2018

Contents

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

Honey bee on Martinii, a cultivar of Leptospermum scoparium *or mānuka.*

PART 2

National Outcome Key Performance Indicators

Here we report against two Key Performance Indicators for each Statement of Core Purpose Outcome. The first is a measure of Strategic Science Investment Funding (SSIF) funded work completed in the financial year. Note that delays are typically due to technical, staffing (e.g. illness, turn over), or weather issues. The second indicates the level of adoption/delivery to stakeholders of our science outputs.

On the next page we provide an overview of our investment by impact of SSIF (previously Core Funding) during the past 5 years.

KPI 1:

SSIF FUNDED RESEARCH OUTPUTS ON-TRACK OR COMPLETED

TARGET 70–80%

OUTCOME 1: Improved Biodiversity	97%
OUTCOME 2: Sustainable Land Use	100%
OUTCOME 3: Greenhouse Gases Within Limits	100%
OUTCOME 4: Growth Within Limits	97%

KPI 2:

SUCCESS MEASURES FOR RESEARCH FOCUS AREA KEY RESEARCH INITIATIVES ACHIEVED

TARGET 80–90%

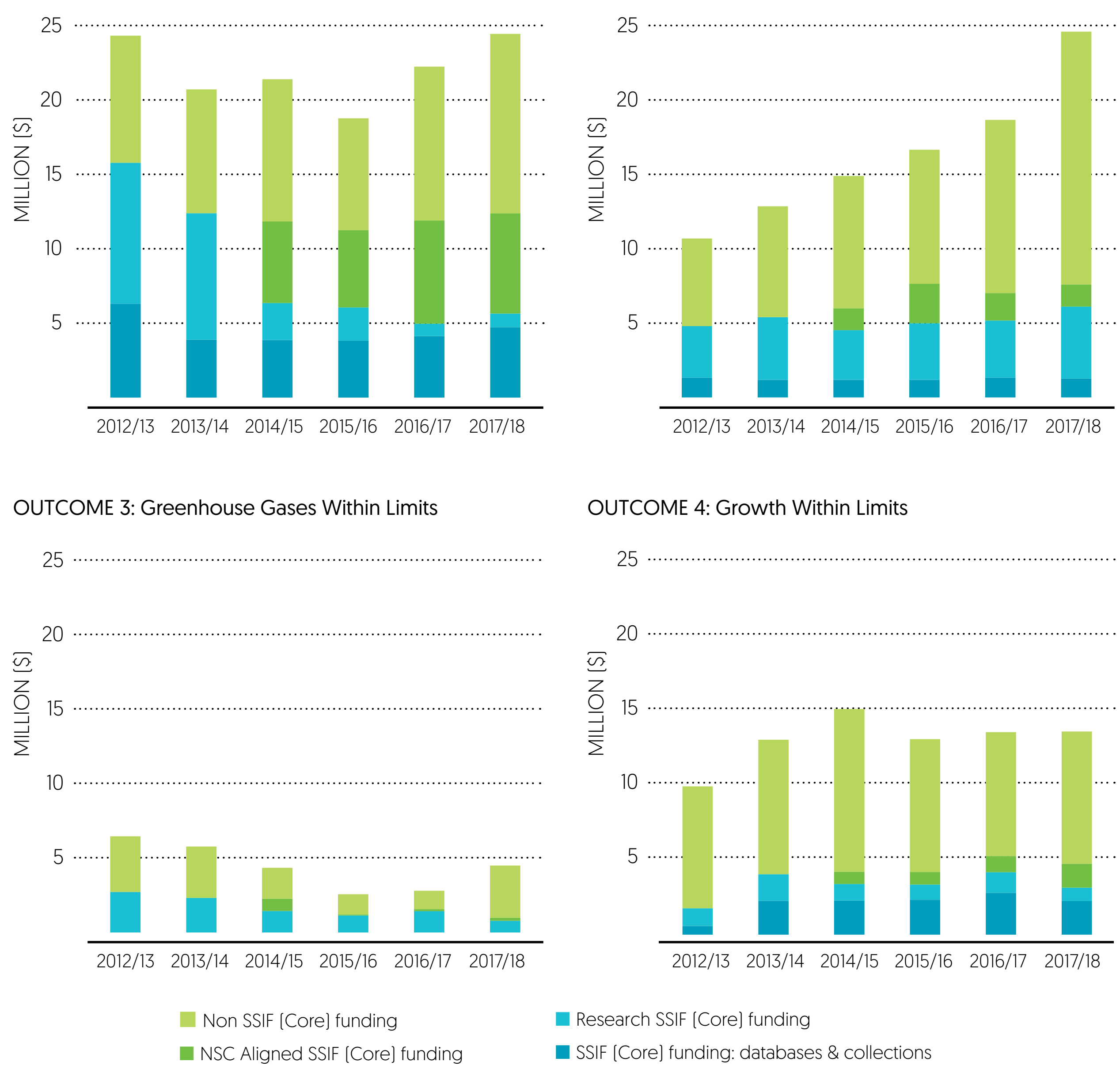
OUTCOME 1: Improved Biodiversity	90%
OUTCOME 2: Sustainable Land Use	89%
OUTCOME 3: Greenhouse Gases Within Limits	86%
OUTCOME 4: Growth Within Limits	94%

OUTCOME 1: Improved Biodiversity

OUTCOME 2: Sustainable Land Use

OUTCOME 3: Greenhouse Gases Within Limits

OUTCOME 4: Growth Within Limits



Bellbird/korimako photographed at Orokonui Ecosanctury, Dunedin.

Strategic Focus Milestones

Natural resource management

Develop an approach to integrated reporting with sustainable development goals.

