



Manaaki Whenua
Landcare Research

2018

December

HALF-YEAR REPORT



Landcare Research New Zealand Limited
(Manaaki Whenua)
Half-Year Report 2018
Directors' Report and Financial Statement

Presented to the House of Representatives
pursuant to section 44 of the Public Finance
Act 1989

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HALF-YEAR REPORT 2018
Our Half-Year Report fulfils our Annual
Reporting Responsibilities under the
CRIs Act 1992. Detailed information about
our research, operational activities and impacts,
and governance is available on our website:
www.landcareresearch.co.nz

On the cover: researcher Dr Peter Johnston from
Manaaki Whenua, John Steel and Michael
Pilkington of the University of Otago work to
identify fungi specimens collected at the 32nd
Fungal Foray held near Lake Brunner, West Coast
NZ.

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CHAIR AND CHIEF EXECUTIVE'S REPORT

Overview

Manaaki Whenua continues to enjoy a period of strong financial performance that underpins a substantial and growing contribution to meeting the needs of New Zealand. Science investment has grown across all four of our Ambitions for New Zealand: biodiversity, biosecurity, land, and environment. Also performing well have been the NZ Biological Heritage National Science Challenge, for which we are responsible, and our subsidiary, Enviro-Mark Solutions Ltd. Our staff numbers have continued to grow in response to demand for our research and science and we have made good progress in collaborations with partners in government, the primary sector, Māori organisations, community groups, and international science. Our work in the Pacific has also grown, with MFAT investment. Work is well under way on our Lincoln re-development programme and plans are in place for renovation or new lease facilities in Palmerston North and Wellington.

Impact from Science

- ***Predator-free New Zealand:*** Our research is increasingly embedded in predator-free and restoration initiatives at city, landscape, and regional scales. This enhances the efficiency and effectiveness of operations that are costly in terms of money and community engagement. We are also active in pursuit of novel control technologies, including a selective rodenticide and artificial lures.
- ***Myrtle rust disease:*** Our researchers are closely involved in MPI and NZ's Biological Heritage Science Challenge initiatives and the new MBIE Endeavour programme that we lead. Our finding of the first evidence that myrtle rust reproduces sexually in New Zealand has implications for the management strategy.
- ***Freshwater quality:*** Our recent science has contributed to understanding the source and impact of sediment in freshwater, and to governance mechanisms for regional councils.
- ***Transition to a low-carbon economy:*** Our Enviro-Mark Solutions (E-MS) business continues to meet strong demand across multiple sectors. The Ministry for the Environment (MfE) recently achieved carboNZero status through E-MS. Our science continues to clarify and quantify greenhouse gas emissions from areas of uncertainty, for example hill country farming.
- ***One Billion Trees:*** We have engaged closely with MPI and Scion to plan the provision of knowledge, tools, and assessment for groups engaged in this programme.
- ***State of Environment reporting:*** Our staff have been seconded to MfE as advisors for the Land Domain report in previous years, and in 2019 will be part of the Environment Aotearoa team.
- ***Māori land development – traditional fungal-based foods:*** We are working with Hikurangi Enterprises on the East Coast and Tuwhenua Trust in Ruatāhuna to explore the potential to produce traditional Māori edible fungi varieties on a larger scale. We are now ready to begin planning small-scale field trials in both locations.
- ***Data accessibility:*** Our culture of making data accessible is exemplified by S-Map Online, which now provides soil data through Overseer, following an agreement with that organisation. We have

signed an agreement with the international soils organisation ISRIC that will see further development of tools and processes to enhance accessibility.

- ***Pacific Reset:*** We met with MFAT and other research providers to help design a research programme. Our interest is to formulate a longer-term plan than usual, recognising that planning, implementation, and impact take many years. Our major soils, weeds, and seeds programmes in the island nations are proceeding well.

Strategic Development

Manaaki Whenua launched a 5-year strategic plan in 2017 and initiatives are well under way in the areas of People, Partners, Science, and Sustainability.

