash flows from operating activities				
Cash was provided from:				
Receipts from customers		64,048	67,549	128,510
Dividends received		1	2	2
Interest received		237	201	432
Cash was disbursed to:				
Payments to employees and suppliers		(52,982)	(58,805)	(108,890)
Interest paid		(25)	–	(37)
Taxation paid		(1,428)	(2,379)	(3,281)
Net cash inflow from operating activities	6	9,851	6,568	16,736
Cash flows from investing activities				
Cash was provided from:				
Sale of property, plant and equipment		9	20	69
Cash was applied to:				
Purchase of property, plant and equipment		(6,339)	(5,325)	(14,525)
Purchase of intangible assets		(5)	(220)	(1,118)
Net cash outflow in investing activities		(6,335)	(5,525)	(15,574)
Cash flows from financing activities				
Cash was applied to:				
Dividends paid		–	(4,000)	(4,000)
Net cash inflow (outflow) from financing activities		–	(4,000)	(4,000)
Net increase/(decrease) in cash and cash equivalents		3,516	(2,957)	(2,838)
Effects of exchange rate changes on the balance of cash held in foreign currency		(375)	(19)	(291)
Opening balance of cash and cash equivalents		9,863	12,992	12,992
Closing cash and cash equivalents balance		13,004	10,016	9,863
Made up of:				
Cash		424	1,058	1,483
Short-term deposits		12,580	8,958	8,380
Closing cash and cash equivalents balance		13,004	10,016	9,863

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

National Institute of Water & Atmospheric Research Ltd
Notes to the financial statements
for the 6 months ended 31 December 2015

1. Reporting Entity

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

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 2013. The consolidated (or 'Group') financial statements comprise NIWA (the 'Parent Company'), its subsidiaries and the Group's interest in associates.

2. Nature of activities

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

3. 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. Cost is based on the fair value of consideration given in exchange for assets.

The presentation of the Group 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 consistently applied in preparing the financial statements for the six months ended 31 December 2015; the comparative information for the six months ended 31 December 2014, the comparative year ended 30 June 2015.

Statement of compliance

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

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

These interim financial statements have been prepared in accordance with the requirements of NZ IAS 34: Interim Financial Reporting. They should be read in conjunction with the 2015 annual report.

Accounting judgements and major sources of uncertainty

In the application of the 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Comparatives

The financial statements for the six months ended 31 December 2015 and for the comparative six month period to 31 December 2014 are unaudited. The comparative figures for the year ended 30 June 2015 are audited.

4. Revenues and other gains

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Research			
Rendering of services	33,118	28,252	64,075
Applied Science			
Rendering of services	23,407	30,514	59,042
Sale of goods	1,464	2,210	3,071
Dividends	1	2	2
Gain on sale from property, plant and equipment	9	93	69
Total operating revenue	57,999	61,071	126,259

5. Operating expenses and other gains

Employee benefits

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Defined contribution plans	1,364	1,432	2,753
Termination benefits	–	–	31
Other employee benefits	29,435	29,158	57,752
Employee benefit expense	30,799	30,590	60,536

Other expenses and other gains and (losses)

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Materials and supplies	2,707	5,871	11,682
Research collaboration	5,020	6,410	11,958
Property occupancy costs	2,954	2,902	5,758
Information technology	2,296	2,364	4,717
Remuneration of directors	155	152	297
Foreign currency gain (loss)	1	(30)	144
Movement within the doubtful debt provision	–	–	28
Bad debts written off	–	–	1
Change in the fair value of derivatives	35	(34)	(13)
Other expenses	7,623	5,164	8,976
	20,791	22,779	43,548

Auditor's remuneration

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Auditor's remuneration comprises:			
Audit of the financial statements	92	95	183
Other assurance services (ACC audit)	–	–	4
Total auditor's remuneration	92	95	187