We have developed a draft framework that will allow us to report across a set of sustainable development goals. Over the coming year, this framework will be further developed to allow it to be integrated into our reporting processes as we work with our subsidiary, Enviro-Mark Solutions, on this project.

Science sector trends

Work with the Biological Heritage National Science Challenge (NSC) to develop a common framework to assess opportunities for citizen science.

The Challenge has invested in a data commons framework that sits across its Challenge Parties and Partner organisations, as a place to host some citizen science data. Manaaki Whenua led a design workshop (facilitated by the Stanford D School) that featured citizen science and included the Director of Biological Heritage Challenge, and Monica Peters, a leading proponent of NZ citizen science. Now that the Challenge has finalised its Tranche 2 science strategy, including a commitment to citizen science, we will develop a working group for a more strategic framework for citizen science engagement.

National goals, strategies, and roadmaps

Develop a strategy for domestic talent-share arrangements.

This year Manaaki Whenua has trialled secondment arrangements and contracting as ways to 'share talent' with other organisations. The knowledge we have acquired from this will be used as we continue to develop strategies to access the talent we need to achieve our ambitions.

Evolving client needs

Further embed co-innovation approaches with key external users and partners to achieve greater impact from SSIF.

Manaaki Whenua sees co-innovation as a key part of shaping the work we do. This year we have continued our consultation at our co-innovation workshops, which provided important feedback for our SSIF investment and contestable proposal development. This has served to develop deeper, internal co-innovation processes.
We also have formal biannual consultations with our Outcome Advisory Group, made up of key stakeholders from government and industry.

People-centred organisation

Current and ideal culture defined and analysed; leadership development programme enhanced.

Work has continued towards defining an ideal culture within Manaaki Whenua to enable the institute to reach its goals. The development of leadership within the organisation is critically important. This year, we invested in our people through our leadership programme with a focus on people coaching. We further developed this by introducing a Future Leaders programme to create a stronger leadership pipeline for Manaaki Whenua. We have identified three young researchers who have the motivation and ambition to be future leaders of Manaaki Whenua and are working with them on individual career plans.

Implementing Vision Mātauranga

Initiate at least two new major partnership and/or joint programmes with Māori entities and agri-business.

Manaaki Whenua has developed enduring partnerships that support our strategic objectives as an organisation with selected iwi, groups of iwi, Māori trusts/incorporations, and Māori organisations. We engage regularly with these groups in the spirit of partnership as expressed in the principles of the Treaty of Waitangi. This year we worked closely with :

- Māori landowners in the Waiapu river catchment in Te Tairāwhiti on identifying future land investment opportunities that took account of climate change.
- Iwi in the Taranaki region (particularly Ngāti Tama, Ngāti Mutunga, Ngāti Maru, Te Atiawa, Taranaki and Ngārauru) on the Mounga Project. Other potential opportunities are starting to flow from these relationships.
- Parininihi ki Waitōtara (PKW) who are now looking to undertake a detailed, multi-disciplinary assessment of land-use options that factor in the need to diversify from the dairy platform.

Biological Heritage National Science Challenge

As a host, successfully fulfil all governance and support unit responsibilities.

We fulfilled all responsibilities. The Challenge Governance Group Chair reported quarterly to the Manaaki Whenua Board on a set of accountability requirements, and sought approval from the Board as required under the

Accountability and Delegations Framework. On behalf of the Manaaki Whenua Board, Emily Parker is a member of the Challenge Governance Group. A further sign of the close working relationship was a joint session between the Manaaki Whenua Board and the Biological Heritage Board, which recognised the strong strategic alignment between the two. A wide range of support services were provided, and governance and management costs were well under the 5% cap.

Lincoln Hub

Contribute to multiparty science/research teams and deliver co-designed Lincoln Hub projects; enhance Lincoln Hub precinct and ecosystem by supervising post-graduates and student interns.

Building on recent successes (such as research collaboration at the Ashley Dene dairy platforms and the successful establishment of an 'Advanced Nutrients' programme developing novel fertiliser formulations), we have continued to work with Blinc Innovation (formerly the Lincoln Hub) and the other founding partners (Plant & Food Research, AgResearch, Lincoln University, and Dairy NZ) to identify further potential collaborative projects and opportunities.

Each year Manaaki Whenua supports about 50 graduate students at New Zealand universities to help build the skills of tomorrow. Lincoln University and other Hub partners are the host for several of these. For example, in 2017/18 Manaaki Whenua staff were involved in the supervision of nine PhD and two Masters students from Lincoln University.

Wetlands, Rakatu Wetlands Trailhead

Non-financial Performance Summary

	Indicator as per the SCI 2017-22	2017/18 Target	2017/18 Actual
End-user collaboration	Revenue per FTE from commercial sources ($000s)[1]	>$47	$53.9
Research collaboration	Percentage of papers co-authored[1] – total	90%	89.5%
	Co-authored with other New Zealand organisations only	25–30%	28.8%
	Overseas co-authors only	30–35%	34.6%
	Both New Zealand and overseas co-authors	30–35%	26.1%
Technology and knowledge transfer	Commercial reports per scientist FTE[1]	0.9	0.71
	Availability of data from our SSIF-funded Databases, Collections and information systems (assessed by a variety of metrics appropriate to each; metrics online)	Increasing trends	Increasing trends
	Response rate for requests to our SSIF-funded biological collections and associated infrastructure (specimen transactions, identifications, visits)	>95%	97.9%
	New and improved products, processes and services	55	50
	Presentations to stakeholders and community groups	250	211
Science quality	Impact of scientific publications (mean citation score)[1]	2.9–3.3	3.2
Financial indicator	Revenue per FTE ($000s)[1]	$229	$205.3
Stakeholder engagement	Percentage of relevant end users who have adopted knowledge and/or technology from Manaaki Whenua[2]	>95%	91%
	Percentage of relevant funding partners and other end users that have a high level of confidence in our ability to set research priorities[2]	>75%	71%
	Percentage of stakeholders involved in a specific research team/ partnership that have a high level of confidence in our ability to form the best team for the collaboration in which they were involved[2]	>90%	81%
	Staff invited to participate in stakeholder meetings or workshops	250	244
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	80	93
Commercialisation	Number of new and existing licensing deals of Manaaki Whenua-derived IP (including technologies, products and services)	8–14	26
High performance culture	Staff engagement in survey evaluations	>70%	70%
	Staff retention rate	>90%	91.5%

