We present our Annual Report in two parts. Part 1 provides an overview of Manaaki Whenua, highlights of our science that show the contribution we are making towards our four ambitions for New Zealand, and an update on the progress we are making in delivering on Strategy 22, our 5-year strategy. In Part 2 we present our directors' report and financial statements.

PDF versions of both Part 1 and Part 2 are available for download from the Manaaki Whenua – Landcare Research website: manaakiwhenua.co.nz/report

Landcare Research New Zealand Limited
(Manaaki Whenua – Landcare Research)
Annual Report 2021

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www.manaakiwhenua.co.nz

# Contents

# Our Board

**Jane Taylor (Chair)**
Jane is a professional director, with a strong background in both law and finance.

She holds numerous directorships and is also chair of Predator Free 2050 Ltd, a key player in achieving New Zealand's Predator Free 2050 ambition.

**Dr Paul Reynolds QSO**
*Deputy Chair*
Paul served as Chief Executive of the Ministry for the Environment from 2008 until 2015. He holds a PhD in Biochemistry from the University of Otago and is Chair of AgResearch.

**Prof. Caroline Saunders**
*Director*
Caroline has 30 years' research expertise and over 300 publications specializing in sustainable economic development.

**Prof. Emily Parker**
*Director*
Emily is a Professor of Chemical Biology at Victoria University, leading a team focused on the science and application of complex biomolecules.

**The Honourable Kate Wilkinson**
*Director*
Kate is a former Member of Parliament and Cabinet Minister. She was appointed Commissioner of the Environment Court in May 2015.

**John Rodwell**
*Director*
John is an experienced director with a background in corporate finance, investment banking, and investing in agri-businesses.

**Ngarimu Blair**
*Director*
Ngarimu holds a number of directorships in iwi development, property, rugby, and sustainability leadership. He is of Ngāti Whātua descent and is the Deputy Chair of the Ngāti Whātua Ōrākei Trust in central Auckland.

**Justine Gilliland**
*Director*
Justine is the chief executive of Venture Taranaki, is on the boards of Economic Development New Zealand and AGMARDT (Agricultural Marketing, Research and Development Trust), and co-chairs the Taranaki regional skills leadership group.

# Our leadership team

**Dr Richard Gordon** (CEO)
Richard is passionate about good science making a positive difference for society and the environment.

He became Chief Executive in 2011 after 5 years as Science General Manager.

**Dr Steve Lorimer**
*GM Development*
Innovation, investment, and commercialization leadership.

**Dr Peter Millard**
*GM Science*
Developing new research collaborations and co-leading our science portfolios.

**Chris McDermott**
*GM Brand & Communications*
Building one of New Zealand's great brands.

**Dr Fiona Carswell**
*Chief Scientist*
Leading our high-performing science teams.

**Nigel Thomson**
*GM Corporate Services*
Ensuring the sustainable and efficient operation of our organization.

**Kylie Hansen**
*GM People & Culture*
Building a great culture with great people.

**Holden Hohaia**
*GM Māori Partnerships*
Building strong and mutually valuable partnerships with Māori.

**Graham Sevicke-Jones**
*GM Science and Knowledge Translation*
Applying our science to environmental challenges.

# Summary of financial performance

## Summary table of group financial performance indicators

| | 2019 Achieved | 2020 Achieved | 2021 Achieved | 2022 Target |
|---|---|---|---|---|
| **Revenue, $M** | 85.5 | 89.6 | 97.1 | 104.1 |
| **EBIT, $M** | 3.7 | 4.0 | 4.6 | 1.6 |
| **NPAT, $M** | 3.0 | 4.9 | 3.3 | 1.0 |
| **Total assets, $M** | 72.2 | 85.3 | 101.9 | 83.5 |
| **Return on equity** | 7.0% | 10.5% | 6.4% | 2.0% |

**Financial Performance**

Total Revenue of $97.1m for the 2021 year was $7.5m up on the previous year. This reflects a strong year with demand for Toitū services and the profile of activity in the BioHeritage National Science Challenge. Net Profit after tax at $3.3m reflects continued strong underlying performance and that we are able to invest in the organisation.

In 2021/22 Manaaki Whenua's revenue is budgeted at $104.1 million. This reflects:

- increased revenue in relation to the greater activity of the New Zealand's Biological Heritage Challenge, and greater Toitū activity and revenue, reflecting market conditions.
- reduced science revenue and a reduction due to the impact of the Government's Covid-19 Response and Recovery fund received in 2020/21, which is not expected in 2021/22.

As noted in our SCI revenue, risk is high in 2021/22 and 2022/23 as several MBIE Endeavour research investments come to an end. Our emphasis on finding alternative investment from non-MBIE sources is expected to be further constrained by economic restraint during the pandemic.

The years 2021/22 and 2022/23 represent a period of re-investment for Manaaki Whenua, utilising balance sheet reserves generated from past profits to maintain capability while we reposition and continue our emphasis on finding alternative investment.

As a CRI we aim for maximum benefit to Aotearoa New Zealand through our purpose. Our balance sheet and cashflows enable us to continue investing in this purpose. We do not seek to maximise profit beyond what is needed for financial resilience, which is agreed in advance with our shareholding Ministers.

# Summary of non-financial performance

## Non-financial performance indicators[a]

| Indicator | Measure | 2020/21 Target | 2020/21 Actual |
|---|---|---|---|
| **End-user collaboration** | Revenue per FTE from commercial sources ($000s) [b,c] | $60 | $60.5 |
| **Research collaboration** | Percentage of papers co-authored [b] (total) | 85-90% | 90.1% |
| | Co-authored with other New Zealand organisations | 25–30% | 28.5% |
| | Overseas co-authors | 35-40% | 40% |
| | Both New Zealand and overseas co-authors [c] | 25-30% | 21.7% |
| **Technology and knowledge transfer** | Commercial reports per scientist FTE [b] | 0.7-0.8 | 0.79 |
| | 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% | 98% |
| | New and improved products, processes, and services | >40 | 41 |
| | Presentations to stakeholders and community groups [d] | 200 | 113 |
| **Science quality** | Impact of scientific publications (mean citation score) [b,c] | 3.0-3.3 | 4.0 |
| **Financial indicator** | Revenue per FTE ($000s) [b] | >$200 | $231.7 |

[a] Indicators for operational areas such as good employer, health and safety, and our environmental performance can be found on our website: www.landcareresearch.co.nz/about/sustainability.
[b] Generic indicators required by MBIE across all CRIs are at the Manaaki Whenua Group level; the rest are at Parent level.
[c] Common with or related to SSIF Programmes Investment Contract key performance indicator(s).
[d] Uncertainty due to ongoing effects of Covid-19.

