ANNUAL REPORT 2011 PART II

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Landcare Research
Manaaki Whenua

CONTENTS

Landcare Research New Zealand Limited
(Manaaki Whenua)
Annual Report 2011

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ANNUAL REPORT 2011
Our Annual Report is in two parts—together they fulfil 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

INTRODUCTION

Our Annual Report is in two parts—together they fulfil our Annual Reporting responsibilities under the CRIs Act 1992. PDFs of both Part I and Part II are available on our website.

Part I of the Annual Report gives a summary of our science, business and operational performance during the year, and includes summary sustainability and financial information.

Part II, this document, presents the Directors' Report and our financial statements.

FINANCIAL PERFORMANCE

8.4%

return on equity exceeded our target

SUMMARY TABLE OF FINANCIAL PERFORMANCE INDICATORS

	2009 Achieved	2010 [1] Achieved	2011 Target	2011 Achieved	2012 Target
Revenue, $m	60.25	61.66	64.29	63.44	65.91
Net revenue, $m	53.13	54.82	57.57	56.69	59.13
EBIT, $m	2.36	2.19	3.05	2.93	2.10
EBIT margin	3.9%	3.6%	4.7%	4.6%	3.2%
Total assets, $m	48.35	50.31	49.24	50.91	52.87
Return on equity	5.3%	6.4%	7.0%	8.4%	5.4% [2]
Dividend, $m	0.1	0.5	0.7	0.7	1.1
Equity ratio	58%	58%	61%	53%	52%
Gearing [3]	13%	0%	0%	0%	6%
Interest cover	7.2	11.1	10.2	13.2	9.0

1 The 2010 return on equity and equity ratio exclude the impact of 0% building depreciation announced in the Government's May 2010 Budget.

2 The 2012 target is lower because we plan significant reinvestment in the organisation.

3 2009 gearing is calculated on gross debt. For 2010 onwards, gearing is calculated based on net debt.

Revenue:
Includes science research, contract work for government and commercial clients, royalties, licence fees etc., plus income from the sale of product and the lease of assets. It excludes income from interest on investments and from finance leases, $0.3m for 2011.

EBIT:
Earnings before interest and tax, and after committed business development expenditure and commercialisation expenditure. It excludes restructuring costs.

Return on equity:
NPAT ÷ average shareholders' funds, expressed as a percentage. NPAT is net profit after tax. Shareholders' funds include share capital and retained earnings.

Equity ratio:
Average shareholders' funds ÷ average total assets.

Gearing:
Financial debt includes all interest-bearing liabilities. Gearing = net financial debt ÷ financial debt plus shareholders' funds, expressed as a percentage. (The Minister of Finance and the Minister of Science and Innovation each hold 50% of the shares on behalf of the public.)

Interest cover:
Interest is the cost of debt and financial leases. Interest cover = EBIT ÷ interest.

DIRECTORS' REPORT


Top row: Jo Brosnahan (Chair), Peter Schuyt (Deputy Chair), Graeme Boyd
Bottom row: Tania Simpson, John Luxton, Grant Guilford, Victoria Taylor, Robin Pratt

The Directors of Landcare Research New Zealand Limited (Manaaki Whenua) are pleased to report that the company fulfilled its obligations under the Crown Research Institutes Act 1992 for the year ended 30 June 2011. The disclosures relate to Landcare Research New Zealand Limited and its subsidiaries (the 'Group').

Core purpose

Landcare Research's purpose 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.

Governance framework

The Minister of Finance and Minister of Science and Innovation each hold 50% of the company's shares on behalf of the public. The shareholding Ministers appoint the Chair, Deputy Chair, and the six other directors to the Board of Landcare Research. All directors are non-executive. Board decisions are made collectively – individual directors have no separate governing role. The Board evaluates its performance on a regular basis.

Board responsibilities

Board responsibilities include providing strategic direction, investment of core purpose funds, selecting, evaluating and recommending remuneration for the Chief Executive, succession planning for and appointment of a new Chief Executive, formulating policy, managing risk, ensuring legislative compliance, monitoring performance (economic, environmental and social), and communicating with the shareholding Ministers and other stakeholders.