[1] Generic indicators as required by MBIE across all CRIs are at the Manaaki Whenua Group level; the rest are at Parent level

[2] Data provided from the MBIE-commissioned biennial external client survey in 2018

Report of the Directors

For the year ended 30 June 2018

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 2018. 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

Manaaki Whenua'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 $77.7 million from $65.0 million in the previous year. The consolidated net surplus before taxation expense for the year was $7.0 million and the consolidated net surplus after tax attributable to Parent Company shareholders was $5.0 million.

Remuneration of Directors

Directors fees are set annually by the shareholding Ministers.

	2017/18 $	2016/17 $
Jane Taylor	47,888	46,944
Chris Downs	23,944	23,472
Emily Parker	37,444	36,972
Paul Reynolds	53,930	53,340
Caroline Saunders	23,944	23,472
John Rodwell	23,944	-
Kate Wilkinson	23,944	-
Ngarimu Blair	23,944	-
Gavan Herlihy	-	23,472
Steve Saunders	-	15,491

These include fees for Paul Reynolds as Chair of the subsidiary Enviro-Mark Solutions Limited and Emily Parker as the Manaaki Whenua member of the Biological Heritage National Science Challenge.

Changes to Board composition

Mr John Rodwell was appointed to the Board on 1 July 2017.
Hon Kate Wilkinson was appointed to the Board on 1 July 2017.
Mr Ngarimu Blair was appointed to the Board on 1 July 2017.
Chris Downs retired from the Board on 30 June 2018.

Subsidiaries

The Directors of the two subsidiary companies are:

Enviro-Mark Solutions Limited
Paul H S Reynolds
Richard F S Gordon
Nigel W Thomson

Landcare Research US Limited
Richard F S Gordon
Nigel W Thomson

Directors' insurance

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

Dividends

No dividends have been declared or paid in respect of the 2018 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 Manaaki Whenua 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 that would not otherwise have been available to them.

Donations

The Group has made no donations during the year ($nil in 2016/17).

Auditors

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

Events subsequent to balance date

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

Employee remuneration

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

	Number of Employees	
Total Cost to the Group	**2017/18**	**2016/17**
$470,000 - $479,999	1*	-
$440,000 - $449,999	-	1*
$240,000 - $249,999	3	3
$230,000 - $239,999	1	1
$220,000 - $229,999	2	1
$210,000 - $219,999	1	3
$200,000 - $209,999	2	1
$190,000 - $199,999	-	-
$180,000 - $189,999	1	1
$170,000 - $179,999	2	-
$160,000 - $169,999	1	5
$150,000 - $159,999	3	2
$140,000 - $149,999	6	8
$130,000 - $139,999	13	10
$120,000 - $129,999	11	10
$110,000 - $119,999	26	15
$100,000 - $109,999	18	31

* Chief Executive of Landcare Research New Zealand Limited.

This table includes no redundancy and termination payments to employees in 2017/18 (2016/17: 3).

Signed for and on behalf of the Board

Jane Taylor
Chair
28 August 2018

Paul Reynolds
Deputy Chair
28 August 2018

Audited Financial Statements

of Landcare Research New Zealand Limited

Consolidated statement of comprehensive income

for the year ended 30 June 2018

	Note	2018 Actual $000s	2018 Budget $000s	2017 Actual $000s
Revenue	1.	77,689	79,301	65,036
Finance costs	2.	—	—	23
Operating expenses	2.	70,718	76,016	59,850
Profit / (Loss) before tax		**6,971**	**3,285**	**5,163**
Income tax expense	21.	2,025	920	1,483
Profit / (Loss) after tax		**4,946**	**2,365**	**3,680**
Total comprehensive income		**4,946**	**2,365**	**3,680**

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2018

	2018 Actual $000s	2018 Budget $000s	2017 Actual $000s
Balance at 1 July	**37,399**	**35,262**	**33,719**
Total comprehensive income for the year ended 30 June	4,946	2,365	3,680
Balance at 30 June	**42,345**	**37,627**	**37,399**
Total comprehensive income attributable to:			
Parent company	4,946	2,365	3,680
	4,946	**2,365**	**3,680**

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2018

	Note	2018 Actual $000s	2018 Budget $000s	2017 Actual $000s
ASSETS				
Current assets				
Cash and cash equivalents	3.	7,879	18,706	17,706
Trade and other receivables	4.	11,138	7,041	7,064
Inventories		18	24	17
Other financial assets	3.	17,709	—	6,197
Finance lease receivable	5.	41	41	37
Total current assets		**36,785**	**25,812**	**31,021**
Non-current assets				
Property, plant and equipment	7.	30,534	40,835	30,294
Patents and intellectual property	8.	537	601	545
Intangible assets	9.	440	631	337
Finance lease receivable	5.	396	396	437
Total non-current assets		**31,907**	**42,463**	**31,613**
Total assets		**68,692**	**68,275**	**62,634**
LIABILITIES				
Current liabilities				
Trade and other payables	11.	10,036	11,419	7,605
Employee benefit liabilities	12.	4,341	4,057	4,174
Revenue in advance	13.	7,725	11,408	9,595
Tax payable		1,420	307	645
Derivative financial instruments	6.	1	—	—
Total current liabilities		**23,523**	**27,191**	**22,019**

