Contents

PART 2

Non-financial performance summary

	Measure	2018/19 Target	2018/19 Actual
End-user collaboration	Revenue per FTE from commercial sources ($000s) [1,3]	$58	$56.8
Research collaboration	Percentage of papers co-authored [1] (total)	90%	87%
	Co-authored with other New Zealand organisations	25–30%	26%
	Overseas co-authors	30–35%	38%
	Both New Zealand and overseas co-authors [3]	30–35%	23%
Technology and knowledge transfer	Commercial reports per scientist FTE [1]	0.8	0.7
	Availability of data from our SSIF-funded databases, collections and information systems (assessed by a variety of metrics appropriate to each; metrics online)	Increasing trends	Increasing trends
	Response rate for requests to our SSIF-funded biological collections and associated infrastructure (specimen transactions, identifications, visits)	>95%	97.6%
	New and improved products, processes and services	60	51
	Presentations to stakeholders and community groups	275	187
Science quality	Impact of scientific publications (mean citation score) [1]	2.9–3.3	3.9
Financial indicator	Revenue per FTE ($000s) [1]	$192	$211
Stakeholder engagement	Percentage of relevant end-users who have adopted knowledge and/or technology from Manaaki Whenua [2]	>95%	91%
	Percentage of relevant funding partners and other end-users that have a high level of confidence in our ability to set research priorities [2]	>75%	71%
	Percentage of stakeholders involved in a specific research team/ partnership who have a high level of confidence in our ability to form the best team for the collaboration they were involved in [2,3]	>90%	81%
	Staff invited to participate in stakeholder meetings or workshops	280	261
Vision Mātauranga	Number of positive strategic partnerships with iwi and Māori organisations in which we are linking science and mātauranga, and which address Māori goals and aspirations [3]	90	96
Commercialisation	Number of new and existing licensing deals involving Manaaki Whenua-derived IP (including technologies, products and services)	8–14	12
High performance culture	Staff engagement in survey evaluations	>70%	88%
	Staff turnover rate	5–7%	6.9%

1 Generic indicators as required by MBIE across all Crown Research Institutes are at the Landcare Research Group level; the rest are at Parent level.

2 Data provided from the MBIE-commissioned biennial external client survey 2018.

3 Common with or related to SSIF Programmes Investment Contract key performance indicator(s).

Report of the Directors

For the year ended 30 June 2019

The Directors of Landcare Research New Zealand Limited are pleased to report that the Company fulfilled its obligations under the Crown Research Institutes Act 1992 for the year ended 30 June 2019. The disclosures relate to Landcare Research New Zealand Limited and its subsidiaries (the 'Group').

The Company is a private company limited by shares and incorporated in accordance with the Companies Act 1993.

Principal activity

Landcare Research's principal activity is to provide scientific research that fulfils our Core Purpose in accordance with the Crown Research Institutes Act 1992.

Operating results

Group revenue for the year increased to $85.5 million from $77.7 million in the previous year. The consolidated net surplus before taxation expense for the year was $4.4 million and the consolidated net surplus after tax attributable to Parent Company shareholders was $3.0 million.

Remuneration of Directors

Directors' fees are set annually by the shareholding Ministers.

	2018/19 $	2017/18 $
Jane Taylor	47,888	47,888
Emily Parker	37,444	37,444
Paul Reynolds	57,930	53,930
Caroline Saunders	23,944	23,944
John Rodwell	23,944	23,944
Kate Wilkinson	23,944	23,944
Ngarimu Blair	23,944	23,944
Chris Downs	—	23,944

These include fees for Paul Reynolds as Chair of Enviro-Mark Solutions Limited and Emily Parker as the Landcare Research member of the BioHeritage National Science Challenge.

Changes to Board composition

There have been no changes to the Board composition.

Subsidiaries

The Directors of the two subsidiary companies are:

Enviro-Mark Solutions Limited
Paul H S Reynolds
Richard F S Gordon
Nigel W Thomson
Kirsty Campbell [*appointed 1 January 2019*]
Paul J Munro [*appointed 1 January 2019*]

Landcare Research US Limited
Richard F S Gordon
Nigel W Thomson

Directors' insurance

The Company has Directors' and Officers' insurance cover in respect of any act or omission in their capacity as a Director of the company. The Company has indemnified Directors and certain employees of the Company for costs and proceedings and for liabilities incurred by the employee in respect of any act or omission in his or her capacity as an employee of the Company. The indemnity for liabilities incurred does not extend to criminal liability or liability for breach of a fiduciary duty owed to the Company.

Dividends

No dividends have been declared or paid in respect of the 2019 financial year.

Directors' interests

Any business the Group has transacted with organisations in which a Director has an association has been carried out on a commercial 'arms-length' basis.

Compliance

The Directors confirm that the Company has operated in accordance with the Crown Research Institutes Act 1992 and the Companies Act 1993 during the year. The activities undertaken by the Company in the year are in accordance with the Landcare Research Statement of Core Purpose. No written direction was received from either shareholding Minister in the year.

No directors acquired or disposed of equity securities in the company during the year; and the Board has received no notices from Directors of the company requesting to use company information received in their capacity as Directors which would not otherwise have been available to them.

Donations

The Group made no donations during the year (2018 Nil).

Auditors

John Mackey of Audit New Zealand has been appointed as the audit service provider by the Auditor-General. The Auditor-General is the statutory auditor pursuant to section 14 of the Public Audit Act 2001 and section 21 of the Crown Research Institutes Act 1992. Their audit remuneration and fees are detailed in note 2 of the 'Notes to the financial statements'.

Events subsequent to balance date

The Directors are not aware of any matter or circumstance since the end of the financial year not otherwise dealt with in this report that has, or may have, a significant effect on the operation of the Company.

Employee remuneration

In accordance with section 152(1)(c) of the Crown Entities Act 2004, the numbers of employees who received remuneration and other benefits totalling $100,000 or more, in $10,000 bands, during the year were:

	Number of Employees	
Total Cost to the Group	2018/19	2017/18
$480,000 - $489,999	1*	
$470,000 - $479,999		1*
$270,000 - $279,999	1	
$260,000 - $269,999	1	
$250,000 - $259,999	1	
$240,000 - $249,999		3
$230,000 - $239,999	4	1
$220,000 - $229,999		2
$210,000 - $219,999	1	1
$200,000 - $209,999		2
$190,000 - $199,999	1	
$180,000 - $189,999	1	1
$170,000 - $179,999	6	2
$160,000 - $169,999		1
$150,000 - $159,999	6	3
$140,000 - $149,999	10	6
$130,000 - $139,999	10	13
$120,000 - $129,999	14	11
$110,000 - $119,999	25	26
$100,000 - $109,999	30	18

* Chief Executive of Landcare Research New Zealand Limited.

This table includes no redundancy and 2 termination payments to employees in 2018/19 (2017/18: 0).