Commitment to sustainability

The Board fully believes that sustainability is an essential part of management practices at Landcare Research and affects not only the company's current operations but also opportunities to grow and prosper. The Board reviews sustainability activities and initiatives each month.

Commitment to ethical standards and compliance

Our Code of Ethics Policy is an overarching document that links numerous other ethics-related policies and codes of practice, which apply to all staff, senior executive managers and directors. Policies include a Protected Disclosures (whistle-blower) Policy and guidelines. Every two years, the Audit and Risk Management subcommittee reviews Landcare Research's Code of Ethics Policy.

Many staff are committed to professional codes of ethics by virtue of membership of scientific and other professional societies. The Landcare Research Code of Ethics Policy complements these. If a correct course of action is not clear, the issue must be raised with managers or, if necessary, the Board, who review the code biennially. The Board regularly monitors whether the directors, managers, and staff maintain high standards of ethical behaviour and generally act as good citizens.

During the year, there were no material incidences of unethical practice or non-compliance with internal protocols or legislation.

As well as setting out an expectation that staff, executives and directors must act honestly and in good faith, refraining from any activities that might bring discredit to the organisation or harm to colleagues, the policy covers points relating to lawful conduct, conflicts of interest, diligence, confidentiality, intellectual property, scientific honesty, fairness in relationships, privacy, and environmental sustainability and animal welfare. There is a zero tolerance of corruption and financial fraud.

All policies, codes of practice and guidelines are available to all staff via our intranet 'staffroom'.

Māori perspectives and Treaty responsibilities

Historically, physical survival and spiritual well-being for Māori depended on the land. Traditional protocols practised over the centuries were a form of resource management.

Contemporary scientific process has largely ignored Māori cultural values and the rationale from which these developed. We have a responsibility to set this right and accept the validity of traditional perspectives and approaches. Among Māori, there is a desire for increased involvement in science and resource management.

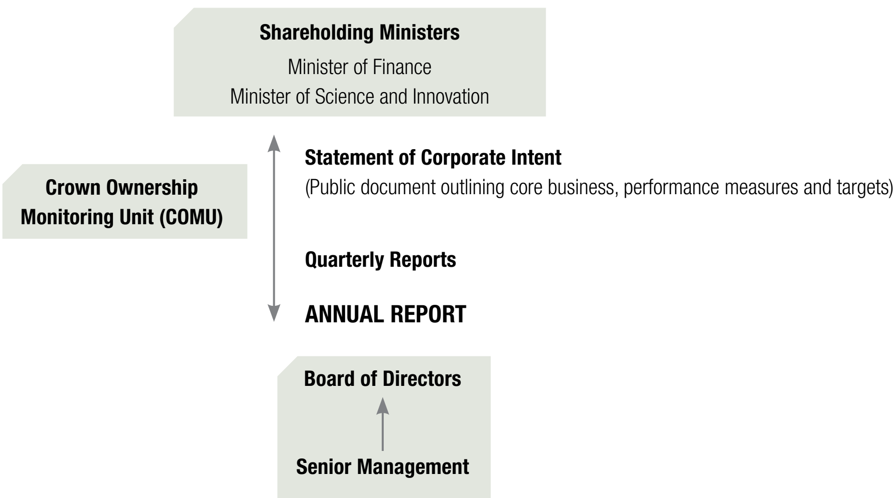
The Treaty Claims process also makes collaboration a priority between Māori, local authorities, conservationists and researchers.

Since 1994, Landcare Research has worked on a number of collaborative research programmes involving significant components of mātauranga Māori. These include a number of programmes relating to Māori values for land use planning, ecosystem health and sustainable development; integrated catchment management; wetland and estuary monitoring and restoration; indigenous biodiversity; ethnobotany; and indigenous forestry. Māori are increasingly wanting research programmes that will help them build capacity and develop frameworks for managing their resources and to ensure sustainable customary harvesting of taonga species such as the kererū (native pigeon), oi (grey-faced petrel), tuna (eels), and native timber. These programmes tackled complex multidimensional issues using different epistemologies and incorporating traditional ways of understanding, interpreting, and resolving problems.