	Note	2018 Actual $000s	2018 Budget $000s	2017 Actual $000s
Non-current liabilities				
Employee benefit liabilities	12.	634	820	617
Deferred tax liability	21.	2,190	2,637	2,599
Total non-current liabilities		**2,824**	**3,457**	**3,216**
Total liabilities		**26,347**	**30,648**	**25,235**
NET ASSETS		**42,345**	**37,627**	**37,399**
EQUITY				
Ordinary shares	14.	10,515	10,515	10,515
Retained earnings	14.	31,830	27,112	26,884
Total equity		**42,345**	**37,627**	**37,399**

The accompanying notes form part of these financial statements.

Jane Taylor
Chair
28 August 2018

Paul Reynolds
Deputy Chair
28 August 2018

Consolidated statement of cash flows

for the year ended 30 June 2018

	2018 Actual $000s	2018 Budget $000s	2017 Actual $000s
Cash flows from operating activities			
Receipts from customers	71,685	79,242	68,163
Interest received	484	360	249
Payments to suppliers and employees	(65,136)	(69,236)	(54,188)
Interest paid	—	—	(23)
Tax refund / (paid)	(1,659)	(886)	(1,577)
Net cash generated from operating activities	**5,374**	**9,480**	**12,624**
Cash flows from investing activities			
Purchase and sale of short term investments	(11,512)	—	(148)
Proceeds from sale of property, plant and equipment	74	—	118
Purchase of property, plant and equipment	(3,468)	(11,998)	(3,739)
Purchase of intangible assets	(295)	(355)	(131)
Net cash used in investing activities	**(15,201)**	**(12,353)**	**(3,900)**
Net increase / (decrease) in cash	**(9,827)**	**(2,873)**	**8,724**
Cash, cash equivalents and bank overdrafts at beginning of the year	17,706	21,579	8,982
Cash, cash equivalents and bank overdrafts at end of the year	**7,879**	**18,706**	**17,706**

The accompanying notes form part of these financial statements.

	2018 Actual $000s	2017 Actual $000s
Reconciliation of net profit / (loss) after tax to net cash flow from operating activities		
Profit / (loss) after tax	4,946	3,680
Add / (less) non-cash items:		
Depreciation and amortisation	3,518	3,863
Movement in non-current employee entitlements	17	(65)
Increase / (decrease) in deferred tax	(409)	6
Add / (less) items classified as investing or financing activities:		
Gain / (Loss) on sale of non-current assets and investments	(73)	(114)
Gain / (Loss) in fair value of financial assets	1	(12)
Movement in finance lease receivable	37	34
Add / (less) movements in working capital items:		
Inventory	(1)	(2)
Trade and other receivables	(3,975)	(158)
Interest receivable	(103)	(89)
Trade and other payables	3,119	1,696
Employee benefit liabilities	167	106
Revenue in advance	(1,870)	3,679
Net cash inflow / (outflow) from operating activities	**5,374**	**12,624**

1 REVENUE

	2018 Actual $000s	2017 Actual $000s
Revenue from operations consisted of the following items:		
Research contracts funded by the Crown via Ministry of Business, Innovation and Employment		
SSIF	25,635	25,635
Other	27,149	17,630
Other New Zealand revenue	22,676	19,301
International revenue	1,601	2,044
Interest revenue:		
Bank deposits	587	382
Finance leases	41	44
Total interest	628	426
Total revenue	**77,689**	**65,036**

Revenue is measured at the fair value of consideration received.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided. Income received for goods and services that have not yet been supplied to customers has been recognised as Revenue in Advance. Sales of goods are recognised when a product is sold to the customer.

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

Interest income is recognised using the effective interest method whereby the estimated future cash receipts are exactly discounted from the net carrying amounts through the expected life of the financial assets.

Revenue recognition

The Group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver research services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed.

2 PROFIT BEFORE INCOME TAX

	2018 Actual $000s	2017 Actual $000s
Profit before income tax has been arrived at after charging the following expenses:		
Finance costs		
Interest on loans	—	23
Inventory write off	6	3
Employee remuneration	33,337	29,579
Restructuring costs	(52)	47
Superannuation contributions	1,287	1,152
Employee entitlements increase / (decrease)	150	48
Net bad and doubtful debts	2	(33)
Auditor's remuneration		
Audit New Zealand - audit services	114	118
Audit New Zealand - other services	—	1
Directors' fees	248	218
Depreciation and amortisation of property, plant, equipment and intangibles	3,518	3,863
Impairment of plant, equipment and intangibles	344	—
Loss / (Profit) on sale of non-current assets	(120)	(114)
Operating lease rental	903	836
Cost of sales	428	405
Loss / (Profit) on foreign currency contracts fair value	1	—

Provisions

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

Borrowing Costs

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

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

3 CASH AND CASH EQUIVALENTS

	2018 Actual $000s	2017 Actual $000s
Cash at bank and in hand	498	1,009
Short-term deposits	7,381	16,697
Total cash and cash equivalents	**7,879**	**17,706**
Other financial assets		
Short-term deposits	**17,709**	**6,197**

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

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

4 TRADE AND OTHER RECEIVABLES

	2018 Actual $000s	2017 Actual $000s
Trade debtors	8,245	4,981
Accrued income and sundry debtors	1,927	1,168
Prepayments	974	915
	11,146	7,064
Less provision for impairment of receivables	(8)	—
Total trade and other receivables	**11,138**	**7,064**
Total non-current portion	**—**	**—**
Total current portion of trade & other receivables	**11,138**	**7,064**

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

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

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

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

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

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.