# Summary of non-financial performance continued

| Indicator | Measure | 2020/21 Target | 2020/21 Actual |
|---|---|---|---|
| **Stakeholder engagement** | Percentage of relevant end-users who have adopted knowledge and/or technology from Manaaki Whenua [e,f] | >65% | 64% |
| | Percentage of relevant funding partners and other end-users that have a high level of confidence in our ability to set research priorities [e,g] | >50% | 48% |
| | 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 [c,e,g] | >60% | 58% |
| | Staff invited to participate in stakeholder meetings or workshops [d] | 250 | 145 |
| **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 [c,d] | 90 | 112 |
| **Commercialisation** | Number of new and existing licensing deals involving Manaaki Whenua-derived IP (including technologies, products and services) | 20-25 | 23 |
| **High performance culture** | Staff engagement in survey evaluations | >80% | 75% |
| | Staff retention rate | 90% | 93% |

[e] Results from the 1920–20 Biennial Stakeholder Survey.
[f] Does not include survey respondents who were unsure.
[g] Those who score 8, 9 or 10 on a 0–10 scale.

# Report of the Directors

**For the year ended 30 June 2021**

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 2021. 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 the Crown Research Institutes Act 1992.

### Operating results

Group revenue for the year increased to $97.1 million from $89.6 million in the previous year. The consolidated net surplus before taxation expense for the year was $4.6 million and the consolidated net surplus after tax attributable to Parent Company shareholders was $3.3 million.

### Remuneration of Directors

Directors' fees are set by the shareholding Ministers annually.

| | 2020/21 $ | 2019/20 $ |
|---|---:|---:|
| *Landcare Research New Zealand Limited* | | |
| Jane Taylor[a**] | 47,888 | 47,888 |
| Emily Parker[b**] | 34,913 | 37,444 |
| Paul Reynolds[c] | 69,930 | 69,930 |
| Caroline Saunders | 23,944 | 23,944 |
| John Rodwell[d] | 28,819 | 23,944 |
| Kate Wilkinson[**] | 23,944 | 23,944 |
| Ngarimu Blair | 23,944 | 23,944 |
| Justine Gilliland[e] | 23,944 | 7,016 |
| *Enviro-Mark Solutions Limited (trading as Toitū Envirocare)* | | |
| Kirsty Campbell | 30,000 | 30,000 |
| Paul J Munro | 30,000 | 30,000 |

[a] Chair of Manaaki Whenua – Landcare Research Board.
[b] Includes remuneration as MWLR member of the BioHeritage National Science Challenge Board (Mana Rangatira) to 31 March 2021.
[c] Includes fees as Chair of Toitū Envirocare.
[d] Includes remuneration as MWLR member of the BioHeritage National Science Challenge Board from 1 March 2021.
[e] Appointed to the Board 16 March 2020.
** Resigned from the Board on 30 June 2021.

### Changes to Board composition

Jane Taylor, Emily Parker, and Kate Wilkinson resigned from the Board effective 30 June 2021.

### Subsidiaries

The Directors of the two subsidiary companies are:

| *Enviro-Mark Solutions Limited trading as Toitū Envirocare* | *Landcare Research US Limited* |
|---|---|
| Paul H S Reynolds | Richard F S Gordon |
| Richard F S Gordon | Nigel W Thomson |
| Nigel W Thomson | |
| Kirsty Campbell | |
| Paul J Munro | |

### 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 2021 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 $40,998 of donations during the year (2019/20: $nil). These donations largely relate to payments to charitable organisations in connect with the Rural Decision Makers Survey which is completed every second year.

### Auditors

Dereck Ollsson 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.

Signed for and on behalf of the Board

| | |
|---|---|
| Paul Reynolds | Caroline Saunders |
| Acting Chair | Director |
| 29 September 2021 | 29 September 2021 |

# Remuneration and compensation

### Executive Remuneration

Executive Remuneration will be managed within the terms and conditions of the Executive Remuneration policy summarised below. This policy sets out remuneration elements and design principles informing the remuneration arrangements for executive management. Remuneration practices throughout MWLR should be transparent in the way in which they are determined and administered and will always conform to sound corporate governance principles.

### Governance

The People and Culture Committee, a committee of the MWLR Board, oversees the application and implementation of the Executive Remuneration policy.

### Basic pay principles

Pay principles offer clarity and guide decisions around executive remuneration that ensure fair, competitive, and appropriate pay for the markets in which MWLR operates. MWLR's executive pay principles aim:

- MWLR's executive pay principles aim to pay Executives at a level commensurate with their contribution to MWLR and appropriately based on skill, experience and performance achieved.
- The level of remuneration paid is considered appropriate for motivation and retention of the calibre of executive required to ensure the successful formation and delivery of MWLR's strategy and management of the environments in which it operates.
- Executive remuneration is set having regard to typical pay levels at companies of a similar size and role complexity.
- When reviewing remuneration, the Committee considers all relevant factors, including:
    - Prevailing market and economic conditions
    - Organisational performance and individual experience and contribution
    - Internal equity and pay parity
    - Accurate benchmark position and job size
    - Market benchmark survey results
    - Public Service Commission guidance.

### Executive pay position and structure

- MWLR participates in industry and profession-based market salary surveys using external remuneration consultants to understand what the market is paying for roles like ours.
- Executive remuneration consists of Base Salary and Benefits, which makes up Total Remuneration. In the 2017/18 and 2018/19 years, remuneration included an At Risk component, but from the 2019/20 year there has not been an At Risk component to the Salary Package.
- The Base Salary and Total Remuneration Position in Range of individual executives are reviewed against the All Organisations Base Salary Market Median Line and the All Organisations Total Remuneration Market Median Line.
- MWLR aims to position executive remuneration at the appropriate Position in Range (PIR) of the relevant All Organisations Market Median Line. Experienced executives are positioned at a 90-120% PIR.
- Base salary increases are capped at 120% PIR of the All Organisations Base Salary Market Median Line and one-off performance payments may be considered in this regard.

- Total executive remuneration for the 2020/21 financial year excluding CEO remuneration was $2,585,762 (FY2019/20: $2,405,305). This includes the remuneration of the 11 leadership team individuals, the BioHeritage Director, and the CEO of Toitū Envirocare.

**FY2020/21 Chief Executive's Remuneration Structure**

The Board elected last year, in the interest of transparency, to disclose the structure of the CEO's remuneration package over a 3-year period. For the 2020/21, year the CEO was paid a package totalling $493,375. In the table below the variance and higher banding indicated for 2019/20 relate to leave calculated and paid in September 2019 in accordance with the Holidays Act, which is based on average earnings over the prior 12 months.

No annual increment in the CEO's package has been made at the time of publishing this report, consistent with our practice for senior managers' remuneration in the current year. Therefore, in 2020/21 the CEO's total remuneration is $493,375, including $17,668 benefits relating to KiwiSaver and insurance.

