

Chair's report



Sue Suckling

Since the innovative restructuring of NIWA in 1994 to embody the 'One NIWA' concept, the company has developed into a very successful research organisation and commercial consultancy firm with a reputation for excellent science, excellent services, strong financial performance, and high staff morale. Our growth has been based on strong revenue gains in both public good research and commercial projects. This trend has continued in 2002–03, with NIWA Group recording revenue of \$84.2 million, a new record. This result is particularly pleasing given that funds for environmental research have started to plateau, and there is stiff competition in the high-end science consulting market.

During 2002–03, 67% of our revenue came from two key clients – the Foundation for Research, Science & Technology (47.2%) and the Ministry of Fisheries (19.8%). The research we conduct for these two organisations maintains the backbone of our core science capabilities. Significant revenue was also obtained from direct charter of our research vessels by other organisations (4.5%) and from consulting services provided to a diverse range of clients, including the energy sector, central and local government, the seafood industry, and the dairy sector (28.3%). Our strong performance in obtaining revenue was matched by a solid performance in cutting costs, resulting in a net profit after tax of \$4.7 million and a return on average equity of 10.6%.

One of the biggest challenges facing the organisation in 2002–03 was leadership succession. The Chief Executive for the last eight years, Mr Paul Hargreaves, retired in August 2002, and Dr Rick Pridmore was appointed to the position. Rick has the unique combination of strong executive management experience and an in-depth understanding of NIWA's science. Rick has implemented an enhanced management structure that reflects strong market-focused science portfolios. Appointments into these positions came from within the organisation, and we have a very strong, high performing executive team. The outcome of this process, and the professionalism and timeliness of it, has been positive for NIWA and ensured stability in performance and staff morale.

Key issues currently facing the organisation are recruitment and retention of staff, sustainable management of the vessel assets, maintenance of core science capability, and commitment to fundamental science in areas where there is declining public sector funding. NIWA has strategies in place to address these issues.

NIWA's primary means of leveraging its research knowledge for the wider benefit of New Zealand is by way of expert consultancy on environmental issues, but there are several areas of NIWA's research where greater benefit would be derived if the company were an active participant in the application of that knowledge. These include marine natural products, aquaculture, and innovative wastewater treatment systems. Such research has wealth creation potential for New Zealand, but the realisation of this potential can be limited by failures in market uptake. This market failure is usually related to an unwillingness of the private sector to invest in new ventures at the critical pre-seed, seed, and start-up phases, where risks are perceived as high,

the technology appears complex, unfamiliar, and unreliable, and the returns are uncertain and some way into the future. To overcome these barriers to commercialisation, the Board has committed to increasing NIWA's involvement in the pathway from research to start-up through the creation of a wholly owned subsidiary company, called *NIWA Natural Solutions*. The development of this company will be a key focus for the 2003–04 year.

The only change to the Board during the year was the appointment of John Spencer on 16 June 2003.

I would like to thank the staff, the Executive, and the Board for the superb commitment they have to the company – their efforts are fundamental in delivering excellence in science and strong financial performance.



Sue Suckling
Chair

Actual performance versus Statement of Corporate Intent (SCI)

Years ended 30 June	Actual 2003 \$'000	SCI 2003 \$'000	Actual 2002 \$'000
Revenue	84,200	84,070	81,312
Operating expenses and depreciation	76,811	77,645	73,847
Operating surplus before tax	7,216	6,129	7,465
Net surplus	4,726	4,290	4,730
Average total assets	64,838	65,106	69,403
Average shareholders' funds	44,414	43,788	49,275
Profitability			
Operating surplus (%)	8.6	7.5	8.6
Return on average equity after tax (%)	10.6	9.8	9.6
Return on assets (EBIT/average total assets) (%)	11.2	9.7	10.1
Liquidity and Efficiency			
Current ratio	1.1	0.9	0.8
Quick ratio	1.6	1.2	1.1
Financial Leverage			
Debt to average equity (%)	45	45	42
Gearing (%)	1	5	9
Proprietorship (%)	68	67	71

Dollars in thousands.