Signed for and on behalf of the Board:

Jane Taylor
Chair
29 August 2019

Paul Reynolds
Deputy Chair
29 August 2019

Audited Financial Statements

of Landcare Research New Zealand Limited

Consolidated statement of comprehensive income

for the year ended 30 June 2019

	Note	2019 Actual $000s	2019 Budget $000s	2018 Actual $000s
Revenue from operations	1.	84,757	86,043	77,061
Finance income		705	680	628
Total revenue		85,462	86,723	77,689
Finance costs	2.	8	—	—
Operating expenses	2.	81,057	83,938	70,718
Profit / (Loss) before tax		**4,397**	**2,785**	**6,971**
Income tax expense	21.	1,378	780	2,025
Profit / (Loss) after tax		**3,019**	**2,005**	**4,946**
Total comprehensive income		**3,019**	**2,005**	**4,946**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2019

	2019 Actual $000s	2019 Budget $000s	2018 Actual $000s
Balance at 1 July	**42,345**	**42,152**	**37,399**
Adjustment to Opening Retained Earnings - NZ IFRS 15	(905)	—	—
Total comprehensive income for the year ended 30 June	3,019	2,005	4,946
Balance at 30 June	**44,459**	**44,157**	**42,345**
Total comprehensive income attributable to:			
Parent company	3,019	2,005	4,946
	3,019	**2,005**	**4,946**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2019

	Note	2019 Actual $000s	2019 Budget $000s	2018 Actual $000s
ASSETS				
Current assets				
Cash and cash equivalents	3.	6,403	18,108	7,879
Trade and other receivables	4.	9,826	8,233	9,467
Inventories		108	16	18
Other financial assets	3.	18,256	—	17,709
Contract assets	4.	2,213	1,338	1,671
Finance lease receivable	5.	45	45	41
Total current assets		**36,851**	**27,740**	**36,785**
Non-current assets				
Property, plant and equipment	7.	34,176	37,721	30,534
Patents and intellectual property	8.	510	657	537
Intangible assets	9.	319	631	440
Finance lease receivable	5.	351	351	396
Total non-current assets		**35,356**	**39,360**	**31,907**
Total assets		**72,207**	**67,100**	**68,692**
LIABILITIES				
Current liabilities				
Trade and other payables	11.	10,646	8,561	10,036
Employee benefit liabilities	12.	4,010	5,324	4,341
Contract liability (revenue in advance)	13.	9,706	5,364	7,725
Tax payable		560	260	1,420
Derivative financial instruments	6.	—	—	1
Total current liabilities		**24,922**	**19,509**	**23,523**

	Note	2019 Actual $000s	2019 Budget $000s	2018 Actual $000s
Non-current liabilities				
Employee benefit liabilities	12.	846	809	634
Deferred tax liability	21.	1,980	2,625	2,190
Total non-current liabilities		**2,826**	**3,434**	**2,824**
Total liabilities		**27,748**	**22,943**	**26,347**
NET ASSETS		**44,459**	**44,157**	**42,345**
EQUITY				
Ordinary shares	14.	10,515	10,515	10,515
Retained earnings	14.	33,944	33,642	31,830
TOTAL EQUITY		**44,459**	**44,157**	**42,345**

The accompanying notes form part of these financial statements.

Jane Taylor
Chair
29 August 2019

Paul Reynolds
Deputy Chair
29 August 2019

Consolidated statement of cash flows

for the year ended 30 June 2019

	2019 Actual $000s	2019 Budget $000s	2018 Actual $000s
Cash flows from operating activities			
Receipts from customers	85,072	83,487	71,685
Interest received	661	680	484
Payments to suppliers and employees	(76,795)	(79,552)	(65,136)
Interest paid	(8)	—	—
Tax refund / (paid)	(2,448)	(1,153)	(1,659)
Net cash generated from operating activities	**6,482**	**3,462**	**5,374**
Cash flows from investing activities			
Purchase and sale of short term investments	(546)	—	(11,512)
Proceeds from sale of property, plant and equipment	—	—	74
Purchase of property, plant and equipment	(7,282)	(10,525)	(3,468)
Purchase of intangible assets	(130)	(295)	(295)
Net cash used in investing activities	**(7,958)**	**(10,820)**	**(15,201)**
Net increase / (decrease) in cash	**(1,476)**	**(7,358)**	**(9,827)**
Cash, cash equivalents and bank overdrafts at beginning of the year	7,879	25,466	17,706
Cash, cash equivalents and bank overdrafts at end of the year	**6,403**	**18,108**	**7,879**

The accompanying notes form part of these financial statements.

	2019 Actual $000s	2018 Actual $000s
Reconciliation of net profit / (loss) after tax to net cash flow from operating activities		
Profit / (loss) after tax	3,019	4,946
Add / (less) non-cash items:		
Depreciation and amortisation	3,902	3,518
Adjustment to opening retained earnings - IFRS 15	(905)	—
Movement in non-current employee entitlements	212	17
Increase / (decrease) in deferred tax	(210)	(409)
Add / (less) items classified as investing or financing activities:		
Gain / (Loss) on sale of non-current assets and investments	—	(73)
Gain / (Loss) in fair value of financial assets	(1)	1
Movement in finance lease receivable	41	37
Add / (less) movements in working capital items:		
Inventory	(90)	(1)
Trade and other receivables	(823)	(3,975)
Interest receivable	(82)	(103)
Trade and other payables	(231)	3,119
Employee benefit liabilities	(331)	167
Revenue in advance	1,981	(1,870)
Net cash inflow / (outflow) from operating activities	**6,482**	**5,374**

Preparation disclosures

Reporting entity

Landcare Research New Zealand Limited, trading as Manaaki Whenua – Landcare Research (MWLR) is a Crown Research Institute governed by the Crown Research Institutes Act 1992, Crown Entities Act 2004, Companies Act 1993 and the Public Finance Act 1989. The Manaaki Whenua – Landcare Research Group ('the Group') consists of Landcare Research New Zealand Limited and its subsidiaries, Landcare Research US Limited (100% owned) and Enviro-Mark Solutions Limited (100% owned). Landcare Research New Zealand Limited and Enviro-Mark Solutions Limited are incorporated and domiciled in New Zealand; Landcare Research US Limited is incorporated and domiciled in the USA.

These audited financial statements of the Group are for the year ended 30 June 2019 and were authorised by the Board of MWLR on 29 August 2019.

Nature of Activities

The core purpose of the Group is to drive innovation in New Zealand's management of terrestrial biodiversity and land resources in order to both protect and enhance the terrestrial environment and grow New Zealand's prosperity.

Basis of preparation

The Financial Statements of the Group comply with NZ IFRS, and other applicable financial reporting standards, including generally accepted accounting practice, as appropriate for Tier 1 for-profit entities. The financial statements also comply with IFRS.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The consolidated financial statements have been prepared on a historical cost basis, with the exception of derivative financial instruments that have been measured at fair value. The financial statements are presented in New Zealand dollars, the functional currency of the Group, and all values are rounded to the nearest thousand dollars ($000).

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the profit or loss.

Adoption of new and revised standards

NZ IFRS 15 revenue from contracts with customers replaces NZ IAS 18 and was effective for annual reporting periods beginning on or after 1 January 2018. NZ IFRS 15 has been applied retrospectively with the cumulative effect of applying the standard recognised at the date of initial application 1 July 2018 through opening retained earnings. Therefore comparative figures have not been restated. MWLR has identified one significant change to revenue recognition. This change relates to the timing of the subsidiary company's "membership package" revenue recognition. Refer to "impact of NZ IFRS 15 adoption" within the revenue note for further information.

NZ IFRS 9 Financial Instruments replaces NZ IAS 39 Financial Instruments and was effective from 1 January 2018. It has been adopted by the group from 1 July 2018. NZ IFRS 9 addresses the classification and measurement of financial assets and liabilities. The group has adopted the new guidance in relation to the impairment of trade receivables whereby impairment provisions are now based on expected credit losses as opposed to incurred losses. We have adopted the expected credit loss model using the simplified approach and therefore availed of practical expedient whereby an entity need not adjust the promised amount of consideration for the effects of a significant financing component. Due to a very low occurrence of write-offs our provision for impairment of trade receivables is immaterial using either methodology. Overall there has been no significant impact as a result of implementation of the standard.