**Employee remuneration**

In accordance with section 152(1)(c) of the Crown Entities Act 2004, the number of employees who received remuneration and other benefits totalling $100,000 or more, in $10,000 bands, is shown below. This relates to the MWLR Group including Toitū Envirocare and BioHeritage National Science Challenge.

| | Number of Employees | |
|---|---|---|
| **Total Cost to the Group** | **2020/21** | **2019/20** |
| $500,000 - $509,999 | | 1* |
| $490,000 - $499,999 | 1* | |
| $330,000 - $339,999 | 1 | |
| $290,000 - $299,999 | 1 | 1 |
| $280,000 - $289,999 | | |
| $270,000 - $279,999 | 1 | 1 |
| $260,000 - $269,999 | 3 | 2 |
| $250,000 - $259,999 | 1 | 2 |
| $240,000 - $249,999 | | 1 |
| $230,000 - $239,999 | 1 | |
| $220,000 - $229,999 | | 1 |
| $210,000 - $219,999 | 1 | |
| $200,000 - $209,999 | | 2 |
| $190,000 - $199,999 | 2 | |
| $180,000 - $189,999 | 4 | 6 |
| $170,000 - $179,999 | 2 | |
| $160,000 - $169,999 | 3 | 4 |
| $150,000 - $159,999 | 11 | 8 |
| $140,000 - $149,999 | 13 | 15 |
| $130,000 - $139,999 | 14 | 12 |
| $120,000 - $129,999 | 25 | 27 |
| $110,000 - $119,999 | 22 | 19 |
| $100,000 - $109,999 | 34 | 30 |

*Chief Executive of Landcare Research New Zealand Limited.

This table includes two redundancy payments to employees in 2020/21 (2019/20: 3 redundancy, 2 termination).

# Group Financial Statements
# for the year ended 30 June 2021

## Manaaki Whenua – Landcare Research
## Statement of comprehensive income for the year ended 30 June 2021

| | | GROUP | | |
|---|---|---|---|---|
| | **Note** | **2021 Actual $000s** | **2021 Budget $000s** | **2020 Actual $000s** |
| Revenue from operations | 1 | 96,799 | 104,163 | 89,047 |
| Finance income | | 311 | 293 | 583 |
| **Total revenue** | | **97,110** | **104,456** | **89,630** |
| | | | | |
| Finance costs | 2 | 230 | 211 | 258 |
| Operating expenses | 2 | 92,239 | 100,085 | 84,770 |
| **Total expenses** | | **92,469** | **100,296** | **85,028** |
| | | | | |
| **Profit / (Loss) before tax** | | 4,641 | 4,160 | 4,602 |
| | | | | |
| Income tax expense | 24 | 1,358 | 1,262 | (324) |
| | | | | |
| **Profit / (Loss) after tax** | | 3,283 | 2,898 | 4,926 |
| | | | | |
| **Total comprehensive income** | | 3,283 | 2,898 | 4,926 |

*The accompanying notes form part of these financial statements.*

## Statement of financial position as at 30 June 2021

| | Note | GROUP<br>2021<br>Actual<br>$000s | <br>2021<br>Budget<br>$000s | <br>2020<br>Actual<br>$000s |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 3 | 12,249 | 24,203 | 6,028 |
| Trade and other receivables | 4 | 7,793 | 11,919 | 8,174 |
| Inventories | | 183 | 349 | 276 |
| Other financial assets | 3 | 26,292 | - | 18,962 |
| Contract assets | 5 | 2,520 | 3,062 | 1,762 |
| Finance lease receivable | 6 | 53 | 53 | 49 |
| Tax receivable | | 311 | - | - |
| Derivative financial instruments | 7 | - | - | 2 |
| **Total current assets** | | **49,401** | **39,586** | **35,253** |
| | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 8 | 45,822 | 45,676 | 42,474 |
| Right-of-use assets | 9 | 5,175 | 4,891 | 5,602 |
| Patents and intellectual property | 10 | 507 | 594 | 514 |
| Intangible assets | 11 | 552 | - | 587 |
| Deferred tax asset | 24 | 242 | - | 611 |
| Finance lease receivable | 6 | 249 | 249 | 302 |
| **Total non-current assets** | | **52,547** | **51,410** | **50,090** |
| **Total assets** | | **101,948** | **90,996** | **85,343** |
| | | | | |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 13 | 12,809 | 12,917 | 6,486 |
| Employee benefit liabilities | 14 | 4,573 | 5,868 | 4,459 |
| Contract liability (revenue in advance) | 16 | 25,588 | 16,146 | 16,877 |
| Lease liability | 15 | 407 | 465 | 398 |
| Tax payable | | - | 421 | 1,394 |
| **Total current liabilities** | | **43,377** | **35,817** | **29,614** |
| | | | | |
| **Non-current liabilities** | | | | |
| Employee benefit liabilities | 14 | 938 | 978 | 999 |
| Lease liability | 15 | 4,965 | 4,427 | 5,345 |
| Deferred tax liability | 24 | - | 2,084 | - |
| **Total non-current liabilities** | | **5,903** | **7,489** | **6,344** |
| **Total liabilities** | | **49,280** | **43,306** | **35,958** |
| **NET ASSETS** | | **52,668** | **47,690** | **49,385** |
| | | | | |
| **EQUITY** | | | | |
| Ordinary shares | 17 | 10,515 | 10,515 | 10,515 |
| Retained earnings | 17 | 42,153 | 37,175 | 38,870 |
| **TOTAL EQUITY** | | **52,668** | **47,690** | **49,385** |

*The accompanying notes form part of these financial statements.*

Paul Reynolds, Acting Chair
29 September 2021

Caroline Saunders, Director
29 September 2021

## Statement of changes in equity for the year ended 30 June 2021

| | GROUP | | |
|---|---|---|---|
| | **2021 Actual $000s** | **2021 Budget $000s** | **2020 Actual $000s** |
| **Balance at 1 July** | 49,385 | 44,792 | 44,459 |
| | | | |
| Total comprehensive income for the year ended 30 June | 3,283 | 2,898 | 4,926 |
| **Balance at 30 June** | 52,668 | 47,690 | 49,385 |
| | | | |
| **Total comprehensive income attributable to** | | | |
| Parent company | 3,283 | 2,898 | 4,926 |
| | **3,283** | **2,898** | **4,926** |

*The accompanying notes form part of these financial statements.*

## Statement of cash flows for the year ended 30 June 2021

| | GROUP | | |
|---|---|---|---|
| | **2021 Actual $000s** | **2021 Budget $000s** | **2020 Actual $000s** |
| **Cash flows from operating activities** | | | |
| Receipts from customers | 105,741 | 103,215 | 98,038 |
| Interest received | 371 | 293 | 788 |
| Payments to suppliers and employees | (79,218) | (95,826) | (84,515) |
| Interest paid | (230) | - | (258) |
| Tax refund / (paid) | (2,724) | (751) | (1,433) |
| **Net cash generated from operating activities** | 23,940 | 6,931 | 12,620 |
| **Cash flows from investing activities** | | | |
| Purchase and sale of short-term investments | (7,330) | - | (706) |
| Proceeds from sale of property, plant, and equipment | - | - | (10) |
| Purchase of property, plant, and equipment | (10,018) | (6,465) | (11,633) |
| Purchase of intangible assets | - | (30) | (130) |
| **Net cash used in investing activities** | (17,347) | (6,495) | (12,479) |
| **Cash flows from financing activities** | | | |
| Operating leases – principal paid | (371) | - | (516) |
| **Net cash generated from (used in) financing activities** | (371) | - | (516) |
| **Net increase / (decrease) in cash** | 6,222 | 436 | (375) |
| Cash, cash equivalents and bank overdrafts at beginning of year | 6,028 | 23,767 | 6,403 |
| **Cash, cash equivalents and bank overdrafts at end of year** | 12,249 | 24,203 | 6,028 |