As of 30 June 2018, all overdue receivables have been assessed for impairment and appropriate provisions applied. Manaaki Whenua holds no collateral as security or other credit enhancements over receivables that are either past due or impaired. The impairment provision has been calculated based on expected losses for Manaaki Whenua's pool of debtors. Expected losses have been determined on review of specific debtors.

5 FINANCE LEASE RECEIVABLE

	2018 Actual $000s	2017 Actual $000s
Analysis of finance lease receivable		
Total minimum lease payments are receivable:		
Not later than one year	78	78
Later than one year and not later than five years	314	314
Later than five years	216	295
Total minimum lease payments	608	687
Future finance charges	(171)	(213)
Total present value of minimum lease payments	**437**	**474**
Present value of minimum lease payments are receivable:		
Not later than one year	41	37
Later than one year and not later than five years	206	188
Later than five years	190	249
Total	**437**	**474**
Current	41	37
Non-current	396	437
Total	**437**	**474**

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. Landcare Research New Zealand Limited has the right to continue occupying the building for a further eight years to 2026 at a rent of $1.00 per annum.

6 ACCOUNTING FOR DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

	2018 Actual $000s	2017 Actual $000s
Derivative financial instruments		
Current asset / (liability) portion		
Foreign currency forward contracts	(1)	—
Total derivative financial instruments	**(1)**	**—**

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

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

7 PROPERTY, PLANT AND EQUIPMENT

2018	Land $000s	Buildings $000s	Plant & equipment $000s	Library assets $000s	Total $000s
Cost at 1 July 2017	1,919	26,329	46,918	7,817	**82,983**
Accumulated depreciation and impairment charges	—	(10,066)	(35,974)	(6,649)	**(52,689)**
Net book value at the beginning of the year	1,919	16,263	10,944	1,168	**30,294**
Year ended 30 June 2018					
Net book value at the beginning of the year	1,919	16,263	10,943	1,168	**30,293**
Additions	—	559	2,867	542	**3,968**
Disposals	—	—	(1,118)	—	**(1,118)**
Accumulated depreciation on disposals	—	(69)	1,118	—	**1,049**
Fair value impairment	—	—	(331)	—	**(331)**
Current year depreciation	—	(490)	(2,316)	(521)	**(3,327)**
Net book value at the end of the year	**1,919**	**16,263**	**11,163**	**1,189**	30,534
At 30 June 2018					
Cost	1,919	26,888	48,666	8,359	**85,832**
Accumulated depreciation	—	(10,625)	(37,503)	(7,170)	**(55,298)**
Net book value at the end of the year	**1,919**	**16,263**	**11,163**	**1,189**	30,534

Included in additions is an amount of $829,000 (2017: $471,000) which relates to work in progress.

2017	Land $000s	Buildings $000s	Plant & equipment $000s	Library assets $000s	Total $000s
Cost at 1 July 2016	519	26,402	47,668	7,310	**81,897**
Accumulated depreciation and impairment charges	—	(9,424)	(36,069)	(6,163)	**(51,656)**
Net book value at the beginning of the year	519	16,978	11,599	1,147	**30,241**
Year ended 30 June 2017					
Net book value at the beginning of the year	519	16,978	11,597	1,147	**30,241**
Additions	1,400	39	1,709	507	**3,655**
Disposals	—	(112)	(2,459)	—	**(2,571)**
Accumulated depreciation on disposals	—	112	2,463	—	**2,575**
Current year depreciation	—	(754)	(2,366)	(486)	**(3,606)**
Net book value at the end of the year	**1,919**	**16,263**	**10,944**	**1,168**	30,294
At 30 June 2017					
Cost	1,919	26,329	46,918	7,817	**82,983**
Accumulated depreciation	—	(10,066)	(35,974)	(6,649)	**(52,689)**
Net book value at the end of the year	**1,919**	**16,263**	**10,944**	**1,168**	30,294

Property, plant and equipment consist of:

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

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

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

Additions

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

Disposals

Gains and losses are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in comprehensive income.

Subsequent costs

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

Depreciation

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

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

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

Further details on these heritage assets are shown in the company's Statement of Corporate Intent pages 35 and 36.

The nature of these heritage assets and their significance to the science and research that Manaaki Whenua 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 2002/03 on a market value basis. This value has been accepted as deemed cost.

8 PATENTS AND INTELLECTUAL PROPERTY

	Actual $000s
As at 1 July 2016	
Cost	562
Accumulated amortisation and impairment	(23)
Net book amount	**539**
Year ended 30 June 2017	
Opening net book amount	539
Additions	16
Disposals / transfers	(2)
Amortisation on disposals/transfers	—
Amortisation charge	(8)
Closing net book amount	**545**
As at 1 July 2017	
Cost	577
Accumulated amortisation and impairment	(32)
Net book amount	**545**

8 PATENTS AND INTELLECTUAL PROPERTY CONTINUED

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

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

Manaaki Whenua Group has patents and trademarks amounting to $550,000 (2017: $545,000), which are carried at an indefinite life in the financial statements. These assets have not been impaired during the year (2017: no impairment write-down). Manaaki Whenua has not recognised an impairment charge, as these assets are still used by the business.