NZ IFRS 16 Leases is being adopted in the financial year beginning 1 July 2019. This standard is not expected to have a material impact on the financial statements.

Subsidiaries

Where the Group has the capacity to control the financing and operating policies of an entity, so as to obtain benefits from its activities, all such entities are consolidated as subsidiaries within the Group financial statements. This power exists where the Group controls the majority voting power on the governing body, or where such policies have been irreversibly predetermined by the Group, or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

The Group measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of the subsidiary plus any costs directly attributable to the business combination. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill. If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost of the business combination, the difference will be recognised immediately in the profit or loss.

Basis of consolidation

The purchase method is used to prepare the consolidated financial statements; this involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation. MWLR's investment in its subsidiaries is carried at cost less impairment in its 'Parent entity' financial statements.

Critical accounting estimates and assumptions

In preparing these financial statements the Group has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical judgements in applying the Group's accounting policies

Management has exercised the following critical judgements in applying the Group's accounting policies for the year ended 30 June 2019:

1. *One performance obligation*
   NZ IFRS 15 introduces the concept of identifying and quantifying distinct performance obligations within contracts. The group has concluded that for the majority of contracts it is difficult to identify distinct benefits that are not interrelated to other contracted deliverables. Therefore, the group has made the judgement that each research contract represents one performance obligation.

2. *Input method*
   NZ IFRS 15 permits either output or input methods for revenue recognition over time.

   The group has made the judgement that the input method (labour hours input plus operating costs) is a more accurate method of measuring progress toward satisfaction of a performance obligation.

3. *Leases classification*
   Determining whether a lease agreement is a finance or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to the Company.

   Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant and equipment, whereas for an operating lease no such asset is recognised.

   The Group has exercised its judgement on the appropriate classification of property and equipment leases and has determined that one lease arrangement is a finance lease.

4. *Patents and intellectual property impairment*
   MWLR has exercised judgement on the impairment assessment of patents and intellectual property. Determination as to whether and how much an asset is impaired involves director and management estimates on highly uncertain matters such as local and international changes in legislation, the continuation of existing customers with existing contracts, the outlook for global and local markets, and the level at which future contracts are based on assumptions that are consistent with the Group's business plan and long-term decisions.

5. *Impairment of Property, Plant and Equipment*
   The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Changes in accounting policies

There were no changes in accounting policy during the financial year apart from those required by the adoption of NZ IFRS 15 and NZ IFRS 9.

Notes to the consolidated financial statements

for the year ended 30 June 2019

1 REVENUE

Revenue from operations consisted of the following items:	2019 Actual $000s	2018 Actual $000s
Accounted for under NZ IAS 20 government grant		
MBIE SSIF funded research	25,635	25,635
	25,635	25,635
Accounted for under NZ IFRS 15		
MBIE Non-SSIF contracts with customers	30,083	27,149
	30,083	27,149
Research contracts with other customers		
Crown Research Institutes	2,742	1,605
New Zealand	22,883	19,724
International	1,798	1,601
	27,423	22,930
Research commercialisation revenue	474	140
Rental Income accounted for under NZ IAS 17	919	835
Other income	223	372
Total revenue	**84,757**	**77,061**

Strategic Science Investment Fund (SSIF) from the Ministry of Business, Innovation and Employment (MBIE) is treated as a government grant and generally recognised in the year of receipt. The only exception is where MBIE gives prior written consent to carry over to the next financial year any part of the SSIF that will be allocated to specified long-term or large-scale research activities that require the accumulation of funds over two or more financial years to fully fund those activities.

MBIE Non-SSIF and “Research contracts with other customers” is revenue that relates to scientific research contracts with government departments, local government within New Zealand and overseas. These scientific research contracts are characterised by interrelated scientific research obligations that work towards an overarching scientific objective. MWLR’s performance obligation to these clients is to carry out ongoing research towards the overarching scientific objective. Each contract is viewed as one performance obligation. The transaction price allocated to the performance obligation is determined based on the fixed consideration outlined in the contract billing schedule. Research hours input incurred, plus operating costs incurred (input method) are used as the basis for over time revenue recognition and are a faithful depiction of scientist progression towards research conclusions.

Payment terms for research contracts are established via the expressed terms of the contract and payment is made on this predetermined periodic basis. Payment terms are intended to compensate for the fulfilment of performance obligations over a 12 month or shorter period. As revenue is recognised over time, there may be some short-term timing differences between payment and revenue recognition. Upfront payments will result in a contract liability (Revenue in advance) while performance obligation progression in advance of payment will result in an accrual of revenue or a contract asset.

The aggregate amount of the transaction price allocated to the performance obligations that are partially unsatisfied at the end of the reporting period is approximately $91m. This relates to multiyear contracts where partial completion of the performance obligation has occurred as at 30 June 2019. The group expects to realise a further $91m revenue on these multiyear contracts in financial year 2020 and beyond. Approximately half of this will be realised as revenue in financial year 2020.

Commercialisation revenue relates to our work around identifying and developing opportunities to commercialise research outputs which may provide benefit to other entities.

Rental income relates to property rental income from our shared sites around New Zealand.
In financial year 2019 the subsidiary company received $858,000 revenue for sale of carbon credits. It has been determined that control is not transferred to the customer over time and therefore point in time revenue recognition is more appropriate. Therefore, revenue is recognised upon invoicing when a present right to payment is evident.

Impact of NZ IFRS 15 adoption

As mentioned in "Adoption of new and revised standards", the Group has identified one significant change to revenue recognition as a result of the adoption of NZ IFRS 15. The subsidiary company's membership revenue will no longer be recognised up-front on invoicing. Instead receipt of payment will be accounted for in the balance sheet primarily as a contract liability which will be released as revenue over the 12-month membership period. The Group has concluded that the subsidiary company has an ongoing obligation to the client to act in a support capacity over the membership period. Overtime revenue recognition reflects the ongoing delivery of this performance obligation to the client. The table below illustrates the cumulative impact of NZ IFRS 15 timing changes at Group level. $905,000 revenue which was previously recognised in financial year 2018 has been reclassified to a revenue in advance contract liability in financial year 2018. The adjustment for this has been brought to financial year 2019 via an adjustment to opening retained earnings and this revenue has been subsequently recognised in financial year 2019. $732,000 of financial year 2019 membership payments that would have been recognised as revenue under NZ IAS 18 has now been moved to the statement of financial position. This will be recognised as membership revenue in financial year 2020.

	NZ IAS 18 $000s	**Adjustment $000s**	**NZ IFRS 15 $000s**
Revenue FY2018 - adjusted through opening retained earnings	77,061	(905)	76,156
Revenue in advance contract liability FY2018	—	905	905
Revenue FY2019	84,584	173	84,757
Revenue in advance contract liability FY2019	—	732	732

Significant financing component

The Group does not expect, at contract inception, that the period between transferring promised goods or services from contracts with customers and when the customer pays for those goods and services to be more than one year. The Group therefore applies the NZ IFRS 15 practical expedient to not adjust the consideration it expects to receive for the effects of a significant financing component.