*The accompanying notes form part of these financial statements.*

## Statement of cash flows for the year ended 30 June 2021 continued

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| **Reconciliation of net profit after tax to net cash flow from operating activities** | | |
| Profit / (loss) after tax | 3,283 | 4,926 |
| Add / (less) non-cash items: | | |
| Depreciation and amortisation | 5,203 | 4,870 |
| Movement in non-current employee entitlements | (61) | 153 |
| Increase / (decrease) in deferred tax | (210) | (2,591) |
| Add / (less) items classified as investing or financing activities: | | |
| Gain / (Loss) on sale of non-current assets and investments | - | 10 |
| Movement in financial assets | 55 | 47 |
| Add / (less) movements in working capital items: | | |
| Inventory | (118) | (168) |
| Trade and other receivables | (404) | 1,932 |
| Interest receivable | 60 | 167 |
| Trade and other payables | 7,038 | (4,346) |
| Employee benefit liabilities | 114 | 449 |
| Revenue in advance | 8,980 | 7,171 |
| **Net cash inflow from operating activities** | 23,940 | 12,620 |

*The accompanying notes form part of these financial statements.*

# 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 (trading as Toitū,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 2021 and were authorised by the Board of MWLR on 29 September 2021.

**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.

Certain minor comparative figures have been restated in these financial statements to ensure consistency of reporting between years.

The financial statements have been prepared on the going concern basis.

**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**

The Directors and Management have exercised the following critical judgements in applying the Group's accounting policies for the year ended 30 June 2021:

1. *One performance obligation*

   NZ IFRS 15 introduced 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 - Finance lease receivable*

   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.

   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 company'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.

# Notes to the financial statements for the year ended 30 June 2021

## 1 Revenue

| Revenue from operations consisted of the following items: | GROUP 2021 Actual $000s | GROUP 2020 Actual $000s |
|---|---|---|
| **Accounted for under NZ IAS 20 government grant** | | |
| MBIE SSIF funded research | 26,925 | 25,635 |
| | **26,925** | **25,635** |
| **Accounted for under NZ IFRS 15** | | |
| MBIE Non-SSIF contracts with customers | 36,481 | 31,119 |
| | **36,481** | **31,119** |
| Research contracts with other customers | | |
| Crown Research Institutes | 974 | 1,717 |
| New Zealand | 24,700 | 23,858 |
| International | 3,672 | 2,905 |
| | **29,346** | **28,480** |
| Rental income accounted for under NZ IAS 17 | 894 | 923 |
| Other income | 3,153 | 2,890 |
| **Total revenue from operations** | **96,799** | **89,047** |

*Strategic Funding*

MWLR and the Crown are parties to a Strategic Science Investment Fund – Programmes Investment Contract (SSIF Contract) under which the Crown contracts MWLR to perform research activities that support MWLR's Statement of Core Purpose (SCP). Specific SCP outcomes, and their associated delivery programmes, are agreed annually with Shareholding Ministers and documented in MWLR's Statement of Corporate Intent. For financial reporting purposes this Strategic Funding is treated as a Government Grant in terms of NZ IAS 20. All Strategic Funded projects were completed during the year.

MWLR and the Crown are parties to a National Science Challenge Strategic Science Investment Fund – Ngā Rākau Taketake Platform (NRT Contract) under which the Crown contracts MWLR to perform research activities that support the Ngā Rākau Taketake Platform. Specific outcomes, and their associated delivery programmes, are agreed over the term of the agreement with Shareholding Ministers. For financial reporting purposes this Strategic Funding is treated as a Government Grant in terms of NZ IAS 20. NRT Funded projects are completed over the life of the contract based on milestones, and are recognised as revenue on a systematic basis over the periods in which MWLR recognises as expenses the related costs for which the grants are intended to compensate.

*Rendering of services – Research contracts with other customers*

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.

*Contract liability*

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.

*Commercialisation revenue*

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 2021 the subsidiary company received $2,120,183 (2020: $1,161,364) revenue for sale of carbon credits. It has been determined that control is not transferred to the customer overtime and therefore point in time revenue recognition is more appropriate. Therefore, revenue is recognised upon invoicing when a present right to payment is evident.

*Other revenue* includes Covid-19 funding from the Government as described in note 25.

## 2 Total expenses

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| *Profit before income tax has been arrived at after charging the following expenses:* | | |
| Finance costs | | |
| Interest on leases | 230 | 258 |
| Employee remuneration | 39,987 | 39,901 |
| Restructuring costs | 144 | 48 |
| Superannuation contributions | 1,590 | 1,576 |
| Employee entitlements increase/(decrease) | 53 | 591 |
| Net bad and doubtful debts | 13 | 13 |
| Auditor's remuneration | | |
| Audit New Zealand – audit services | 123 | 120 |
| Directors' fees | 321 | 305 |
| Depreciation and amortisation of property, plant, equipment, and intangibles | 4,794 | 3,333 |
| Impairment of plant, equipment, and intangibles | 424 | 771 |
| Loss / (Profit) on sale/disposal of non-current assets | 2 | 10 |
| Operating lease rental | 106 | 179 |
| Cost of sales | 1,989 | 1,102 |
| Loss/(Profit) on foreign currency contracts fair value | - | (2) |
| Other Expenses | 42,693 | 36,823 |
| **Total Expenses** | **92,469** | **85,028** |

**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

| | GROUP | |
|---|---|---|
| | 2021 Actual $000s | 2020 Actual $000s |
| Cash at bank and in hand | 6,923 | 225 |
| Short-term deposits | 5,326 | 5,803 |
| **Total cash and cash equivalents** | **12,249** | **6,028** |
| | | |
| **Other financial assets** | | |
| Short-term deposits | 26,292 | 18,962 |

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 3 months or less approximates their fair value.

## 4 Trade and Other Receivables

| | GROUP 2021 Actual $000s | GROUP 2020 Actual $000s |
|---|---|---|
| Trade debtors | 6,423 | 6,356 |
| Sundry debtors | 198 | 581 |
| Bank deposit accrued interest | 74 | 134 |
| Prepayments | 1,140 | 1,129 |
| | 7,835 | 8,200 |
| Less provision for impairment of receivables | (42) | (26) |
| **Total trade and other receivables** | **7,793** | **8,174** |
| **Total non-current portion** | **-** | **-** |
| **Total current portion of trade & other receivables** | **7,793** | **8,174** |
| | | |
| **Movements in the provision for impairment of receivables are as follows:** | | |
| As at 1 July | 26 | 6 |
| Movement in provision | 16 | 26 |
| Receivables written off during the period | - | (6) |
| **As at 30 June** | **42** | **26** |
| Age of trade debtors: | | |
| Current (30 days or less) | 6,334 | 6,224 |
| Outstanding (greater than 30 days) | 89 | 132 |
| **Total trade debtors** | **6,423** | **6,356** |

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. A provision of $41,982 has been made for The Group.

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 Contract assets

| | GROUP | |
|---|---|---|
| | 2021 Actual $000s | 2020 Actual $000s |
| Contract Assets | 2,520 | 1,762 |
| **Total contract assets** | **2,520** | **1,762** |

The contract asset balance represents where MWLR has satisfied a performance obligation but cannot recognise a receivable until other obligations are satisfied. The majority of the 2021 contract asset liability balance is expected to be released in financial years 2022 and 2023.