9 INTANGIBLE ASSETS

	Actual $000s
As at 1 July 2016	
Cost	5,066
Accumulated amortisation and impairment	(4,615)
Net book amount	**451**
Year ended 30 June 2017	
Opening net book amount	451
Additions	131
Disposals/transfers	—
Amortisation on disposals/transfers	—
Amortisation charge / impairment charge	(245)
Closing net book amount	**337**
As at 30 June 2017	
Cost	5,197
Accumulated amortisation and impairment	(4,860)
Net book amount	**337**
Year ended 30 June 2018	
Opening net book amount	337
Additions	295
Disposals/transfers	(6)
Amortisation on disposals/transfers	6
Amortisation / impairment charge	(192)
Closing net book amount	**440**
As at 30 June 2018	
Cost	5,484
Accumulated amortisation and impairment	(5,044)
Net book amount	**440**

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 comprehensive income. The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

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

10 INVESTMENTS

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

On 29 June 2016 Landcare Research New Zealand Limited subscribed for twenty percent of Blinc Innovation Limited (previously called Lincoln Hub Limited). Landcare Research New Zealand Limited's share of the net assets of Blink Innovation Limited was $13,016 as at 30 June 2018. (2017: $8,638).

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

Landcare Research New Zealand Limited has a 49% share in Staron LLC. This Company is non-trading.

11 TRADE AND OTHER PAYABLES

	2018 Actual $000s	2017 Actual $000s
Trade payables	7,521	4,713
Amounts due to directors	2	—
GST & PAYE	609	461
Sundry creditors and accruals	1,904	2,431
Total trade and other payables	**10,036**	**7,605**

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

Goods and Services Tax (GST)

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

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

12 EMPLOYEE BENEFIT LIABILITIES

	2018 Actual $000s	2017 Actual $000s
Accrued pay	252	220
Annual leave	2,288	2,143
Long-service leave	1,117	1,013
Retirement leave	10	10
Time in lieu	172	115
Sick leave	60	55
Staff incentives and at risk payments	1,015	1,073
Holiday pay due to ex employees	61	110
Restructuring provision	—	52
Total employee benefit liabilities	**4,975**	**4,791**
Comprising:		
Current	4,341	4,174
Non-current	634	617
Total	**4,975**	**4,791**

The Holiday Pay due to ex employees of $61,000 (2017: $110,000) 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 2018. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, likelihood staff will reach the point of entitlement and contractual entitlements information; and
- present value of estimated future cash flows using the following key assumptions:
    - Discount rates of 1.78 – 4.75% based on the risk-free rates as calculated from the yields on New Zealand Government Bonds
    - Inflation factor of 2.0% 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 statement of comprehensive income.

Superannuation schemes

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

Long-service leave, retirement leave, and sick leave

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

13 REVENUE IN ADVANCE

	2018 Actual $000s	2017 Actual $000s
MBIE public good science funding	6,123	8,145
Commercial contracts	1,602	1,450
	7,725	**9,595**

The carrying value of revenue in advance approximates fair value.

14 EQUITY

	2018 Actual $000s	2017 Actual $000s
Retained earnings		
As at 1 July	26,884	23,204
Profit / (loss) for the year	4,946	3,680
As at 30 June	**31,830**	**26,884**
Share capital		
As at 1 July	10,515	10,515
As at 30 June	**10,515**	**10,515**

The issued capital of the company 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 2018. (2017: $0).

15 CAPITAL MANAGEMENT

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

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

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

16 CAPITAL COMMITMENTS AND OPERATING LEASES

	2018 Actual $000s	2017 Actual $000s
Capital commitments		
Estimated capital expenditure contracted for at balance date but not paid or provided for	707	546
Operating lease commitments – Lessee		
Lease commitments under non-cancellable operating leases:		
Within one year	679	604
Later than one year and not later than two years	301	312
Later than two years and not later than five years	759	552
Later than five years	2,875	3,056

In addition to the above the Parent has $0.3m committed to New Zealand eScience Infrastructure. (2017: $0.7m).

	2018 Actual $000s	2017 Actual $000s
Operating lease commitments – Lessor		
Lease commitments under non-cancellable operating leases:		
Within one year	725	755
Later than one year and not later than two years	680	696
Later than two years and not later than five years	2,041	1,999
Later than five years	14,386	14,739

Group as a lessee

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

Group as a lessor

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

17 CONTINGENCIES

Commitments and contingencies are disclosed exclusive of GST. The Group is not aware of any significant contingent liabilities or contingent assets as at balance date (2017: nil).

18 RELATED PARTY TRANSACTIONS

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

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

MWRT audit fees to Audit New Zealand of $1,833 (GST exclusive) (2017: $1,812) have been paid by the Controlling Entity, Landcare Research New Zealand Limited.

MWRT Trustees Liability insurance of $2,750 (GST exclusive) (2017: $1,635) has been paid by the Controlling Entity, Landcare Research New Zealand Limited.

MWRT's Controlling Entity, Landcare Research New Zealand Limited has provided accounting services to the Trust at no cost.

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

Related party disclosures have not been made for transactions with related parties, including subsidiaries, that are:

- within a normal supplier or client/recipient relationship; and
- on terms or conditions no more or less favourable than those that it is reasonable to expect that the Group would have adopted in dealing with the party at arm's length in the same circumstances.

Further, transactions with other government agencies (for example, government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies.

Landcare Research New Zealand Limited 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.

	2018 Actual $000s	2017 Actual $000s
Key management personnel compensation		
Salaries and other short-term employee benefits	3,193	3,017

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

During the year Director remuneration payments (including expense reimbursements) were made to the following entities at the request of the Directors and relate exclusively to Director remuneration payments that would have otherwise been paid directly to the existing Directors.