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

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Profit for the period	(391)	592	5,755
Add/(less) items classified as investing activities			
Net loss/(gain) on disposal of property, plant and equipment	219	35	(2)
	219	35	(2)
Add/(less) non-cash items			
Depreciation and impairment	6,673	6,662	13,684
Amortisation of identifiable intangibles	412	324	694
Net foreign currency (gain)/loss	267	(38)	331
Increase/(decrease) in deferred tax liability	(40)	3	35
	7,312	6,951	14,744
Add/(less) movements in working capital items			
Increase/(decrease) in payables and accruals and revenue in advance	5,827	4,166	(2,385)
Increase/(decrease) in employee entitlements	166	(1,598)	(1,499)
(Increase)/decrease in receivables and prepayments	4,702	4,441	1,605
(Increase)/decrease in inventory and uninvoiced receivables	(6,429)	(5,833)	(377)
(Increase)/decrease in taxation receivable	(1,603)	(2,152)	(1,065)
(Increase)/decrease in forward exchange derivatives	48	(34)	(40)
	2,711	(1,010)	(3,761)
Net cash flows from operating activities	9,851	6,568	16,736

7. Share capital

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Issued and fully paid capital			
24,798,700 ordinary shares	24,799	24,799	24,799

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

8. Related party transactions

The Government of New Zealand (the Crown) is the ultimate shareholder of the NIWA Group. No transactions with other New Zealand Government-owned entities are considered as related party transactions in terms of NZ IAS 24. No related party debts have been written off or forgiven during the year. Any business the NIWA Group has transacted in which a director or an employee has an interest has been carried out on a commercial 'arms-length' basis. Any potential conflict is recorded and minuted in Board meetings for directors and a separate interest register for employees. The interest register containing all relevant interests is updated on a regular and timely basis.

Key management personnel compensations

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Short-term benefits	3,319	3,142	5,984

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

9. Commitments

9a Operating lease arrangements

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Lease expense recognised in the year	1,096	1,104	2,201
Obligations payable after balance date on non-cancellable operating leases:			
Within 1 year	2,541	2,665	2,535
Between 1 and 2 years	1,960	2,009	2,073
Between 2 and 5 years	4,916	5,150	5,227
Over 5 years	2,875	4,301	3,470
	12,292	14,125	13,305

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

9b Capital commitments

in thousands of New Zealand dollars	6 Months to Dec 15 Unaudited	6 Months to Dec 14 Unaudited	12 Months to Jun 15 Audited
Commitments for future capital expenditure:			
Approved, but not contracted for	4,602	1,329	—
Contracted, but not provided for	7,922	9,893	146
	12,524	11,222	146

10. Contingent liabilities

There are no material contingent liabilities (2014: Nil).

11. Subsequent events

There were no subsequent events (2014: Nil).

National Institute of Water & Atmospheric Research Ltd

Directory

BOARD OF DIRECTORS

Christopher Mace (Chairman)
Nicholas Main (Deputy Chairman)
Dr Helen Anderson
Prof. Keith Hunter
Prof. Gillian Lewis
Michael Pohio
Jason Shoebridge

EXECUTIVE TEAM

John Morgan, *Chief Executive Officer*
Patrick Baker, *Chief Financial Officer and Company Secretary*
Geoff Baird, *General Manager, Communications & Marketing*
Dr Barry Biggs, *General Manager, Operations*
Dr Bryce Cooper, *General Manager, Strategy*
Dr Mary-Anne Dehar, *General Manager, Human Resources*
Dr Rob Murdoch, *General Manager, Research*
Andrew Watkins, *General Manager, Information Technology*

Auditors

PricewaterhouseCoopers on behalf of the Auditor-General

Bankers

ANZ Bank of New Zealand

Registered Office and Address for Service

41 Market Place, Auckland Central 1010, New Zealand

Solicitors

Atkins Holm Majurey
Meredith Connell

Insurance Broker

Marsh Limited

www.niwa.co.nz

Facebook.com/nzniwa

Twitter.co,/niwa_nz

Google.com/+niwanz

Linkedin.com/company/niwa