## 6 Finance lease receivable

| | Group | |
|---|---|---|
| **Analysis of finance lease receivable** | | |
| **Total minimum lease payments are receivable:** | **2021** | **2020** |
| Not later than one year | 78 | 78 |
| Later than one year and not later than five years | 294 | 314 |
| Later than five years | - | 59 |
| Total minimum lease payments | 372 | 451 |
| Future finance charges | (70) | (100) |
| **Total present value of minimum lease payments** | **302** | **351** |
| | | |
| **Present value of minimum lease payments are receivable:** | | |
| Not later than one year | 53 | 49 |
| Later than one year and not later than five years | 249 | 246 |
| Later than five years | - | 56 |
| **Total** | **302** | **351** |
| | | |
| Current | 53 | 49 |
| Non-current | 249 | 302 |
| **Total** | **302** | **351** |

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 eight years to 2026 at a rent of $1.00 per annum.

Note 9 provides additional information on accounting policies relating to leases.

## 7 Derivative financial instruments and hedging activities

| | GROUP | |
|---|---|---|
| | 2021 Actual $000s | 2020 Actual $000s |
| **Derivative financial instruments** | | |
| **Current asset / (liability) portion** | | |
| Foreign currency forward contracts | — | 2 |
| **Total derivative financial instruments** | **—** | **2** |

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.

## 8 Property, plant and equipment

| | GROUP | | | | |
|---|---|---|---|---|---|
| | **Land $000s** | **Buildings $000s** | **Plant & equipment $000s** | **Library assets $000s** | **Total $000s** |
| **2020** | | | | | |
| Cost at 1 July 2019 | 1,919 | 27,562 | 52,121 | 8,924 | 90,526 |
| Accumulated depreciation and impairment charges | - | (9,542) | (39,088) | (7,720) | (56,350) |
| **Net book value at the beginning of the year** | **1,919** | **18,020** | **13,033** | **1,204** | **34,176** |
| **Year ended 30 June 2020** | | | | | |
| Net book value at the beginning of the year | 1,919 | 18,020 | 13,033 | 1,204 | 34,176 |
| Additions | - | 6,964 | 5,449 | - | 12,413 |
| Disposals | - | - | (18) | - | (18) |
| Accumulated depreciation on disposals | - | - | - | - | - |
| Fair value impairment | - | - | (179) | (592) | (771) |
| Current year depreciation | - | (434) | (2,885) | (7) | (3,326) |
| **Net book value at the end of the year** | **1,919** | **24,550** | **15,400** | **605** | **42,474** |
| **At 30 June 2020** | | | | | |
| Cost | 1,919 | 34,526 | 57,552 | 8,924 | 102,921 |
| Accumulated depreciation | - | (9,976) | (42,152) | (8,319) | (60,447) |
| **Net book value at the end of the year** | **1,919** | **24,550** | **15,400** | **605** | **42,474** |

## 8 Property, plant and equipment continued

| | GROUP | | | | |
|---|---|---|---|---|---|
| | Land $000s | Buildings $000s | Plant & equipment $000s | Library assets $000s | Total $000s |
| **2021** | | | | | |
| Cost at 1 July 2020 | 1,919 | 34,526 | 57,552 | 8,924 | 102,921 |
| Accumulated depreciation and impairment charges | - | (9,976) | (42,152) | (8,319) | (60,447) |
| **Net book value at the beginning of the year** | **1,919** | **24,550** | **15,400** | **605** | **42,474** |
| | | | | | |
| **Year ended 30 June 2021** | | | | | |
| Net book value at the beginning of the year | 1,919 | 24,550 | 15,400 | 605 | 42,474 |
| Additions | - | 5,135 | 2,337 | - | 7,472 |
| Disposals | - | - | (1,550) | - | (1,550) |
| Accumulated depreciation on disposals | - | - | 1,550 | - | 1,550 |
| Fair value impairment | - | - | - | - | - |
| Current year depreciation | - | (428) | (3,690) | (6) | (4,124) |
| **Net book value at the end of the year** | **1,919** | **29,257** | **14,047** | **599** | **45,822** |
| | | | | | |
| **At 30 June 2021** | | | | | |
| Cost | 1,919 | 39,661 | 58,339 | 8,924 | 108,843 |
| Accumulated depreciation | - | (10,404) | (44,292) | (8,325) | (63,021) |
| **Net book value at the end of the year** | **1,919** | **29,257** | **14,047** | **599** | **45,822** |

Property, plant, and equipment consists 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* – an accumulated balance of $15,776k (2020: $12,769k) has been included within buildings ($13,950k, 2020: $9,005k) and plant and equipment ($1,826k, 2020: $3,764k), 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.

**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.

**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 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% |
| 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.

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, and no impairment has been identified. Refer to Note 23 for Group policy on impairment assessment of these assets.

## 9 Right-of-use assets

| 2020 | Land $000s | Buildings $000s | Plant & equipment $000s | Total $000s |
|---|---|---|---|---|
| | GROUP | | | |
| **Gross carrying amounts** | | | | |
| Transition to NZ IFRS 16 | 4,349 | 1,662 | 108 | 6,119 |
| Additions | - | 75 | 27 | 102 |
| Balance at 30 June 2020 | 4,349 | 1,737 | 135 | 6,221 |
| | | | | |
| **Depreciation and Impairment** | | | | |
| Balance at 1 July 2019 | - | - | - | - |
| Depreciation | 121 | 396 | 102 | 619 |
| Balance at 30 June 2020 | 121 | 396 | 102 | 619 |
| | | | | |
| **Carrying amount at 30 June 2020** | **4,228** | **1,341** | **33** | **5,602** |

| 2021 | Land $000s | Buildings $000s | Plant & equipment $000s | Total $000s |
|---|---|---|---|---|
| **Gross carrying amounts** | | | | |
| Balance at 1 July 2020 | 4,349 | 1,737 | 135 | 6,221 |
| Additions | (169) | (8) | 199 | 22 |
| Balance at 30 June 2021 | 4,180 | 1,729 | 334 | 6,243 |
| | | | | |
| **Depreciation and Impairment** | | | | |
| Balance at 1 July 2020 | 121 | 396 | 102 | 619 |
| Depreciation | 122 | 200 | 127 | 449 |
| Balance at 30 June 2021 | 243 | 596 | 229 | 1,068 |
| | | | | |
| **Carrying amount at 30 June 2021** | **3,937** | **1,133** | **105** | **5,175** |

**The Group as a lessee**

For any new contracts entered into, the Group assesses whether a contract is or contains a lease. A lease is defined as 'a contract or part of a contract, that conveys the right-to-use an asset for a period of time in exchange for consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations, which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the group.
- the Group has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use.

The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

**Measurement and recognition of leases as a lessee**

At lease commencement date, the Group recognises a Right-of-Use asset and a Lease Liability on the balance sheet. The Right-of-Use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the group, an estimate of any costs to dismantle and remove the asset at the end of the lease term, and any lease payments made in advance of the lease commencement date.