Planning and reporting

In May and June each year, the Board negotiates a Statement of Corporate Intent (SCI) for the next financial year with the shareholding Ministers. The SCI sets out the company's core business, performance measures, and targets (financial) in accordance with the Operating Principles of the Crown Research Institutes Act 1992. The SCI is tabled in Parliament, and is a public document. All CRIs must produce an SCI, then report performance against the stated measures and targets. Our current SCI is available online at: www.landcareresearch.co.nz/about/documents/sci1116.pdf

All CRIs must produce an annual report by 30 September. The reports are tabled in Parliament, and each CRI's performance is reviewed by the Parliamentary Education and Science Select Committee.



Performance for 2010/11

Operating results

Group revenue for the year increased to $63.781 million from $61.967 million in the previous year.

The Group net surplus before taxation expense increased to $3.043 million from $2.307 million in 2009/10. The consolidated net surplus after tax attributable to parent company shareholders was $2.250 million compared with a $2.026 million deficit in 2009/10. The 2009/10 net deficit after tax included $3.7 million due to the impact of 0% building depreciation announced in the Government's 2010 Budget. This change in taxation rules affected the claiming of depreciation on certain buildings. The Group return on equity was 8.4%, exceeding the target of 7.0%.

Directors

	Appointed	Term expires	Board meetings attended (12)	Audit Committee meetings attended (1*)	People & Performance Committee (1)	Remuneration 2010/11	Remuneration 2009/10
Graeme S Boyd	01-07-05	30-06-11	11	0	0	$23,238	$22,571
Jo A Brosnahan	01-07-06	30-06-12	12 (Chair)	1	1	$46,000	$46,000
W Grant Guilford	01-07-10	30-06-13	11	1	0	$23,238	$0
M John F Luxton	01-07-09	30-06-12	9	0	0	$23,238	$22,571
Robin Pratt	01-07-08	31-12-10	4 of 5	1	1	$10,786	$22,571
Peter M Schuyt	01-09-09	30-06-12	12	1	1	$28,988	$18,976
Tania J Simpson	01-07-09	30-06-12	12	1	0	$23,238	$22,571
Victoria A Taylor	01-09-09	30-06-12	12	1	1	$23,238	$18,976

* The Audit & Risk Management Committee meeting scheduled for February 2011 was cancelled due to the Canterbury Earthquake and agenda items were covered in the March 2011 Board meeting.

Precautionary approach

The Board had no cause to adopt a precautionary approach during the year. No situation arose where there was uncertainty regarding serious potential risks to health of staff or public, or harm to the environment.

Declared interests

Pursuant to S140(2) of the Companies Act 1993, directors have declared they should be regarded as having an interest in any contract that may have been made with the entities listed below by virtue of their directorship or membership of those entities during the year ended 30 June 2011:

Graeme S Boyd *MSc, AMInstD*
- Allied Industrial Engineering Ltd, Director
- Boyd Insight Ltd, Director and Shareholder
- Community Growth Ltd, Director
- PAPINZ Ltd, Director
- Phytomed Medicinal Herbs Ltd, Director
- Priority One, Board Member
- Sirtrack Ltd, Director

Jo A Brosnahan *QSO, MA(Hons), FCILT, FNZIM, MInstD*
- Abilities Foundation, Trustee
- carboNZero Holdings Ltd, Director
- Centre for Brain Research Advisory Board, Member
- Chartered Institute of Logistics and Transport International, International Vice President
- Harkness Trust, Trustee
- Jo Brosnahan Leadership, Principal
- Leadership NZ, Executive Chair
- New Zealand Quality Foundation Ltd, Director
- Personal Footprint Ltd, Director and Shareholder
- Te Waka Tangata, Mentor
- Whangarei Local Fibre Company Ltd, trading as Northpower Fibre, Chair

Professor W Grant Guilford *PhD, BPhil, BVSc*
- Maurice Wilkins Centre, Director
- New Zealand Genomics Ltd, Director
- NZ Institute for Mathematics and its Applications, Director
- University of Auckland, Dean of Science