	2018	2017
	Services received from $000s	**Services received from $000s**
Patana Holdings Limited	24	—
The Commonwealth Scientific & Industrial Research Organisation	24	24

At 30 June 2018 $1,555 was payable to Patana Holdings Limited.

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

	2018	2017	2018	2017	2018	2017
	Services received from $000s	Services received from $000s	Services provided to $000s	Services provided to $000s	Amounts (Payable to)/ Receivable $000s	Amounts (Payable to)/ Receivable $000s
Science New Zealand	66	50	30	29	—	(2)
AgResearch Limited	655	906	1,765	2,212	628	113
Royal Society of New Zealand	10	15	469	414	(4)	—
Predator Free 2050 Ltd	5	—	244	35	58	40

Landcare Research New Zealand Limited also supplies and purchases goods and services from entities controlled, significantly influenced or jointly controlled by the Crown. Sales to and purchases from these entities during the year ended 30 June 2018 were:

	2018	2017	2018	2017	2018	2017
	Services received from $000s	Services received from $000s	Services provided to $000s	Services provided to $000s	Amounts (Payable to)/ Receivable $000s	Amounts (Payable to)/ Receivable $000s
Crown entities, SOEs and government departments	15,198	12,306	62,819	56,929	(634)	(573)

Landcare Research New Zealand Limited also supplies and purchases goods and services with Blinc Innovation Limited. Sales to and purchases from this entitiy during the year ended 30 June 2018 were:

2018	2017	2018	2017	2018	2017
Services received from $000s	Services received from $000s	Services provided to $000s	Services provided to $000s	Amounts (Payable to)/ Receivable $000s	Amounts (Payable to)/ Receivable $000s
203	200	11	1	(58)	(58)

Researcher Dr Peter Johnston identifying fungi specimens collected at the 32nd Fungal Foray held near Lake Brunner, West Coast, NZ

19 FINANCIAL INSTRUMENTS

	2018 Actual $000s	2017 Actual $000s
Financial assets		
Financial assets at fair value through profit and loss		
Foreign exchange forward contracts	(1)	—
Other Financial Assets	17,709	6,197
Loans and receivables		
Cash and cash equivalents	7,879	17,706
Trade receivables	8,245	4,981
Sundry debtors and accruals	1,927	1,168
Financial liabilities		
Other financial liabilities		
Trade payables	7,521	4,713
Sundry creditors and accruals	1,904	2,431

The Group classifies its financial assets into the following three categories: financial assets at fair value through comprehensive income, loans and receivables, 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 the statement of comprehensive income, in which case the transaction costs are recognised in comprehensive income.

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 three categories of financial assets are:

- *Financial assets at fair value through comprehensive income*
  This category has two sub-categories: financial assets held for trading, and those designated at fair value through comprehensive income 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 the statement of comprehensive income. Financial assets in this category include foreign currency forward contracts.

- *Loans and receivables*
  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 the statement of comprehensive income. 'Trade and other receivables' are classified as loans and receivables in the statement of financial position.

- *Financial assets at fair value through other comprehensive income*
  Financial assets at fair value through other comprehensive income are those that are designated as fair value through other comprehensive income or are not classified in any of the other categories above. This category encompasses:
  - investments that the Group intends to hold long term but that may be realised before maturity.
  - shareholdings that the Group holds for strategic purposes. The Parent's investments in its subsidiaries are not included in this category as they are held at cost (as allowed by NZ IAS 27 Consolidated and Separate Financial Statements), whereas this category is to be measured at fair value.
  - investment in Kiwi Innovation Network Limited.

After initial recognition, these investments are measured at their fair value. Gains and losses are recognised directly in other comprehensive income except for impairment losses, which are recognised in comprehensive income. In the event of impairment, any cumulative losses previously recognised in other comprehensive income will be removed from other comprehensive income and recognised in comprehensive income even though the asset has not been derecognised. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is recognised in comprehensive income.

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 comprehensive income.

20 IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate 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 the statement of comprehensive income.

21 INCOME TAX

	2018 Actual $000s	**2017 Actual $000s**
Components of tax expense		
Current tax	1,972	1,429
Adjustments to current tax in prior years	77	39
Deferred tax expense	(24)	15
Income tax expense	**2,025**	**1,483**

Relationship between tax expense and accounting profit		
Profit / (loss) before tax	6,971	5,163
Tax at 28%	1,952	1,446
Non-deductible expenditure	16	24
Deferred tax adjustment	(26)	(18)
Prior-year adjustment	83	31
Total income tax expense	**2,025**	**1,483**

Deferred tax assets / (liabilities)	**Property, plant and equipment $000s**	**Employee entitlements $000s**	**Other provisions $000s**	**Total $000s**
Group				
Balance at 1 July 2016	(3,541)	927	15	(2,599)
Charged to profit / (loss)	94	(84)	(10)	(0)
Balance at 1 July 2017	(3,447)	843	5	(2,599)
Charged to profit / (loss)	383	21	5	409
Balance at 30 June 2018	**(3,064)**	**864**	**10**	**(2,190)**

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 comprehensive income, except to the extent that they relate to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

22 FINANCIAL INSTRUMENT RISKS

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

Market Risk

Price risk

Group price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Group is not exposed to price risk as it does not hold financial assets held at fair value through other comprehensive income and/or comprehensive income.

Currency risk

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

As at 30 June 2018, 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 $4,000 (2017: $2,000) 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 2018, 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 $26,000 (2017: $7,000) 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 2018, 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 $11,000 (2017: $7,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade payables and receivables.

At 30 June 2018, 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 (2017: $1,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of UK-pound-denominated trade payables and receivables.