- ***Our People:*** strategic initiatives are focused on developing our culture and workforce through actions directed at behaviour and performance, health safety and well-being, career pathways and talent management, Māori responsiveness, and individual leadership.
- ***Our Partners:*** beyond our many science project collaborations both in New Zealand and overseas, we are now focused on strategic partnerships that can bring benefits through complementing our capabilities and providing career development opportunities, access to talent, and new technologies. We have invested in Māori relationships to strengthen the working relationship between western science and mātauranga Māori. Our outreach to the public has grown through social media in particular, emphasizing stories such as bee colony decline, NZ's garden birds survey, and new biological control agents.
- ***Our Science:*** our focus is on innovation, integration, and impact (i3). Investment in the strategic hiring of science leaders started in 2018 and will continue as we build a cohort of leaders in areas critical to our future impact, including integrated science on complex issues, new information management technologies, and Māori research. New tools have been developed to enhance our innovation and accelerate our pipeline of technologies; and we are working with the other CRIs on better understanding pathways to and measurement of science impact.
- ***Our Sustainability:*** our abilities to attract world-class scientists and undertake world-class science are underpinned by the quality of our infrastructure and business processes. Redevelopment of our Lincoln site started at the end of 2018 with the demolition of our 50-year old and sub-code Godley building, giving way to a new science centre. A strategic refresh is under way on our business model and processes to fit us for the future of science and maximise its benefit to New Zealand. Greater collaboration with the other CRIs and partnership through National Science Challenges and SSIF platforms will contribute to this goal.

Sustainable growth

Continuing a strong performance in FY17 and FY18, we have seen an 7% increase in first half-year revenue (*cf* same period FY18), with ongoing growth in MBIE Endeavour and National Science Challenge activity, as well as in commercial areas and E-MS, which has performed very strongly as a result of significant customer interest (see below). Net profit after tax (NPAT) for the 6 months ending 31 December 2018 was \$1.4m, which is ahead of budget.

Enviro-Mark Solutions

Our subsidiary Enviro-Mark Solutions offers New Zealand and International businesses a credible and reliable way to make claims about their environmental performance. Certification products such as carboNZero^{Cert}™ are a key part of creating a low-carbon economy for New Zealand. E-MS clients have achieved significant voluntary reductions of carbon emissions, from 30% to 70% by the top-10 clients. The total footprint that E-MS have certified and is being managed by clients in NZ and UK is more than twice NZ's footprint, reflecting large-scale clients in the UK and NZ.

Enviro-Mark Solutions has continued on a growth path and had a record result for the first half year, with revenue of \$2M putting them ahead of budget and ahead of the prior year by 20%. NPAT was \$173K ahead of budget at the half-year mark. With a strong pipeline of sales ahead, growth continues to be driven through businesses responding to the Paris Accord, financial and reputational risk management, larger clients, and better quality business. E-MS has been certified as a B-corp, one of an international group of businesses that meet the highest standards of verified social and environmental performance, public transparency, and legal accountability to balance profit and purpose.



Jane Taylor
Chairman



Richard Gordon
Chief Executive

NON-FINANCIAL INDICATORS

Research collaboration

Scientific peer-reviewed publications, 12-month rolling total	31 Dec-18	SCI target	On track?	31 Dec-17
In collaboration with other NZ institutes	25%	25–30%	Yes	30%
In collaboration with international institutes	35%	30–35%	Yes	39%
Both NZ and international institutes	26%	30–35%	At risk	23%
Joint papers %	86%	90%	Yes	92%

End-user collaboration

Commercial revenue per FTE, 12-month rolling total (\$000s)	31 Dec-18	SCI target	On track?	31 Dec-17
Commercial revenue per FTE (a, b)	56.0	> 58.0	Yes	51.5

Science quality

Mean publication citation score, annual measure (calendar year published in Q4 and Annual Report, score per SCImago)	31 Dec-18	SCI target	On track?	31 Dec-17
Mean citation score for journals in which the CRI has published (c)	3.2	2.9–3.3	Yes	3.2

Tech transfer

Number of commercial/customer reports per scientist FTE, 12-month rolling total	31 Dec-18	SCI target	On track?	31 Dec-17
Client reports (d)	133	No target	No target	117
Client reports per scientist FTE	0.77	0.8	At risk	0.71

Financial

Revenue per FTE, 12-month rolling total (\$000s)	31 Dec-18	SCI target	On track?	31 Dec-17
Revenue per FTE (a, b)	211.9	> 192.0	Yes	196.4

Notes:

- Revenue and FTEs are counted at the Manaaki Whenua – Landcare Research Group level.
- The total differs from the quarterly report revenue and annual accounts revenue because it nets New Zealand's Biological Heritage National Science Challenge subcontracts against revenue.
- Updated annually in Q4 from Web of Science and Scimago using previous calendar year citation data.
- Excludes reports to collaborators in MBIE and NSC programmes. Not included in the SCI targets.