2 PROFIT BEFORE INCOME TAX

	2019 Actual $000s	2018 Actual $000s
Profit before income tax has been arrived at after charging the following expenses:		
Finance costs		
Interest on loans	8	—
Inventory write off	—	6
Employee remuneration	37,565	33,337
Restructuring costs	—	(52)
Superannuation contributions	1,430	1,287
Employee entitlements increase / (decrease)	(165)	150
Net bad and doubtful debts	7	2
Auditor's remuneration		
Audit New Zealand - audit services	120	114
Directors' fees	261	248
Depreciation and amortisation of property, plant, equipment and intangibles	3,547	3,518
Impairment of plant, equipment and intangibles	215	344
Loss / (Profit) on sale of non-current assets	140	(120)
Operating lease rental	862	903
Cost of sales	809	428
Loss / (Profit) on foreign currency contracts fair value	(6)	1

Provisions

The Group recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive), as a result of a past event, that probable expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset in accordance with NZ IAS 23 Borrowing Costs (revised). All other borrowing costs are expensed in the period they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3 CASH AND CASH EQUIVALENTS

	2019 Actual $000s	2018 Actual $000s
Cash at bank and in hand	842	498
Short-term deposits	5,561	7,381
Total cash and cash equivalents	**6,403**	**7,879**
Other financial assets		
Short-term deposits	**18,256**	**17,709**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value.

4 TRADE AND OTHER RECEIVABLES

	2019 Actual $000s	2018 Actual $000s	2017 Actual $000s
Trade debtors	8,570	8,245	4,981
Contract asset	2,213	1,671	1,051
Bank deposit accrued interest	301	256	117
Prepayments	961	974	915
	12,045	11,146	7,064
Less provision for impairment of receivables	(6)	(8)	—
Total trade and other receivables	**12,039**	**11,138**	**7,064**
Total non-current portion	—	—	—
Total current portion of trade & other receivables	**12,039**	**11,138**	**7,064**
Disclosed as:			
Trade and other receivables	**9,826**	**9,467**	**6,013**
Contract asset	**2,213**	**1,671**	**1,051**
	12,039	**11,138**	**7,064**

Movements in the provision for impairment of receivables are as follows:

	2019	2018	2017
As at 1 July	8	—	46
Movement in provision	—	8	(46)
Receivables written off during the period	(2)	—	—
As at 30 June	**6**	8	—
Age of trade debtors:			
Current (30 days or less)	7,791	7,253	4,150
Outstanding (greater than 30 days)	779	992	831
Total trade debtors	**8,570**	**8,245**	4,981

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost, using the effective interest method, less any provision for impairment.

Loans are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar asset/investment. They are subsequently measured at amortised cost using the effective interest method. The difference between the face value and the present value of expected future cash flows of the loan is recognised as a grant expense.

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit losses to determine any provision for impairment of receivables. Expected loss rates have been determined via the analysis of two years of data for aged receivables and bad debt write-offs. Due to a very low occurrence of write-offs MWLR's provision for impairment of trade receivable is immaterial. A provision of $5,993 has been made for the subsidiary company.

The carrying value of trade and other receivables approximates their fair value. The carrying value of loans to related parties approximates their fair value.

Apart from the Ministry of Business, Innovation and Employment, which is Government-owned, there is no concentration of credit risk to receivables outside the Group, as the Group has a large number of customers.

5 FINANCE LEASE RECEIVABLE

	2019 Actual $000s	2018 Actual $000s
Analysis of finance lease receivable		
Total minimum lease payments are receivable:		
Not later than one year	78	78
Later than one year and not later than five years	314	314
Later than five years	138	216
Total minimum lease payments	530	608
Future finance charges	(134)	(171)
Total present value of minimum lease payments	**396**	**437**
Present value of minimum lease payments are receivable:		
Not later than one year	45	41
Later than one year and not later than five years	226	206
Later than five years	125	190
Total	**396**	**437**
Current	45	41
Non-current	351	396
Total	**396**	**437**

A finance lease is a lease that substantially transfers to the lessee all risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, the Group recognises finance lease assets held under a finance lease in the Statement of Financial Position and presents them as a receivable at an amount equal to the net investment in the lease. The amount recognised as finance income is based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease.

Finance lease receivable relates to the animal house facility. The building transferred to Lincoln University for nil in 2016. MWLR has the right to continue occupying the building for a further seven years to 2026 at a rent of $1.00 per annum.

6 ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	2019 Actual $000s	2018 Actual $000s
Derivative financial instruments		
Current asset / (liability) portion		
Foreign currency forward contracts	—	(1)
Total derivative financial instruments	**—**	**(1)**

The Group uses derivative financial instruments to cover the risk on foreign exchange. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their value. The Group does not designate derivatives as a hedging instrument and therefore accounts for derivative instruments at fair value through profit or loss. Changes in the fair value of derivative instruments are recognised immediately in the profit or loss.

7 PROPERTY, PLANT AND EQUIPMENT

2019	Land $000s	Buildings $000s	Plant & equipment $000s	Library assets $000s	Total $000s
Cost at 1 July 2018	1,919	26,888	48,667	8,359	**85,833**
Accumulated depreciation and impairment charges	—	(10,625)	(37,504)	(7,170)	**(55,299)**
Net book value at the beginning of the year	1,919	16,263	11,163	1,189	**30,534**
Year ended 30 June 2019					
Net book value at the beginning of the year	1,919	16,263	11,163	1,189	**30,534**
Additions	—	2,200	4,704	565	**7,469**
Disposals	—	(1,526)	(1,250)	—	**(2,776)**
Accumulated depreciation on disposals	—	1,522	977	—	**2,499**
Fair value impairment	—	—	(206)	—	**(206)**
Current year depreciation	—	(439)	(2,355)	(550)	**(3,344)**
Net book value at the end of the year	**1,919**	**18,020**	**13,033**	**1,204**	**34,176**
At 30 June 2019					
Cost	1,919	27,562	52,121	8,924	**90,526**
Accumulated depreciation	—	(9,542)	(39,088)	(7,720)	**(56,350)**
Net book value at the end of the year	**1,919**	**18,020**	**13,033**	**1,204**	**34,176**

2018	Land $000s	Buildings $000s	Plant & equipment $000s	Library assets $000s	Total $000s
Cost at 1 July 2017	1,919	26,329	46,918	7,817	**82,983**
Accumulated depreciation and impairment charges	—	(10,066)	(35,975)	(6,649)	**(52,690)**
Net book value at the beginning of the year	1,919	16,263	10,943	1,168	**30,293**
Year ended 30 June 2018					
Net book value at the beginning of the year	1,919	16,263	10,943	1,168	**30,293**
Additions	—	559	2,867	542	**3,968**
Disposals	—	—	(1,118)	—	**(1,118)**
Accumulated depreciation on disposals	—	(69)	1,118	—	**1,049**
Fair value impairment	—	—	(331)	—	**(331)**
Current year depreciation	—	(490)	(2,316)	(521)	**(3,327)**
Net book value at the end of the year	**1,919**	**16,263**	**11,163**	**1,189**	**30,534**
At 30 June 2018					
Cost	1,919	26,888	48,667	8,359	**85,833**
Accumulated depreciation	—	(10,625)	(37,504)	(7,170)	**(55,299)**
Net book value at the end of the year	**1,919**	**16,263**	**11,163**	**1,189**	**30,534**

Property, plant and equipment consist of:

- *Operational assets* – these include land, buildings, library books, plant and equipment, and motor vehicles.
- *Restricted assets* – these are collections and databases, held by the Group, that provide a benefit or service to the community and cannot be disposed of because of legal or other restrictions.
- *Capital work in progress* – this has been included within plant and equipment, and is not depreciated until ready for use.

Certain buildings are on leased land with various restrictions on sale of the buildings.