At 30 June 2018, if the Norwegian Krone had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, profit after tax for the year would have been $1,000 (2017: $0) higher/lower, mainly as a result of foreign exchange gains/losses on translation of UK-pound-denominated trade payables and receivables.

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

Interest rate risk

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

Contractual maturity analysis of financial liabilities, excluding derivatives

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

2017	Carrying amount $000s	Contractual cash flows $000s	Less than 1 year $000s	1–2 years $000s	2–5 years $000s	More than 5 years $000s
Group						
Creditors & other payables	7,605	7,605	7,605	—	—	—
Total	**7,605**	**7,605**	**7,605**	**—**	**—**	**—**
2018						
Group						
Creditors & other payables	10,036	10,036	10,036	—	—	—
Total	**10,036**	**10,036**	**10,036**	**—**	**—**	**—**

Credit risk

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

Liquidity risk

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

23 BUDGET FIGURES

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

24 EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET AND BETWEEN YEARS

There were the following significant variances:

- *Statement of Comprehensive Income*
  June 2018 result was significantly higher than June 2017 due to success in the 2016 MBIE funding rounds and uplift in Science Challenges and Commercial activity. Revenue is approximately 2% below budget due to delays in project activity.

- *Statement of Financial Position*
  Cash on hand and short term deposits increased substantially over budget and prior year due to business performance and phasing of capital expenditure.

25 EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

Preparation Disclosures

Reporting entity

Landcare Research New Zealand Limited 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 Landcare Research Group ('the Group') consists of Landcare Research New Zealand Limited and its subsidiaries, Landcare Research US Limited (100% owned) and Enviro-Mark Solutions Limited (100% owned). Landcare Research New Zealand Limited and Enviro-Mark Solutions Limited are incorporated and domiciled in New Zealand; Landcare Research US Limited is incorporated and domiciled in the USA.

These audited financial statements of the Group are for the year ended 30 June 2018 and were authorised by the Board of Landcare Research New Zealand Limited on 28 August 2018.

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.

Accounting policies 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 statement of comprehensive income.

Adoption of new and revised standards

None of the new standards effective after 1 July 2017 had a material effect on the Group.

Standards, amendments and interpretations issued but not yet effective:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
NZ IFRS 15 Revenue from Contracts with Customers	1 January 2018	30 June 2019
NZ IFRS 16 Leases	1 January 2019	30 June 2019

NZ IFRS 16 Leases is not expected to have a material impact on the financial results.

NZ IFRS 15 Revenue from Contracts with Customers replaces NZ IAS 18. NZ IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, and is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The control approach replaces the existing risk and reward approach.

Manaaki Whenua Landcare Research (MWLR) is currently working through the process of assessing any potential impact of applying the new standard on the consolidated financial statements. While the full impact of the transition is not yet known, MWLR intends to adopt the standard using the modified retrospective approach, which means that any cumulative impact of the adoption will be recognised in retained earnings as at 1 July 2018 and that comparatives will not be restated.

Except for the impending changes noted above there are no other standards or interpretations applicable to the Group that have been issued but are not yet effective.

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 comprehensive income.

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.

Landcare Research New Zealand Limited's investment in its subsidiaries is carried at cost less impairment in its 'Parent entity' financial statements.

Critical accounting estimates and assumptions

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

Critical judgements in applying the Group's accounting policies

Management has exercised the following critical judgements in applying the Group's accounting policies for the year ended 30 June 2018:

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

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

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

2. *Patents and intellectual property impairment*
   The Company 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.

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

Changes in accounting policies

There were no changes in accounting policies during the financial year.

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 2018 for issue on 28 August 2018.

Jane Taylor
Chair
28 August 2018

Paul Reynolds
Deputy Chair
28 August 2018

Soil sample being re-hydrated by ECLab technician Luke Brown in Palmerston North.

Audit Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

To the readers of Landcare Research New Zealand Limited's Group Financial statements for the year ended 30 June 2018

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

Opinion

We have audited the financial statements of the Group on pages 9 to 30, that comprise the statement of financial position as at 30 June 2018, 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 2018; and
    - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 28 August 2018. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Responsibilities of the Board of Directors for the financial statements

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

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

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

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

Responsibilities of the auditor for the audit of the financial statements

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

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

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

We did not evaluate the security and controls over the electronic publication of the financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 8, and 31, 34 to 36, but does not include the financial statements, and our auditor's report thereon.

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

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

Independence

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

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

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

Financial Indicators (MBIE)

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

For year ending 30 June:	Actual 2018	Business Plan 2018
Efficiency:		
Operating margin	12.8%	7.9%
Operating margin per FTE	$27,593	$18,116
Risk:		
Quick ratio	2.27	1.60
Interest coverage	N/a	N/a
Operating margin volatility	17.2%	8.8%
Forecasting risk	3.9%	1.6%
Tailored rate of return:		
ROE before investment	13.1%	7.8%
Return on equity (ROE) (based on NPAT)	12.4%	6.5%
Growth/investment:		
Revenue growth	19.3%	22.2%
Capital renewal	1.1	3.7

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

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

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

The Honshu White Admiral butterfly, bred at the Lincoln campus.

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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Dr Chris Downs*
Prof Caroline Saunders
Prof Emily Parker
Hon Kate Wilkinson
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Dr Steve Lorimer	General Manager, Development
Holden Hohaia	General Manager, Māori Development
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Dr Fiona Carswell	Chief Scientist
Chris McDermott	General Manager, Brand & Communications

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* To June 2018
^ From July 2018

G.40 Annual Report (2018)

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Annual Report 2018

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Manaaki Whenua
Landcare Research