The Group depreciates the Right-of-Use assets on a straight-line basis from the leases' commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of lease liability are made up of fixed payments and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any re-assessment or modification.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right of use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

In the statement of financial position, Right-Of-Use assets have been disclosed separately and the liability from leases is classified as Lease Liabilities.

**The Group as a Lessor**

The Group's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

The Group has leases for land and buildings and related facilities, IT equipment and some vehicles. With the exception of short-term leases each lease is reflected on the balance sheet as a Right-of-Use asset and a Lease

Liability. The Group classifies its Right-of-Use assets in a consistent manner to its Property, Plant and Equipment (see note 7).

Leases of vehicles are generally limited to a term of 1 to 3 years. Leases of land and buildings generally have a lease term ranging from 1 to 7 years. Ground leases have lease terms ranging between 24 years and 78 years. Office equipment generally has a lease term ranging from 1 to 3 years.

Each lease generally imposes a restriction that unless there is a contractual right for the Group to sublet the asset to another party, the Right-Of-Use asset can only be used by the Group. Leases are non-cancellable. For leases of buildings the group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease.

The below table describes the nature of the Group's leasing activities by type of Right-of-Use asset recognised on the balance sheet.

| Right-of-use asset | Number of right-of-use assets leased | Range of remaining lease term (years) | Average remaining lease term (years) | Number of leases with extension options | Number of leases with termination options |
|---|---|---|---|---|---|
| Land | 3 | 23–76 | 48 | 3 | 2 |
| Buildings | 3 | 1–7 | 3 | 1 | - |
| Motor vehicles | 7 | 0–3 | 1 | 7 | - |
| Office equipment | 2 | 1–2 | 1 | - | - |

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of costs and/or location. The group includes the extension or termination options where it is reasonability certain to be exercised. The Group subsequently reviews this if there is a significant event or change in circumstances beyond its control.

## 10 Patents and intellectual property

| | GROUP |
|---|---|
| | **Actual $000s** |
| **As at 1 July 2019** | |
| Cost | 599 |
| Accumulated amortisation and impairment | (89) |
| **Net book amount** | **510** |
| | |
| **Year ended 30 June 2020** | |
| Opening net book amount | 510 |
| Additions | 51 |
| Disposals / transfers | (1) |
| Amortisation charge | (46) |
| **Closing net book amount** | **514** |
| | |
| **As at 1 July 2020** | |
| Cost | 649 |
| Accumulated amortisation and impairment | (135) |
| **Net book amount** | **514** |
| | |
| **Year ended 30 June 2021** | |
| Opening net book amount | 514 |
| Additions | 10 |
| Disposals / transfers | (4) |
| Amortisation and impairment charge | (13) |
| **Closing net book amount** | **507** |
| | |
| **As at 30 June 2021** | |
| Cost | 655 |
| Accumulated amortisation and impairment | (148) |
| **Net book amount** | **507** |

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

The Group has patents and trademarks amounting to $507,000 (2020: $514,000), 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 2020. This resulted in a $771k impairment in the Parent Company relating to science equipment and books. The subsidiary company has impaired $34k of trademarks as a result of the Subsidiary company's intentions for rebranding and some of the trademarks no longer provide future economic benefits.

## 11 Intangible assets

| | GROUP Actual $000s |
|---|---|
| **As at 1 July 2019** | |
| Cost | 5,039 |
| Accumulated amortisation and impairment | (4,720) |
| **Net book amount** | **319** |
| | |
| **Year ended 30 June 2020** | |
| Opening net book amount | 319 |
| Additions | 395 |
| Amortisation charge / impairment charge | (127) |
| **Closing net book amount** | **587** |
| | |
| **As at 30 June 2020** | |
| Cost | 5,434 |
| Accumulated amortisation and impairment | (4,847) |
| **Net book amount** | **587** |
| | |
| **Year ended 30 June 2021** | |
| Opening net book amount | 587 |
| Additions | 34 |
| Disposals/transfers | (1,958) |
| Amortisation on disposals/transfers | 1,986 |
| Amortisation charge / impairment charge | (97) |
| **Closing net book amount** | **552** |
| | |
| **As at 30 June 2021** | |
| Cost | 3,510 |
| Accumulated amortisation and impairment | (2,958) |
| **Net book amount** | **552** |

- *Intangible assets capital work in progress* – an accumulated balance of $440k (2020: $471k) has been included within Intangibles assets and is not depreciated until ready for use.

### 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% |

## 12 Investments

MWLR has 100% interest in Landcare Research US Limited and Toitū.

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.

## 13 Trade and other payables

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| Trade payables | 6,808 | 177 |
| GST & PAYE | 1,023 | 809 |
| Sundry creditors and accruals | 4,978 | 5,500 |
| **Total trade and other payables** | **12,809** | **6,486** |

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

### Goods and Service 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.

## 14 Employee benefit liabilities

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| Accrued pay | 755 | 596 |
| Annual leave | 3,031 | 2,992 |
| Long-service leave | 1,515 | 1,530 |
| Retirement leave | - | 11 |
| Time in lieu | 102 | 174 |
| Sick leave | 15 | 49 |
| Staff incentives and at-risk payments | 50 | 63 |
| Holiday pay due to ex-employees | 43 | 43 |
| **Total employee benefit liabilities** | 5,511 | 5,458 |
| | | |
| Comprising: | | |
| Current | 4,573 | 4,459 |
| Non-current | 938 | 999 |
| **Total** | **5,511** | **5,458** |

The Holiday Pay due to ex-employees of $43,000 (2020: $43,000) 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 2021. 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 0.38–4.30% 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.

## 15 Lease liability

| | GROUP | | | | |
|---|---|---|---|---|---|
| **30 June 2020** | **Within one year $000s** | **Between one and two years $000s** | **Between two and five years $000s** | **Greater than five years $000s** | **Total** |
| Lease payments | 641 | 592 | 1,622 | 7,852 | 10,707 |
| Finance charges | 243 | 226 | 578 | 3,917 | 4,964 |
| **Net present values** | **398** | **366** | **1,044** | **3,935** | **5,743** |
| | | | | | |
| **30 June 2021** | | | | | |
| Lease payments | 636 | 577 | 1,397 | 7,504 | 10,114 |
| Finance charges | 229 | 210 | 537 | 3,766 | 4,742 |
| **Net present values** | **407** | **367** | **860** | **3,738** | **5,372** |

**Lease payments not recognised as a liability**

The Group has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less).

Additional profit and loss and cash flow information:

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| Income from subleasing office | 932 | 1,015 |
| Total cash outflow in respect of leases in the year | 739 | 759 |

For interest expense in relation to leasing liabilities, refer to total expenses (Note 2).

## 16 Contract liability (revenue in advance)

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| MBIE Science and Commercial Contracts | 25,588 | 16,877 |
| **Total contract liability** | **25,588** | **16,877** |

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 upfront payments. The majority of the 2021 contract liability balance is expected to be released in financial years 2022 and 2023 as work is completed and revenue is realised.