Property, plant and equipment are shown at cost, less accumulated depreciation and impairment losses. Assets are not reported with a financial value in cases where they are not realistically able to be reproduced or replaced, and when they do not generate cash flows and where no market exists to provide a valuation.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that the future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably. In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in profit or loss.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on the Group's property, plant and equipment, other than land, at rates that will write off the cost of the assets to their estimated residual values over their useful lives. All depreciable assets are depreciated on a straight-line (SL) basis. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Depreciation rates	
Buildings	1.67—10%
Plant and equipment	4—33%
IT equipment	25%
Motor vehicles	25%
Furniture and fittings	6.67—10%
Office equipment	20%
Library books and periodicals	20—50%
Rare books collection	1%

Heritage assets

Heritage collection assets are those assets held for the duration of their physical lives because of their unique scientific importance. The Crown, when establishing Crown Research Institutes in 1992, transferred various national databases and reference collections to individual Institutes at nil value. Many of these databases and collections were specifically identified by the Foundation for Research, Science and Technology as being of significant national importance, and they have covenants attached to them restricting an Institute's ability to deal with them.

MWLR has the following nationally significant collections and databases that have been defined as heritage assets:

- The New Zealand Arthropod Collection (NZAC), including the New Zealand National Nematode Collection (NZNNC) and associated database NZACbugs, BUGS bibliography and Pacific database.
- The New Zealand Fungal & Plant Disease Herbarium (PDD).
- The International Collection of Micro-Organisms from Plants (ICMP) and associated NZ Fungi Database.
- The Allan Herbarium.
- The National Vegetation Survey Databank (NVS).
- The 'Ngā Tipu Whakaoranga' Ethnobotany Database and New Zealand Flax and Living Plant collections.

Further details on these heritage assets are shown in the company's Statement of Corporate Intent pages 28 and 29.

The nature of these heritage assets and their significance to the science and research that MWLR undertakes make it necessary to disclose them.

No reliable valuation is able to be obtained for these assets, and so they remain at nil value.

A rare books collection, previously considered to be part of the reference collections, was introduced in financial year 2003 on a market value basis. This value has been accepted as deemed cost.

8 PATENTS AND INTELLECTUAL PROPERTY

	Actual $000s
As at 1 July 2017	
Cost	577
Accumulated amortisation and impairment	(32)
Net book amount	**545**
Year ended 30 June 2018	
Opening net book amount	545
Additions	13
Disposals / transfers	—
Amortisation on disposals/transfers	—
Amortisation charge	(21)
Closing net book amount	**537**
As at 1 July 2018	
Cost	590
Accumulated amortisation and impairment	(53)
Net book amount	**537**
Year ended 30 June 2019	
Opening net book amount	537
Additions	22

8 PATENTS AND INTELLECTUAL PROPERTY CONTINUED

	Actual $000s
Disposals / transfers	—
Amortisation and impairment charge	(49)
Closing net book amount	**510**
As at 30 June 2019	
Cost	599
Accumulated amortisation and impairment	(89)
Net book amount	**510**

Patents and intellectual property are capitalised on the basis of costs incurred. The useful life of trade marks is assessed as being indefinite as the trade mark is renewed every ten years by paying the applicable fee, and continues in use.

The Group has patents and trademarks amounting to $510,000 (2018: $550,000) which are carried at cost in the financial statements but are reviewed annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Amortisation of patents begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the profit or loss. Patents are depreciated at a rate of 5% per annum.

The Group conducted a comprehensive impairment review on 30 June 2019 where the Group derecognised a trademark in the Subsidiary company with a cost of $6,000 as the trademark is not being used by the Subsidiary company in the Australian market. With no commitments or intentions for future operations in the Australian market, the Group has not been able to demonstrate that it is probable the trademark will provide future economic benefits. The Group also amortised $410 of trademarks for the Parent and $33,359 of trademarks for the Subsidiary company as a result of the Subsidiary company's intentions for rebranding and some of the trademarks will only provide future economic benefits for the next two financial years during the transition period.

9 INTANGIBLE ASSETS

	Actual $000s
As at 1 July 2017	
Cost	5,197
Accumulated amortisation and impairment	(4,860)
Net book amount	**337**
Year ended 30 June 2018	
Opening net book amount	337
Additions	295
Disposals/transfers	(6)
Amortisation on disposals/transfers	6
Amortisation charge / impairment charge	(192)
Closing net book amount	**440**
As at 30 June 2018	
Cost	5,484
Accumulated amortisation and impairment	(5,044)
Net book amount	**440**
Year ended 30 June 2019	
Opening net book amount	440
Additions	130
Disposals/transfers	(575)
Amortisation on disposals/transfers	478
Amortisation / impairment charge	(154)
Closing net book amount	**319**
As at 30 June 2019	
Cost	5,039
Accumulated amortisation and impairment	(4,720)
Net book amount	**319**

Software acquisition and website development costs

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software and websites are recognised as an expense when incurred. Costs that are directly associated with the development of software and websites for internal use by the Group are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in profit or loss. The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer software	4 years	25%
Intellectual property	3–20 years	5–35%

10 INVESTMENTS

MWLR has 100% interest in Landcare Research US Limited and Enviro-Mark Solutions Limited.

On 29 June 2016 MWLR subscribed for 20% of Blinc Innovation Limited. MWLR's share of the net assets of Blinc Innovation Limited was $15,988 as at 30 June 2019. [2018: $13,016]

The subsidiaries and associate company are unlisted companies, and accordingly, there are no published price quotations to determine the fair value of these investments; therefore, they are accounted at cost less impairment.

MWLR has a 49% share in Staron LLC. This Company is non-trading.

11 TRADE AND OTHER PAYABLES

	2019 Actual $000s	2018 Actual $000s
Trade payables	7,551	7,521
Amounts due to directors	—	2
GST & PAYE	491	609
Sundry creditors and accruals	2,604	1,904
Total trade and other payables	**10,646**	**10,036**

The carrying value of trade and other payables approximates their fair value.

Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST-inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Statement of Financial Position. The net GST paid to or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the Statement of Cash Flows.

12 EMPLOYEE BENEFIT LIABILITIES

	2019 Actual $000s	2018 Actual $000s
Accrued pay	283	252
Annual leave	2,482	2,288
Long-service leave	1,328	1,117
Retirement leave	10	10
Time in lieu	172	172
Sick leave	58	60
Staff incentives and at risk payments	466	1,015
Holiday pay due to ex-employees	57	61
Total employee benefit liabilities	**4,856**	**4,975**
Comprising:		
Current	4,010	4,341
Non-current	846	634
Total	**4,856**	**4,975**

The Holiday Pay due to ex-employees of $57,000 (2018: $61,000) has been provided for due to the payroll system incorrectly calculating annual leave payment rates in prior years. The provision is the maximum amount that is required to be paid out.

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis by Eriksen and Associates Limited as at 30 June 2019. The calculations are based on:

- Likely future entitlements accruing to staff, based on years of service, years to entitlement, likelihood staff will reach the point of entitlement and contractual entitlements information; and
- Present value of estimated future cash flows using the following key assumptions:
  - Discount rates of 1.03% – 4.30% based on the risk-free rates as calculated from the yields on New Zealand Government Bonds
  - Inflation factor of 2.5% was based on the expected long-term increase in remuneration of employees.

Short-term benefits

Employee benefits that the Group expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date, retirement and long-service leave entitlements expected to be settled within 12 months, and sick leave.

The Group recognises a liability for sick leave to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date; to the extent that the Group anticipates leave entitlements will be used by staff to cover those future absences.

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

All actuarial gains and losses that arise subsequent to the transition date in calculating the Group's obligation with respect to long service leave, retirement gratuities and sick leave are recognised as an expense in the profit or loss.