FINANCIALS

The following financial indicators and statements show the Landcare Research Group's unaudited results for the half-year ending 31 December 2018.

Financial Indicators

Landcare Research – Manaaki Whenua

Summary table of financial performance indicators

Consolidated (\$m)

	Actual For the six months ended 31 December 2018	Business Plan For year ending 30 June 2019
<i>Efficiency</i>		
Operating margin	8.5%	7.1%
Operating margin per FTE	\$9,157	\$14,718
<i>Risk</i>		
Quick ratio	2.65	1.89
Interest coverage	N/A	N/A
Operating margin volatility	N/A	19.0%
Forecasting risk	N/A	1.6%
<i>Tailored rate of return</i>		
Return on equity (RoE) before investment	4.3%	10.3%
RoE (based on NPAT)	3.3%	4.6%
<i>Growth/investment</i>		
Revenue growth	N/A	8.0%
Capital renewal	N/A	2.7

Interest coverage is N/A as there is no interest expense in the 6mth Actuals or Full Year Business Plan

Operating margin volatility, Forecasting risk, Revenue growth, and Capital renewal are calculated annually and are therefore shown as N/A in the half year accounts.

FINANCIAL STATEMENTS

Landcare Research New Zealand Limited

Interim condensed consolidated statement of comprehensive income (unaudited)

For the six months ended 31 December 2018

	Dec 2018	Dec 2017	Full year to Jun 2018
	\$000s	\$000s	\$000s
Revenue	40,394	36,593	77,689
Operating expenses	38,379	33,584	70,718
Profit before tax	2,015	3,009	6,971
Income tax expense	590	841	2,025
Profit after tax	1,425	2,168	4,946
Total comprehensive income	1,425	2,168	4,946

The accompanying notes form part of these financial statements.

Landcare Research New Zealand Limited
Interim condensed consolidated statement of financial position (unaudited)
As at 31 December 2018

	Dec 2018	Dec 2017	Jun 2018
	\$000s	\$000s	\$000s
ASSETS			
Current assets			
Cash and cash equivalents	7,658	19,138	7,879
Trade and other receivables	11,240	10,642	11,138
Inventories	69	20	18
Other financial assets	17,917	5,155	17,709
Finance lease receivable	41	37	41
Derivative financial instruments	3	4	-
Total current assets	36,928	34,996	36,785
Non-current assets			
Property, plant and equipment	31,947	29,336	30,534
Patents and intellectual property	541	553	537
Intangible assets	467	435	440
Deferred tax asset	24	26	-
Finance lease receivable	396	437	396
Total non-current assets	33,375	30,787	31,907
Total assets	70,303	65,783	68,692
LIABILITIES			
Current liabilities			
Trade and other payables	9,630	8,177	10,036
Employee benefit liabilities	3,978	3,617	4,341
Revenue in advance	9,963	10,927	7,725
Tax payable	113	253	1,420
Derivative financial instruments	-	-	1
Total current liabilities	23,684	22,974	23,523
Non-current liabilities			
Employee benefit liabilities	634	617	634
Deferred tax liability	2,215	2,625	2,190
Total non-current liabilities	2,849	3,242	2,824
Total liabilities	26,533	26,216	26,347
NET ASSETS	43,770	39,567	42,345
EQUITY			
Ordinary shares	10,515	10,515	10,515
Retained earnings	33,255	29,052	31,830
Total equity	43,770	39,567	42,345

The accompanying notes form part of these financial statements.



J Taylor
Chair
26 February 2019



P Reynolds
Deputy Chair
26 February 2019

Landcare Research New Zealand Limited
Interim condensed consolidated statement of changes in equity (unaudited)
For the six months ended 31 December 2018

	Dec 2018	Dec 2017	Jun 2018
	\$000s	\$000s	\$000s
Balance at 1 July	42,345	37,399	37,399
Total comprehensive income for the half/full year	1,425	2,168	4,946
Balance at 31 December / 30 June	43,770	39,567	42,345
Total comprehensive income attributable to:			
Parent company	1,425	2,168	4,946
	1,425	2,168	4,946

The accompanying notes form part of these financial statements.