## 17 Equity

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| **Equity** | | |
| **Retained earnings** | | |
| As at 1 July | 38,870 | 33,944 |
| Profit / (loss) for the year | 3,283 | 4,926 |
| **As at 30 June** | **42,153** | **38,870** |
| | | |
| **Share capital** | | |
| As at 1 July | 10,515 | 10,515 |
| **As at 30 June** | **10,515** | **10,515** |

The issued capital of 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 2021 (2020: $Nil).

## 18 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.

## 19 Capital commitments and operating leases

| | GROUP | |
|---|---|---|
| | 2021 Actual $000s | 2020 Actual $000s |
| **Capital commitments** | | |
| Estimated capital expenditure contracted for at balance date but not paid or provided for | 1,427 | 3,585 |
| **Operating lease commitments – Lessee** | | |
| *Lease commitments under non-cancellable operating leases:* | | |
| Within 1 year | 767 | 844 |
| Later than 1 year and not later than 2 years | 682 | 710 |
| Later than 2 years and not later than 5 years | 608 | 1,247 |
| Later than 5 years | - | - |

*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.

## 20 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 (2020: nil).

## 21 Related party transactions

MWLR is the ultimate parent of the Group and controls three entities, being Landcare Research US Limited, Toitū 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 $1,835 (GST exclusive) (2020: $1,799) have been paid by the Controlling Entity, MWLR.

MWRT Trustees Liability insurance of $3,050 (GST exclusive) (2020: $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.

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| **Key management personnel compensation** | | |
| Salaries and other short-term employee benefits | 3,416 | 3,369 |

Key management personnel includes Directors, Chief Executive Officer, and other senior management personnel. The 2020 comparative has been restated to align to this definition of key management personnel to ensure consistency of reporting between years.

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

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | **2021 Services received from $000s** | **2020 Services received from $000s** | **2021 Services provided to $000s** | **2020 Services provided to $000s** | **2021 Amounts (Payable to)/ Receivable $000s** | **2020 Amounts (Payable to)/ Receivable $000s** |
| Science New Zealand | 80 | 72 | 26 | 28 | (2) | — |
| AgResearch Limited | 1,279 | 1,135 | 1,522 | 790 | 623 | 20 |

MWLR also supplies to, 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 2021 were:

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | **2021 Services received from $000s** | **2020 Services received from $000s** | **2021 Services provided to $000s** | **2020 Services provided to $000s** | **2021 Amounts (Payable to)/ Receivable $000s** | **2020 Amounts (Payable to)/ Receivable $000s** |
| Crown entities, SOEs and government departments | 20,092 | 15,198 | 78,073 | 79,229 | (451) | 1,857 |

## 22 Financial Instruments

| | GROUP | |
|---|---|---|
| | 2021 Actual $000s | 2020 Actual $000s |
| **Financial assets** | | |
| **Financial assets at fair value through profit and loss** | | |
| Foreign exchange forward contracts | - | 2 |
| | | |
| **Financial assets subsequently measured at amortised cost** | | |
| Cash and cash equivalents | 12,249 | 6,028 |
| Trade receivables | 6,423 | 6,356 |
| Contract asset | 2,520 | 1,762 |
| Bank deposit accrued interest | 74 | 134 |
| Other financial assets | 26,292 | 18,962 |
| | | |
| **Financial liabilities measured at amortised cost** | | |
| Trade payable | 6,808 | 177 |
| Sundry creditors and accruals | 4,978 | 5,500 |

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.

## 23 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.

## 24 Income Tax

| | GROUP | |
|---|---|---|
| | **2021 Actual $000s** | **2020 Actual $000s** |
| **Components of tax expense** | | |
| Current tax | 938 | 2,194 |
| Adjustments to current tax in prior years | 51 | 73 |
| Deferred tax expense | 418 | (2,306) |
| Adjustments to deferred tax in prior years | (49) | (285) |
| **Income tax expense** | **1,358** | **(324)** |
| | | |
| **Relationship between tax expense and accounting profit** | | |
| Profit / (loss) before tax | 4,641 | 4,601 |
| Tax at 28% | 1,293 | 1,288 |
| Non-deductible expenditure | (14) | 40 |
| Deferred tax variance in Fixed Assets and Huts provision | 76 | (406) |
| Prior-year adjustment | 3 | (212) |
| Adjustment to prior year DTA on IRE buildings | - | 123 |
| Reinstatement of tax depreciation on buildings | - | (1,158) |
| **Total income tax expense** | **1,358** | **(324)** |

| | | | GROUP | | |
|---|---|---|---|---|---|
| **Deferred tax assets/liabilities** | **Property, plant and equipment** | **Employee entitlements** | **Other provisions** | **IFRS 16** | **Total** |
| **Balance at 1 July 2019** | **(3,017)** | **953** | **84** | **-** | **(1,980)** |
| Charged to profit/(loss) | 1968 | 197 | 386 | 40 | 2,591 |
| **Balance at 1 July 2020** | **(1,049)** | **1,150** | **470** | **40** | **611** |
| Charged to profit/(loss) | (578) | 30 | 163 | 16 | (369) |
| **Balance at 30 June 2021** | **(1,627)** | **1,180** | **633** | **56** | **242** |

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.

## 25 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 Canadian dollar. 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 2021, 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 $8,000 (2020: $6,000) 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 2021, 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 $15,000 (2020: $23,000) 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 2021, 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 $2,000 (2020: $0) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade payables and receivables.

At 30 June 2021, 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 (2020: $3,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of UK-pound-denominated trade payables and receivables.

At 30 June 2021, if the Canadian 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 $3,000 (2020: $Nil) 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 that 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.

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | **Carrying amount $000s** | **Contractual Cashflows $000s** | **Less than 1 year $000s** | **1–2 years $000s** | **2–5 years $000s** | **5+ years $000s** |
| **2020** | | | | | | |
| Creditors & other payables | 6,486 | 6,486 | 6,486 | | | |
| **Total** | | | | | | |
| **2021** | | | | | | |
| Creditors & other payables | 12,809 | 12,809 | 12,809 | - | - | - |
| **Total** | 12,809 | 12,809 | 12,809 | - | - | - |

**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 with when 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.

## 26 The effects of Covid-19 on MWLR

MWLR's vision and strategic purpose are unchanged by the Covid-19 pandemic; however, national and global responses to the pandemic create high levels of uncertainty about the future state of the economy. Therefore our budgets for the next 3 years reflect a conservative view of revenue, and corresponding cost restraint. MWLR acknowledges that the Government has sent strong signals about the role of research, science, and innovation in the recovery, and its intention to provide stable investment both for jobs and impact.

During the current financial year, MWLR received $2.73m (inclusive of GST) from the Government out of the Government's Covid-19 Response and Recovery fud via grant, intended to replace net revenue impacted by Covid-19 and to support MWLR to maintain its national science capability and provision of essential services which are critical for New Zealand's Covid-19 response and recovery.

There have been no material impacts on Group profitability from Covid-19 lockdowns subsequent to 30 June 2021.

## 27 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.

## 28 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 $0.4m due to indirect and corporate costs being favourable to budget offsetting reduced revenue.

- Statement of Financial Position

  Net assets increased $3.3m during the year reflecting phasing of payments.

## 29 Events after the Balance date

There were no significant events after the balance date.