Hon. M John F Luxton *QSO, MMgt, PGDipBusAdm, PGDipAgrSc, BAgrSc*
- Ahuwhenua Trust Management Group Member
- DairyNZ Ltd, Chairman
- Impac Services Ltd, Director
- Impac Solutions Ltd, Director
- JD & RD Wallace Ltd, Director
- Kaimai Cheese Company Ltd, Director
- Level 8 Ltd, Director
- Luxton & Co. Ltd, Director and Shareholder
- Marire Holdings Ltd, Director and Shareholder
- Massey University Foundation, Trustee
- NZ Geographic Trust, Trustee
- NZTE Global Agribusiness Project Advisory Group Member
- Royal New Zealand Ballet, Director
- Te Mata Holdings 2010 Ltd, Director
- The Tatua Co-operative Dairy Company Ltd, Director
- Transparency International, Director
- Trustee of Morrinsville Wallace Art Gallery
- Waikato River Authority, Co-Chair
- Wallace Corporation Ltd, Director

Robin Pratt *MBA, MBChB, FRCPA, AMInstD*
(resigned 31 December 2010)
- Artisanz Export Ltd, Director and Shareholder
- Christchurch Women's Refuge, Deputy Chair and Member
- Feronia Ltd, Managing Director and Shareholder
- Tasman Farms Ltd, Director
- Testing Laboratory Registration Council, Chair
  (Telarc SAI is 75% owned by the TLR Council)

Peter M Schuyt *BCom, CA*
- Apata Ltd, Director
- Business Investments No. 9 Ltd, Shareholder
- Dairy Investment Fund Ltd, Director and Shareholder
- Golden Bay Fruit 2008 Ltd, Director
- NZ Institute of Chartered Accountants, Councillor
- Port Nelson Ltd, Director
- The Tatua Co-operative Dairy Company Ltd, Director
- University of Waikato, Councillor
- WaikatoLink Ltd, Director
- World Wildlife Fund, Trustee

Tania J Simpson *MMM (Māori), BA (Māori), AMInstD*
- Kowhai Consulting Ltd, Director and Shareholder
- Maniapoto FM, Trustee
- Mighty River Power Ltd, Director
- Oceania Group Ltd, Director
- Tui Trust, Trustee
- Waikato Endowed Colleges Trust, Trustee
- Waitangi Tribunal, Member

Victoria A Taylor *BCom, MInstD*
- Hall Family Trust, Beneficiary
- Structure Ventures Ltd, Director and Shareholder
- Vehicle Testing Group Ltd, Director

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

Directors of subsidiaries

carboNZero Holdings Limited
- Alastair R Lawrence *BCA*
- Jo A Brosnahan *QSO, MA(Hons), FCILT, FNZIM, MInstD*
- Robert G M Fenwick *CNZM, PhD Nat Res (honoris causa, Lincoln University)*
- Richard F S Gordon *PhD*
- Edward Hanrahan *BA(Hons)*

Landcare Research US Limited
- Mike S Lee *BTech (Food)*, *Dip Bus Studies*
- Carol R Bellette *MBA(Dist.)*, *BCom*, *CA*, *MInstD*

Sirtrack Limited
- Ralph A Marshall *BCom*, *FNZICA*, *MInstD*
- Graeme S Boyd *MSc*, *AMInstD*
- Dean W Joiner *BE*
- Mike S Lee *BTech (Food)*, *Dip Bus Studies*

Directors' and officers' liability insurance

The Group has entered into a Deed of Indemnity that includes insurance to cover directors and certain employees to the fullest extent permissible by law. Certain actions are excluded – for example, penalties and fines imposed in respect to breaches of the law and liabilities arising from any activity not conducted for the benefit of, or on behalf of, Landcare Research or its subsidiaries.

Donations

The Group has made various donations totalling $9,000 during the year ($7,000 in 2009/10).