Superannuation schemes

- *Defined contribution schemes*: obligations for contributions to defined-contribution superannuation schemes are recognised as an expense in the profit or loss as incurred.
- *Defined benefit schemes*: the Group makes contributions to the Government Superannuation Fund, which is a multi-employer defined benefit scheme. Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme the extent to which the profit or loss will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

Long-service leave, retirement leave, and sick leave

Entitlements that are payable beyond 12 months, such as long service leave, retirement leave and sick leave, have been calculated on an actuarial basis. The calculations are based on likely future entitlements accruing to staff, based on years of service, years to entitlement, payment history, the likelihood that staff will reach the point of entitlement, and contractual entitlements information.

13 CONTRACT LIABILITY (REVENUE IN ADVANCE)

	2019 Actual $000s	2018 Actual $000s	2017 Actual $000s
MBIE public good science funding	6,097	6,123	8,145
Commercial contracts	3,609	1,602	1,450
	9,706	**7,725**	**9,595**
Revenue recognised in period from amounts included in revenue in advance at beginning of period	**6,515**	**8,771**	

The contract liability balance represents where payment has been received but the corresponding performance has not been carried out within the financial year. This is usually associated with up-front payments. The majority of the 2019 contract liability balance is expected to be released in financial year 2020 as work is completed and revenue is realised.

14 EQUITY

	2019 Actual $000s	2018 Actual $000s
Retained earnings		
As at 1 July	31,830	26,884
Adjustment to Opening Retained Earnings - NZ IFRS 15	(905)	—
Profit / (loss) for the year	3,019	4,946
As at 30 June	**33,944**	**31,830**
Share capital		
As at 1 July	10,515	10,515
As at 30 June	**10,515**	**10,515**

The issued capital of the MWLR is $10,515,000, fully paid up, and equally ranking shares.

The shares have no par value.

No Dividends were paid during the year ended 30 June 2019. [2018: $0].

15 CAPITAL MANAGEMENT

The Group's capital is its equity, which comprises retained earnings and other reserves. Equity is represented by net assets.

The Group is subject to the financial management and accountability provisions of the Crown Research Institutes Act 1992, which imposes certain restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

The Group manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure the Group effectively achieves its objectives and purpose, while remaining a going concern.

16 CAPITAL COMMITMENTS AND OPERATING LEASES

	2019 Actual $000s	2018 Actual $000s
Capital commitments		
Estimated capital expenditure contracted for at balance date but not paid or provided for	721	707
Operating lease commitments – Lessee		
Lease commitments under non-cancellable operating leases:		
Within one year	869	679
Later than one year and not later than two years	684	301
Later than two years and not later than five years	1,417	759
Later than five years	5,105	2,875

As at 30 June 2019 there is no commitment to New Zealand eScience Infrastructure (2018: $0.3m)

	2019 Actual $000s	2018 Actual $000s
Operating lease commitments – Lessor		
Lease commitments under non-cancellable operating leases:		
Within one year	705	608
Later than one year and not later than two years	673	553
Later than two years and not later than five years	1,773	1,659
Later than five years	51	461

Group as a lessee

An operating lease is a lease that does not substantially transfer all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

17 CONTINGENCIES

Commitments and contingencies are disclosed exclusive of GST. The Group is not aware of any significant contingent liabilities or contingent assets as at balance date (2018: Nil).

18 RELATED PARTY TRANSACTIONS

MWLR is the ultimate parent of the Group and controls three entities, being Landcare Research US Limited, Enviro-Mark Solutions Limited and Manaaki Whenua Research Trust (MWRT).

MWRT is incorporated under the Charitable Trusts Act 1957 and is registered as a charitable entity under the Charities Act 2005. The Trust is controlled by MWLR and was formed on 9 February 2016.

MWRT audit fees to Audit New Zealand of $1,765 (GST exclusive) (2018: $1,833) have been paid by the Controlling Entity, MWLR.

MWRT Trustees Liability insurance of $2,750 (GST exclusive) (2018: $2,750) has been paid by the Controlling Entity, MWLR.

MWRT's Controlling Entity, MWLR has provided accounting services to the Trust at no cost.

Intercompany transactions between MWLR and its subsidiaries and Controlled Trust are transacted on a commercial basis. No transaction between companies within the Group took place at nil or nominal value during the year, apart from the provision of accounting services to the Trust as stated previously.

MWLR has capitalised Landcare Research US Limited for a sum of USD 50,000, but the amount has been held by the Parent company pending requirement, and will be paid out on request.

	2019 Actual $000s	2018 Actual $000s
Key management personnel compensation		
Salaries and other short-term employee benefits	3,337	3,193

Key management personnel includes Directors, Chief Executive Officer and other senior management personnel.

During the year transactions took place with the following organisations over which certain key management personnel and Directors have significant influence:

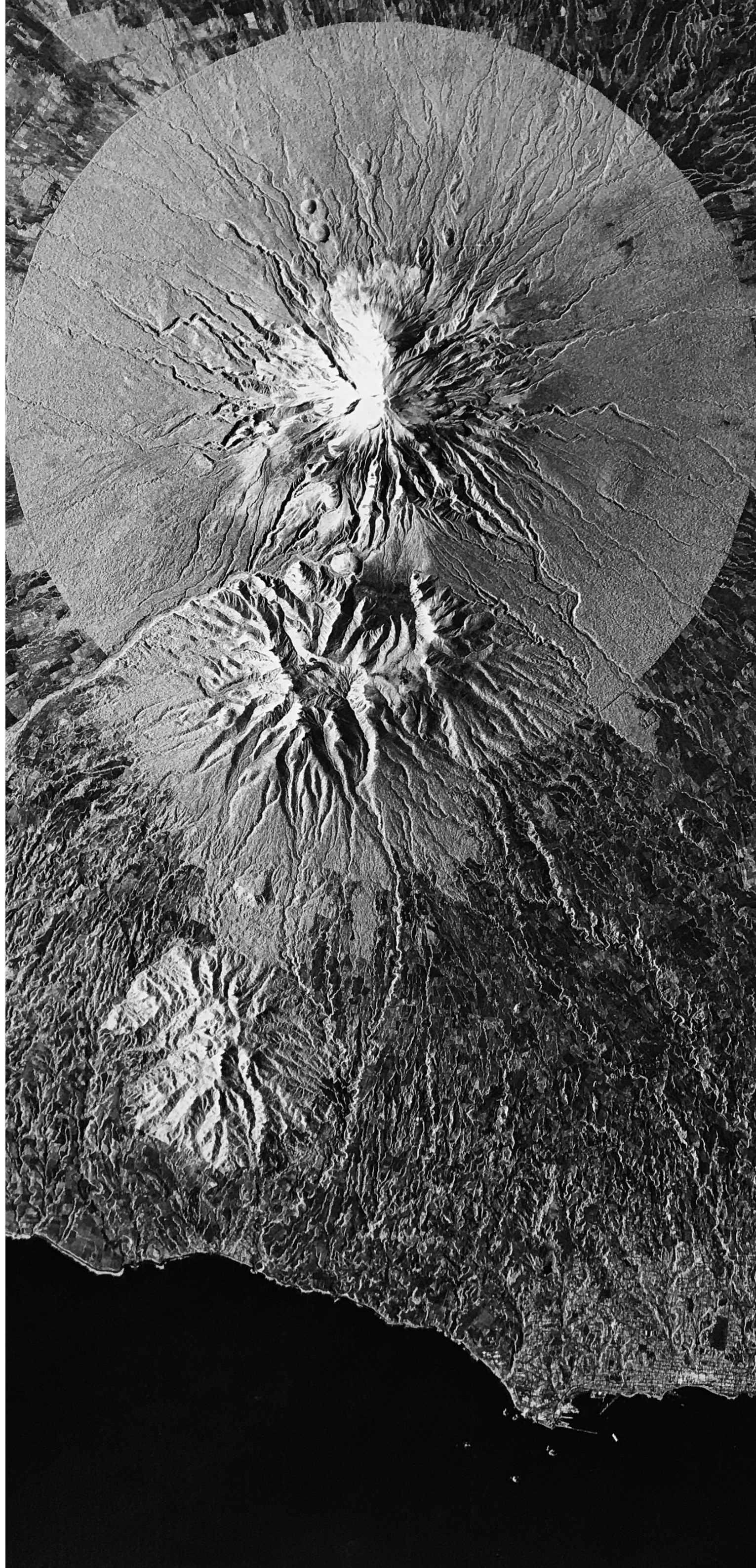
	2019 Services received from $000s	2018 Services received from $000s	2019 Services provided to $000s	2018 Services provided to $000s	2019 Amounts (Payable to)/ Receivable $000s	2018 Amounts (Payable to)/ Receivable $000s
Science New Zealand	81	66	79	30	1	—
AgResearch Limited	903	655	982	1,765	(64)	628
Predator Free 2050 Ltd	6	5	353	244	86	58
Royal Society of New Zealand	276	10	294	469	—	(4)