# 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 2021 for issue on 29 September 2021.

| | |
|---|---|
| Paul Reynolds | Caroline Saunders |
| Acting Chair | Director |
| 29 September 2021 | 29 September 2021 |

# Independent Auditor's Report

## To the readers of Landcare Research Limited's Group financial statements for the year ended 30 June 2021

The Auditor-General is the auditor of Landcare Research New Zealand Limited Group (the Group). The Auditor-General has appointed me, Dereck Ollsson, 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 15 to 52, that comprise of the statement of financial position as at 30 June 2021, 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 2021; 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.

Our audit was completed on 29 September 2021. 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 (the Board) 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 for the financial statements

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

The Board's 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.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board 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 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 is responsible for the other information. The other information comprises the information included on pages 1 to 14, 53, 58 to 62, 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: International 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.

Dereck Ollsson
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

# Non-financial indicators for our Collections and Databases

The following table shows our progress in 2020/21 against key performance indicators outlined in Appendix 2, page 20, of our Statement of Corporate Intent 2020–2025. These indicators are reported to MBIE. More information about our Collections and Databases can be found in Part 1.

## Collections

| | |
|---|---|
| **All Collections** | |
| Page views and visitor numbers for the Systematics Collections Data portal are maintained or increase | Not achieved: The annual page views and visitor numbers both had a slight decrease compared to last year, but were higher than the year before. |
| **New Zealand Flax Collection** | |
| 2-week turnaround for 90% of weaving material orders | 29 requests, 100% achieved. |
| Weaving resource Facebook page numbers increase | Achieved. |
| **Allan Herbarium (CHR)** | |
| 2-week response time for 90% of loan requests | 34 requests, 100% achieved. |
| >6000 new specimens accessioned | Partly achieved: 5,312 specimens accessioned. |
| **New Zealand Arthropod Collection (NZAC)** | |
| 2-week response time for 90% of loan requests | 26 requests, 96% achieved. |
| >7000 specimens accessioned per year | Achieved. |
| **CHR and NZAC** | |
| The NZ Threat Classification System uses new taxonomic information | Achieved: ongoing. |
| **New Zealand Fungarium (PDD)** | |
| 2-week response time for 90% of loan requests | 13 requests, 92% achieved. |
| >500 new specimens accessioned | Achieved: 1,925 new specimens were accessioned. |
| **International Collection of Microorganisms from Plants (ICMP)** | |
| 2-week response time for 90% of orders | 124 orders, 100% achieved. |
| >300 new cultures accessioned | Achieved: 388 cultures were accessioned. |
| **PDD and ICMP** | |
| Google Scholar and GenBank citation numbers are maintained or increase | Partly achieved: Slight decrease in Google Scholar citations, but GenBank citations were increased. |

## Databases

| | |
|---|---|
| **Land Resource Information Systems (LRIS)** | |
| Service availability uptime is 90% or more | Achieved: consistently above 99%. |
| Number of datasets provided online to users is maintained or increased | Achieved: ongoing (83 more data layers provided) |
| User numbers (direct or indirect) are maintained or increase | Achieved. 11,793 registered users of LRIS portal, with >10% annual increase. Across LRIS websites, numbers of visits increased by 5–36%. |
| Data support environmental reporting and resource management instruments, and their implementation, at the regional level | Achieved: Regional Council accessed the LRIS Portal, and data and advice were provided to MPI and MfE, such as the new land fragmentation indicator for the *Our Land 2021* national state of environment report. |
| User confidence is maintained or increases | Maintained (>90% rate LRIS as a trusted source of data). |
| **National Soils Data Repository (NSDR)** | |
| More services added, and new datasets uploaded | Achieved (2,515 soil sampling sites added). |
| Develop new routes to our data building on test APIs and visualisation created last year | Reported as part of LRIS above. |
| **Land Cover Database (LCDB)** | |
| Service availability uptime is 90% or more | Achieved as part of LRIS above. |
| Number of datasets provided online to users is maintained or increased | Achieved. |
| **S-map Online** | |
| Service availability uptime is 90% or more | Achieved. |
| Number of datasets provided online to users is maintained or increased | Ongoing (37.1% of New Zealand now mapped). |
| The breadth of soil material for users is extended | Achieved (see Part 1). |
| New tools added to aid users and maximize value of data | Achieved (see Part 1). |
| **National Vegetation Survey (NVS) Databank** | |
| Requests for public domain data are met immediately (simple) or within 2 weeks (complex) | Achieved: 138 data requests were met. |
| >20 new electronic datasets added annually | Achieved: 53 datasets were added. |
| Registered NVS user numbers are maintained or increase | Achieved: 81 new users registered. |
| NVS data underpins national-scale plant biodiversity trend reporting | Achieved. |
| **Ngā Tipu Whakoranga Database** | |
| Visitor numbers are maintained or increase | Achieved. |
| 100% of weaving cultivars are represented online | Achieved. |

# Financial indicators (MBIE)

## Financial key performance indicators as required by MBIE (not part of the Audited Financial Statements) Summary table of financial performance indicators Consolidated ($m)

| For year ending 30 June | FY Actual 2021 | FY Business Plan 2021 |
|---|---|---|
| **Efficiency:** | | |
| Operating margin | 10.1% | 8.1% |
| Operating margin per FTE | $23,573 | $19,066 |
| **Risk:** | | |
| Quick ratio | 2.8 | 1.72 |
| Interest coverage | 42.5 | 43.0 |
| Operating margin volatility | 9.5% | 19.3% |
| Forecasting risk | 2.0% | 0.8% |
| **Tailored rate of return** | | |
| | | |
| Return on equity (ROE) (based on NPAT) | 6.4% | 6.2% |
| **Growth/investment** | | |
| Revenue growth | 8.3% | 11.6% |
| Capital renewal | 1.6 | 1.4 |

**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

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Jane Taylor (Chair)*
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Ngarimu Blair
Prof Emily Parker*
John Rodwell
Prof Caroline Saunders
Hon Kate Wilkinson*
Justine Gilliland
** To 30 June 2021*

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| 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 |
| Becky Lloyd | Chief Executive, Toitū Envirocare |
| Daniel Patrick | Director, NZ Biological Heritage National Science Challenge |
| Melanie Mark-Shadbolt** | Kaihautū Ngātahi, NZ Biological Heritage National Science Challenge |

*** To 14 August 2021*

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**AUDITORS**
Audit New Zealand on behalf of the Auditor-General

**SOLICITORS**
Buddle Findlay

Science New Zealand

# Science working for New Zealand

The eight members of Science New Zealand proudly work individually and collectively alongside the rest of government to create a more prosperous, sustainable and innovative New Zealand.

**4,000+**
smart and passionate people

**50+**
sites nationwide

**6,000+**
science projects every year

**40+**
nationally significant databases and collections

sciencenewzealand.org

CallaghanInnovation New Zealand's Innovation Agency
Manaaki Whenua Landcare Research
agresearch āta mātai, mātai whetū
NIWA Taihoro Nukurangi
GNS Science Te Pū Ao
scion
Plant & Food Research Rangahau Ahumāra Kai
E/S/R Science for Communities

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