Landcare Research New Zealand Limited

Interim condensed consolidated statement of cash flows (unaudited)

For the six months ended 31 December 2018

		Dec 2018	Dec 2017	Full year to Jun 2018
		Actual	Actual	Actual
	Note	\$000s	\$000s	\$000s
Cashflows from operating activities				
Receipts from customers		42,615	34,646	71,685
Interest received		163	221	484
Payments to suppliers and employees		(37,777)	(32,486)	(65,136)
Tax refund/(paid)		(1,896)	(1,233)	(1,659)
Net cash generated from operating activities	4	3,105	1,148	5,374
Cashflows from investing activities				
Purchase and sale of short term investments		(208)	1,042	(11,512)
Proceeds from sale of property, plant and equipment		1	1	74
Purchase of property, plant and equipment		(3,119)	(759)	(3,468)
Purchase of intangible asset		-	-	(295)
Net cash used in investing activities		(3,326)	284	(15,201)
Net increase/(decrease) in cash		(221)	1,432	(9,827)
Cash, cash equivalents and bank overdrafts at beginning of the year		7,879	17,706	17,706
Cash, cash equivalents and bank overdrafts at end of the year		7,658	19,138	7,879

Landcare Research New Zealand Limited
Notes to and forming part of the interim condensed consolidated financial statements (unaudited)
For the six months ended 31 December 2018

1. Reporting entity and activities

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.

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

These unaudited condensed consolidated interim financial statements of the Group are for the six months ended 31 December 2018 and were authorised by the Board of Landcare Research New Zealand Limited on 26 February 2019.

2. Basis of preparation

The interim financial statements of the Group have been prepared in accordance with NZ IAS 34 'Interim financial reporting'. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2018, which have been prepared in accordance with NZ IFRS, and other applicable financial reporting standards, as appropriate for Tier 1 for-profit entities.

3. Accounting policies

Except as noted below, The Group's accounting policies have been consistently applied in preparing the financial statements for the six months ended 31 December 2018; and the comparative information for the six months ended 31 December 2017 and the year ended 30 June 2018.

The Group adopted NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 9 Financial Instruments with effect from 1 July 2018. There have been no material impacts from the adoption of these standards

4. Reconciliation of net profit/(loss) after tax with net cash flow from operating activities

	Consolidated		
	Dec 2018	Dec 2017	Full year to Jun 2018
	Actual \$000s	Actual \$000s	Actual \$000s
Profit / (loss) after tax	1,425	2,168	4,946
Add/(less) non-cash items:			
Depreciation and amortisation	1,675	1,675	3,518
Movement in non-current employee entitlements	-	-	17
Increase/(decrease) in deferred tax	-	-	(409)
Add/(less) items classified as investing or financing activities:			
Gain/(Loss) on sale of non-current assets and investments	-	-	(73)
Gain/(Loss) in fair value of financial assets	(4)	(4)	1
Movement in finance lease receivable	-	-	37
Add/(less) movements in working capital items			
Inventory	(51)	(3)	(1)
Trade and other receivables	9	(3,526)	(3,975)
Interest receivable	(109)	(51)	(103)
Trade and other payables	(1,715)	114	3,119
Employee benefit liabilities	(363)	(557)	167
Revenue in advance	2,238	1,332	(1,870)
Net cash inflow/(outflow) from operating activities	3,105	1,148	5,374

5. Capital commitments

Estimated capital expenditure contracted for and committed to by the Group, but not recognised in the interim financial statements as at 31 December 2018 is \$1.2m (31 December 2017 \$0.80m).

6. Contingencies

There were no significant contingent liabilities or contingent assets as at 31 December 2018 (31 December 2017 \$0).

7. Audit

These interim financial statements have not been audited.

Statement of Responsibility

The Directors are responsible for presenting financial statements for the period 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 judgments 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 half year ended 31 December 2018 for issue on 26 February 2019.



Jane Taylor

Chair

26 February 2019



Paul Reynolds

Deputy Chair

26 February 2019

Directory

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Jane Taylor (Chair)
Dr Paul Reynolds (Deputy Chair)
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Prof Emily Parker
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Holden Hohaia	General Manager, Maori Partnerships
Dr Steve Lorimer	General Manager, Development
Dr Peter Millard	General Manager, Science
Nigel Thomson	General Manager, Corporate Services
Dr Fiona Carswell	Chief Scientist
Chris McDermott	General Manager, Brand and Communications

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of the Auditor-General

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