Auditors

Audit New Zealand has been appointed as the agent of the Auditor-General in accordance with S32 of the Public Audit Act 2001. Remuneration to Audit New Zealand in 2010/11 totalled $108,000 ($103,000 in 2009/10) for audit work, plus $1,000 for other services ($1,000 in 2009/10).

Employee remuneration

Total cost to the Group	Number of employees 2010/11	2009/10
$370,000 – $379,999	-	1(*)
$290,000 – $299,999	1(*)	-
$250,000 – $259,999	1	-
$220,000 – $229,999	1	2
$210,000 – $219,999	2	1
$200,000 – $209,999	-	-
$190,000 – $199,999	1	1
$180,000 – $189,999	1	1
$170,000 – $179,999	1	-
$160,000 – $169,999	-	1
$150,000 – $159,999	2	2
$140,000 – $149,999	4	5
$130,000 – $139,999	8	6
$120,000 – $129,999	10	5
$110,000 – $119,999	11	11
$100,000 – $109,999	16	12

(*) CEO of Landcare Research New Zealand Limited (resigned 22 February 2011).

This table includes redundancy and termination payments to one employee in 2010/11 (2009/10: one).

Compensation paid or payable to seven persons in 2010/11 (2009/10: 10) who ceased to be employees during the year totalled $151,000 in 2010/11 (2009/10: $297,000).

Signed, for and on behalf of the Board

JA Brosnahan
Chair
29 August 2011

PM Schuyt
Deputy Chair
29 August 2011

AUDITED FINANCIAL STATEMENTS

Statement of comprehensive income

for the year ended 30 June 2011

	Note	Consolidated 2011 Actual $000s	Consolidated 2011 Budget $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2011 Budget $000s	Parent 2010 Actual $000s
Revenue	2.	63,781	65,360	61,967	59,338	60,175	57,415
Finance costs	3.	222	298	198	220	270	191
Operating expenses	3.	60,516	62,139	59,462	55,683	57,084	54,319
Surplus before tax		**3,043**	**2,923**	**2,307**	**3,435**	**2,821**	**2,905**
Income tax expense	27.	793	877	669	970	847	849
Impact of 0% building depreciation	27.	0	0	3,664	0	0	3,379
Total income tax expense		793	877	4,333	970	847	4,228
Surplus/(deficit) after tax		**2,250**	**2,046**	**(2,026)**	**2,465**	**1,974**	**(1,323)**
Surplus/(deficit) attributable to Parent company		2,250	2,046	(2,026)	2,465	1,974	(1,323)
Other comprehensive income							
Total other comprehensive income for the period		0	0	0	0	0	0
Total comprehensive income for the period		**2,250**	**2,046**	**(2,026)**	**2,465**	**1,974**	**(1,323)**
Total comprehensive income attributable to Parent company		2,250	2,046	(2,026)	2,465	1,974	(1,323)

The accompanying notes form part of these financial statements.

Statement of changes in equity

for the year ended 30 June 2011

	Consolidated 2011 Actual $000s	Consolidated 2011 Budget $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2011 Budget $000s	Parent 2010 Actual $000s
Balance at 1 July	**25,443**	**28,906**	**27,948**	**24,741**	**27,882**	**26,546**
Total comprehensive income for the year ended 30 June	2,250	2,046	(2,026)	2,465	1,974	(1,323)
Dividends paid	(717)	(717)	(479)	(717)	(717)	(479)
Amalgamation of subsidiary	0	0	0	0	0	(3)
Balance at 30 June	**26,976**	**30,235**	**25,443**	**26,489**	**29,139**	**24,741**
Total comprehensive income attributable to						
Parent company	2,250	2,046	(2,026)	2,465	1,974	(1,323)
Total	**2,250**	**2,046**	**(2,026)**	**2,465**	**1,974**	**(1,323)**