Landcare Research New Zealand Limited also supplies and purchases goods and services from entities controlled, significantly influenced or jointly controlled by the Crown. Sales to and purchases from these entities during the year ended 30 June 2019 were:

	2019 Services received from $000s	2018 Services received from $000s	2019 Services provided to $000s	2018 Services provided to $000s	2019 Amounts (Payable to)/ Receivable $000s	2018 Amounts (Payable to)/ Receivable $000s
Crown entities, SOEs and government departments	15,899	15,198	67,866	62,819	(545)	(634)

Landcare Research New Zealand Limited also supplies and purchases goods and services with Blinc Innovation Limited. Sales to and purchases from this entitiy during the year ended 30 June 2019 were:

2019 Services received from $000s	2018 Services received from $000s	2019 Services provided to $000s	2018 Services provided to $000s	2019 Amounts (Payable to)/ Receivable $000s	2018 Amounts (Payable to)/ Receivable $000s
238	230	—	11	(7)	(58)



19 FINANCIAL INSTRUMENTS

	2019 Actual $000s	2018 Actual $000s
Financial assets		
Financial assets at fair value through profit and loss		
Foreign exchange forward contracts	—	(1)
Financial assets subsequently measured at amortised cost		
Cash and cash equivalents	6,403	7,879
Trade receivables	8,570	8,245
Contract asset	2,213	1,671
Bank deposit accrued interest	301	256
Other financial assets	18,256	17,709
Financial liabilities measured at amortised cost		
Trade payables	7,551	7,521
Sundry creditors and accruals	2,604	1,904

The Group classifies its financial assets into the following three categories: financial assets at fair value through profit or loss, financial assets subsequently measured at amortised cost, and financial assets at fair value through other comprehensive income. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets and liabilities are initially measured at fair value plus transaction costs, unless they are carried at fair value through profit or loss in which case the transaction costs are recognised in profit or loss, or if they are trade receivables which are measured at the transaction price.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The two categories of financial assets are:

- *Financial assets at fair value through profit or loss*
  This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if designated as so by management. Derivatives are also categorised as held for trading or are expected to be realised within 12 months of the balance sheet date. After initial recognition they are measured at their fair values. Gains or losses on remeasurement are recognised in profit or loss. Financial assets in this category include foreign currency forward contracts.

- *Financial assets subsequently measured at amortised cost*
  These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in profit or loss.

The two categories of financial liabilities are:

- *Financial liabilities at fair value through profit or loss*
  Financial liabilities at fair value through profit or loss are those that are designated as fair value through profit or loss. After initial recognition, these liabilities are measured at their fair value. Gains and losses are recognised directly in profit or loss.

- *Financial liabilities measured at amortised cost*
  After initial recognition they are measured at amortised cost using the effective interest method.

Impairment of financial assets

At each balance sheet date the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in profit or loss.

20 IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where the future economic benefits or service potential of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits or service potential. The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in profit or loss.

21 INCOME TAX

	2019 Actual $000s	2018 Actual $000s
Components of tax expense		
Current tax	1,430	1,972
Adjustments to current tax in prior years	(1)	77
Deferred tax expense	(51)	(24)
Income tax expense	**1,378**	**2,025**
Relationship between tax expense and accounting profit		
Profit / (loss) before tax	4,396	6,971
Tax at 28%	1,232	1,952
Non-deductible expenditure	199	16
Prior-year adjustment	(53)	57
Total income tax expense	**1,378**	**2,025**
The income tax charge is represented by:		
Current taxation	1,168	1,616
Deferred tax benefit	210	409
	1,378	2,025

Deferred tax assets / (liabilities)	**Property, plant and equipment $000s**	**Employee entitlements $000s**	**Other provisions $000s**	**Total $000s**
Group				
Balance at 1 July 2017	(3,447)	843	5	(2,599)
Charged to profit / (loss)	383	21	5	409
Balance at 1 July 2018	(3,064)	864	10	(2,190)
Charged to profit / (loss)	47	89	74	210
Balance at 30 June 2019	**(3,017)**	**953**	**84**	**(1,980)**

Income tax expense in relation to the profit or loss for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill, or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction affects neither accounting profit nor taxable profit. Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax are recognised against profit or loss, except to the extent that they relate to a business combination, or directly in equity.

22 FINANCIAL INSTRUMENT RISKS

The Group has a series of policies to manage the risks associated with financial instruments. The Group is risk averse and seeks to minimise exposure from its treasury activities. Treasury and cash management policies approved by the Board do not allow any transactions that are speculative in nature to be entered into.

Market risk

Price risk

Group price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. During the year the Group was not exposed to price risk as it did not hold financial assets held at fair value through profit or loss.

Currency risk

Group currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group operates internationally and is exposed to foreign exchange risk arising from various contract exposures, primarily with respect to the US dollar, Australian dollar, Euro, UK pound and Norwegian krone. Currency risk arises when future commercial transactions, recognised assets and recognised liabilities are denominated in a currency that is not the entity's functional currency.

As at 30 June 2019, if the US dollar had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, profit after tax for the year would have been $1,000 (2018: $4,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US-dollar-denominated trade payables and receivables and the US dollar bank account.

As at 30 June 2019, if the Australian dollar had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, profit after tax for the year would have been $23,000 (2018: $26,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Australian-dollar-denominated trade payables and receivables and the Australian dollar bank account.

At 30 June 2019, if the Euro had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, profit after tax for the year would have been $0 (2018: $11,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade payables and receivables.

At 30 June 2019, if the UK pound had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, profit after tax for the year would have been $2,000 (2018: $2,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of UK-pound-denominated trade payables and receivables.

At 30 June 2019, if the Norwegian Krone had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, profit after tax for the year would have been $0 (2018: $1,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of UK-pound-denominated trade payables and receivables.

The Group foreign exchange management policy is to cover the risk on any foreign currency transactions greater than $50,000.

Interest rate risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate due to changes in market interest rates. Short term bank deposits which receive variable interest rates expose the Group to cash flow interest rate risk.

Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. Future interest payments on floating rate debt are based on the floating rate on the instrument at balance date. The amounts disclosed are the contractual undiscounted cash flows and include interest payments.