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2011

		Consolidated			Parent		
		2011	2011	2010	2011	2011	2010
		Actual	Budget	Actual	Actual	Budget	Actual
	Note	$000s	$000s	$000s	$000s	$000s	$000s
ASSETS							
Current assets							
Cash and cash equivalents	4.	6,444	4,988	5,328	6,444	4,947	5,059
Trade and other receivables	5.	8,056	8,442	9,225	7,958	8,345	9,727
Inventories	6.	135	860	1,338	128	100	234
Assets classified as held for sale	7.	3,667	0	0	2,668	0	0
Finance lease receivable	8.	81	0	74	81	0	74
Derivative financial instruments	9.	0	0	55	0	0	4
Total current assets		**18,383**	**14,290**	**16,020**	**17,279**	**13,392**	**15,098**
Non-current assets							
Property, plant and equipment	10.	30,470	32,722	32,003	30,470	30,740	29,939
Patents and intellectual property	11.	516	457	477	380	457	477
Intangible assets	12.	649	901	845	621	844	818
Investments	13.	0	0	0	71	1,521	1,521
Finance lease receivable	8.	892	892	973	892	892	973
Total non-current assets		**32,527**	**34,972**	**34,298**	**32,434**	**34,454**	**33,728**
Total assets		**50,910**	**49,262**	**50,318**	**49,713**	**47,846**	**48,826**
LIABILITIES							
Current liabilities							
Trade and other payables	14.	5,497	5,906	6,388	5,291	5,770	6,167
Provisions		0	51	160	0	0	0
Employee benefit liabilities	15.	4,412	4,611	4,654	4,139	4,421	4,410
Bank overdraft	16.	0	0	0	0	0	0
Liabilities classified as held for sale	7.	806	0	0	632	0	0
Finance lease	17.	41	0	45	41	0	36
Revenue in advance	18.	4,293	3,665	4,872	4,215	3,515	4,758
Tax payable		590	145	350	590	282	487
Derivative financial instruments	9.	56	0	0	56	0	0
Total current liabilities		**15,695**	**14,378**	**16,469**	**14,964**	**13,988**	**15,858**
Non-current liabilities							
Employee benefit liabilities	15.	604	628	614	600	619	606
Borrowings	16.	4,000	4,000	4,000	4,000	4,000	4,000
Finance lease	17.	42	0	91	42	0	83
Deferred tax liability	27.	3,593	21	3,701	3,618	100	3,538
Total non-current liabilities		**8,239**	**4,649**	**8,406**	**8,260**	**4,719**	**8,227**
Total liabilities		**23,934**	**19,027**	**24,875**	**23,224**	**18,707**	**24,085**
NET ASSETS		**26,976**	**30,235**	**25,443**	**26,489**	**29,139**	**24,741**
EQUITY							
Ordinary shares	19.	10,515	10,515	10,515	10,515	10,515	10,515
Retained earnings	19.	16,461	19,720	14,928	15,974	18,624	14,226
Total equity		**26,976**	**30,235**	**25,443**	**26,489**	**29,139**	**24,741**

The accompanying notes form part of these financial statements.

JA Brosnahan
Chair
29 August 2011

PM Schuyt
Deputy Chair
29 August 2011

Statement of cash flows

for the year ended 30 June 2011

		Consolidated			Parent		
		2011	2011	2010	2011	2011	2010
		Actual	Budget	Actual	Actual	Budget	Actual
	Note	$000s	$000s	$000s	$000s	$000s	$000s
Cash flows from operating activities							
Receipts from customers		63,901	63,490	60,121	59,062	58,236	55,262
Interest received		313	175	264	310	207	256
Payments to suppliers and employees		(57,010)	(56,450)	(54,670)	(52,126)	(51,820)	(49,866)
Interest paid		(222)	(298)	(196)	(220)	(270)	(189)
Tax refund/(paid)		(809)	(1,074)	(727)	(812)	(1,074)	(677)
Net cash generated from operating activities	21.	**6,173**	**5,843**	**4,792**	**6,214**	**5,279**	**4,786**
Cash flows from investing activities							
Cash transferred to assets held for sale		(219)	0	0	0	0	0
Proceeds from sale of property, plant and equipment		13	0	16	13	0	16
Purchase of property, plant and equipment		(3,666)	(5,145)	(4,265)	(3,658)	(5,057)	(4,198)
Purchase of intangible assets		(468)	(535)	(457)	(467)	(478)	(448)
Advances made to subsidiaries		0	0	0	0	(50)	0
Loan repayments to related parties		0	(2)	0	0	498	0
Net cash used in investing activities		**(4,340)**	**(5,682)**	**(4,706)**	**(4,112)**	**(5,087)**	**(4,630)**
Cash flows from financing activities							
Proceeds from borrowings		0	600	0	0	600	0
Repayment of borrowings		0	(600)	0	0	(600)	0
Dividends paid		(717)	(717)	(479)	(717)	(717)	(479)
Net cash used in financing activities		**(717)**	**(717)**	**(479)**	**(717)**	**(717)**	**(479)**
Net increase/(decrease) in cash		**1,116**	**(556)**	**(393)**	**1,385**	**(525)**	**(323)**
Cash, cash equivalents and bank overdrafts at beginning of the year	4.	5,328	5,546	5,721	5,059	5,473	5,382
Cash, cash equivalents and bank overdrafts at end of the year		**6,444**	**4,990**	**5,328**	**6,444**	**4,948**	**5,059**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