2018	**Carrying amount $000s**	**Contractual cash flows $000s**	**Less than 1 year $000s**	**1–2 years $000s**	**2–5 years $000s**	**More than 5 years $000s**
Group						
Creditors & other payables	10,036	10,036	10,036	—	—	—
Total	**10,036**	**10,036**	**10,036**	—	—	—
2019						
Group						
Creditors & other payables	10,646	10,646	10,646	—	—	—
Total	**10,646**	**10,646**	**10,646**	—	—	—

Credit risk

Credit risk is the risk that a third party will default on its obligation to MWLR, causing MWLR to incur a loss. MWLR has a significant concentration of credit risk with the Ministry of Business, Innovation and Employment; however, the risk is mitigated as this entity is also Government-owned. The Group's maximum exposure to credit risk is the amount of Receivables.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

23 BUDGET FIGURES

The budget figures are those in the Statement of Corporate Intent approved by the shareholding Ministers at the beginning of the year. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Group for the preparation of the financial statements.

24 EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET AND BETWEEN YEARS

There were the following significant variances:

- *Statement of Comprehensive Income*
  Group net profit after tax has exceeded budget by $1m due to improved margins from science research activity, and indirect and corporate costs being favourable to budget.

  2019 year Group revenue has increased 10% over 2018 due to increased revenue from Endeavour projects, the Bio-Heritage National Science Challenge and growth in research projects with TB Free NZ, local government organisations and universities.

- *Statement of Financial Position*
  Net assets increased $2.1m during the year due largely to capital expenditure on buildings infrastructure at the Lincoln site.

25 EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

Brad White

Statement of Responsibility

The Directors are responsible for presenting financial statements for each financial year that give a true and fair view of the financial position of Landcare Research New Zealand Limited (the Company) and its subsidiaries (the Group) and of the financial performance and cash flows for that period.

The Directors consider the financial statements of the Group and the Company have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors are responsible for establishing and maintaining a system of internal control designed to provide reasonable assurances as to the integrity and reliability of the financial reporting.

The Directors believe that proper accounting records have been kept, which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Companies Act 1993.

The Directors believe that they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Board of Directors of Landcare Research New Zealand Limited approved and authorised the financial statements for the year ended 30 June 2019 for issue on 29 August 2019.

Jane Taylor
Chair
29 August 2019

Paul Reynolds
Deputy Chair
29 August 2019

Audit Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

To the readers of Landcare Research New Zealand Limited's group financial statements for the year ended 30 June 2019

The Auditor General is the auditor of Landcare Research New Zealand Limited Group (the Group), trading as Manaaki Whenua Landcare Research. The Auditor General has appointed me, John Mackey, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Group on his behalf.

Opinion

We have audited the financial statements of the Group on pages 5 to 27, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion, the financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 30 June 2019; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 29 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors has to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992.

Responsibilities of the auditor for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements.

For the budget information reported in the financial statements, our procedures were limited to checking that the information agreed to the Group's statement of corporate intent.

We did not evaluate the security and controls over the electronic publication of the financial statements.
As part of an audit in accordance with the Auditor General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1–4, 28, 31 and 32, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

John Mackey
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Financial indicators (MBIE)

Financial key performance indicators as required by MBIE (not part of the Audited Financial Statements).

For year ending 30 June:	**Actual 2019**	**Business Plan 2019**
Efficiency:		
Operating margin	8.5%	7.1%
Operating margin per FTE	$18,066	$14,718
Risk:		
Quick ratio	2.35	1.89
Interest coverage	906	N/A
Operating margin volatility	17.4%	19.0%
Forecasting risk	3.6%	1.6%
Tailored rate of return:		
Return on equity (ROE) before investment	10.0%	10.3%
Return on equity (ROE) (based on NPAT)	7.0%	4.6%
Growth/investment:		
Revenue growth	10%	8.0%
Capital renewal	2.1	2.7

Operating margin:
EBITDAF ÷ Revenue, expressed as a percentage. (EBITDAF is EBIT before depreciation, amortisation and fair value adjustments.)

Quick ratio:
(Current assets – Inventory - Prepayments) ÷ (Current liabilities – Revenue in advance).

Interest coverage:
Interest is the cost of debt and financial leases. Interest cover = EBITDAF ÷ interest. (EBITDAF is EBIT before depreciation, amortisation and fair value adjustments.)

Forecasting risk:
5-year average of return on equity less forecast return on equity.

Return on equity:
NPAT ÷ Average shareholders' funds, expressed as a percentage. (NPAT: net profit after tax.)

Shareholders' funds:
Includes share capital and retained earnings.

Capital renewal:
Capital expenditure / Depreciation expense plus amortisation expense.

Directory

DIRECTORS

Jane Taylor (Chair)
Dr Paul Reynolds (Deputy Chair)
Ngarimu Blair
Prof Emily Parker
John Rodwell
Prof Caroline Saunders
Hon Kate Wilkinson

REGISTERED OFFICE

Canterbury Agriculture & Science Centre
54 Gerald Street
PO Box 69040
Lincoln 7640
New Zealand

PH: +64 3 321 9999
FAX: +64 3 321 9998

www.landcareresearch.co.nz
NZBN Number: 9429038990496

SENIOR LEADERSHIP

Dr Richard Gordon	Chief Executive
Dr Fiona Carswell	Chief Scientist
Kylie Hansen	General Manager, People & Culture
Holden Hohaia	General Manager, Māori Development
Dr Steve Lorimer	General Manager, Development
Chris McDermott	General Manager, Brand & Communications
Dr Peter Millard	General Manager, Science
Graham Sevicke-Jones	General Manager, Science and Knowledge Translation
Nigel Thomson	General Manager, Corporate Services
Prof Ann Smith	Chief Executive Enviro-Mark Solutions
Dr Andrea Byrom	Director, NZ Biological Heritage National Science Challenge
Melanie Shadbolt	Director Māori, NZ Biological Heritage National Science Challenge

BANKERS

ANZ Bank New Zealand Limited

AUDITORS

Audit New Zealand on behalf of the Auditor-General

SOLICITORS

Buddle Findlay

ALEXANDRA

43 Dunstan Road
PO Box 282
Alexandra 9340
Ph: +64 3 440 2930

AUCKLAND

231 Morrin Rd, St Johns
Private Bag 92170
Auckland 1142
Ph: +64 9 574 4100

DUNEDIN

764 Cumberland Street
Private Bag 1930
Dunedin 9054
Ph: +64 3 470 7200

HAMILTON

Gate 10
Silverdale Road
Private Bag 3127
Hamilton 3240
Ph: +64 7 859 3700

LINCOLN

54 Gerald Street
PO Box 69040
Lincoln 7640
Ph: +64 3 321 9999

WELLINGTON

Level 6
17 Whitmore Street
PO Box 10345
Wellington 6143
Ph: +64 4 382 6649

NELSON

First Floor
24 Nile Street
Private Bag 6
Nelson 7042
Ph: +64 3 545 7700

PALMERSTON NORTH

Riddet Road, Massey
University Campus
Private Bag 11052
Palmerston North 4442
Ph: +64 6 353 4800

ENVIRO-MARK SOLUTIONS LIMITED

AUCKLAND
Suite 9, Level 2
20 Augustus Tce
Parnell
PO Box 137182
Parnell 1151, Auckland
Ph: +64 9 574 4230
or: +64 3 321 9804

LINCOLN
Unit 10/4 Eastfield Drive
PO Box 69040
Lincoln 7640
Ph: +0800 366 275