Summary of Accounting Policies

Reporting entity

Landcare Research New Zealand Limited is a Crown Research Institute governed by the Crown Research Institutes Act 1992 and Crown Entities Act 2004. The Landcare Research Group ('the Group') consists of Landcare Research New Zealand Limited and its subsidiaries, Sirtrack Limited (100% owned), Landcare Research US Limited (100% owned) and carboNZero Holdings Limited (100% owned). Landcare Research New Zealand Limited, Sirtrack Limited and carboNZero Holdings Limited are incorporated in New Zealand; Landcare Research US Limited is incorporated 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 to both protect and enhance the terrestrial environment and grow New Zealand's prosperity.

These audited financial statements of the Group are for the year ended 30 June 2011 and were authorised by the Board of Landcare Research New Zealand Limited on 29 August 2011.

Basis of preparation

The financial statements of the Group have been prepared in accordance with the requirements of the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP). These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable financial reporting standards, as appropriate for profit-oriented entities.

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

The financial statements have been prepared on a historical cost basis modified by revaluation of certain financial instruments. 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 surplus or deficit.

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 9 Financial Instruments	1 January 2013	30 June 2014
NZ IAS 24 Related Parties (Revised 2009)	1 January 2011	30 June 2012
FRS 44 New Zealand Additional Disclosures	1 July 2011	30 June 2012
NZ IFRS 10 Consolidated Financial Statements	1 January 2013	30 June 2014
NZ IFRS 12 Disclosure of Interest in Other Entities	1 January 2013	30 June 2014
NZ IAS 27 Separate Financial Statements	1 January 2013	30 June 2014
IFRS 13 Fair Value Measurement	1 January 2013	30 June 2014

The above standards and interpretations are not expected to have a material impact on the financial results. 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 the surplus or deficit.

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.

Revenue

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 which 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.

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.

Dividends are recognised when the right to receive payment has been established.

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.

Income tax

Income tax expense in relation to the surplus or deficit 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 the surplus or deficit, except to the extent that they relate to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

Finance leases

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 leases as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments. The amount recognised as an asset is depreciated over its useful life. If there is no certainty as to whether the Group will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Operating leases

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.

Cash and cash equivalents

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.

Trade and other receivables

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.

Inventories

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and net realisable value. Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the average cost method.

The write-down from cost to net realisable value is recognised in the surplus or deficit.

Financial assets

The Group classifies its financial assets into the following three categories: financial assets at fair value through profit or loss, 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 surplus or deficit, in which case the transaction costs are recognised in the surplus or deficit.

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 surplus or deficit* – this category has two sub-categories: financial assets held for trading, and those designated at fair value through surplus or deficit 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 unless they are designated as hedges. Assets in this category are classified as current assets if they are either 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 surplus or deficit. 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 surplus or deficit. '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 which 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.

  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 the surplus or deficit. In the event of impairment, any cumulative losses previously recognised in other comprehensive income will be removed from other comprehensive income and recognised in the surplus or deficit even though the asset has not been derecognised. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the surplus or deficit.

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 the surplus or deficit.

Accounting for derivative financial instruments and hedging activities

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

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

Non-current assets held for sale

Non-current assets held for sale are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit.

Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that have been previously recognised. Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Property, plant and equipment

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.

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 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 the surplus or deficit.

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 Parent company depreciable assets are depreciated on a straight-line (SL) basis. Sirtrack Limited's depreciable assets are depreciated at Inland Revenue rates on a diminishing value (DV) basis. The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Depreciation rates	Parent (SL)	Sirtrack (DV)
Buildings	1.67–10%	3–12%
Plant and equipment	5–20%	12–80%
IT equipment	25%	26–48%
Motor vehicles	25%	31%
Furniture and fittings	10%	9–30%
Office equipment	20%	12–40%
Finance lease assets	20%	25–36% (SL)
Library books and periodicals	20–50%	-
Rare books collections	1%	-

Intangible assets

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.

Patents and intellectual property

Patents and intellectual property are capitalised on the basis of costs incurred.

Amortisation

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 the surplus or deficit. 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%

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 surplus or deficit.

Employee benefits

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 surplus or deficit.

Superannuation schemes

- *Defined contribution schemes* – obligations for contributions to defined-contribution superannuation schemes are recognised as an expense in the surplus or deficit 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 surplus/deficit 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.

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.

Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost, using the effective interest method.

Goods and Service Tax (GST)

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

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

Commitments and contingencies are disclosed exclusive of GST.

Budget figures

The budget figures are those in the annual business plan 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.

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:

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.

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 2011.

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 a number of lease arrangements are finance leases.

Provision for warranty

The Group has exercised judgement on the appropriate level of provision for warranty on sales of wildlife tracking equipment.

Changes in accounting policies

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the previous year.

2 REVENUE

	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Revenue from operations consisted of the following items:				
Ministry of Science and Innovation (MSI)	32,335	32,183	32,335	32,183
New Zealand non-MSI	25,891	24,034	25,455	23,711
International non-MSI	5,217	5,403	1,142	1,181
Interest revenue:				
Bank deposits	247	213	244	205
Finance leases	91	98	91	98
Subsidiaries	0	0	71	36
Total interest	338	311	406	339
Gain on foreign currency contracts fair value	0	36	0	1
Total revenue	**63,781**	**61,967**	**59,338**	**57,415**

3 PROFIT BEFORE INCOME TAX

	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Profit before income tax has been arrived at after charging the following expenses:				
Finance costs:				
Interest on loans	222	198	220	191
Employee remuneration	31,558	31,058	29,392	28,433
Superannuation contributions	1,181	1,097	1,181	1,097
Employee entitlements increase/(decrease)	(67)	132	(1)	215
Net bad and doubtful debts	5	31	5	31
Donations	9	7	1	2
Auditors' remuneration:				
Audit New Zealand – audit services	108	103	87	84
Audit New Zealand – other services	1	1	1	1
Directors' fees	242	263	202	205
Depreciation and amortisation of non-current assets	4,024	3,953	3,879	3,777
Loss on sale of non-current assets	(13)	6	(13)	6
Operating lease rental	1,013	995	738	995
Cost of sales	2,326	2,346	615	579
Movement in inventory	(97)	32	(99)	145
Loss on foreign currency contracts fair value	29	0	64	0
Fair value impairment	275	0	0	0

4 CASH AND CASH EQUIVALENTS	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Cash at bank and in hand	349	331	349	62
Short-term deposits maturing three months or less from date of acquisition	6,095	4,997	6,095	4,997
Total cash and cash equivalents	**6,444**	**5,328**	**6,444**	**5,059**

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

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Cash at bank and in hand	349	331	349	62
Short-term deposits maturing three months or less from date of acquisition	6,095	4,997	6,095	4,997
Bank overdraft	0	0	0	0
	6,444	**5,328**	**6,444**	**5,059**

5 TRADE AND OTHER RECEIVABLES	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Trade debtors	7,167	8,278	5,945	7,949
Accrued income and sundry debtors	73	133	298	133
Receivables from subsidiaries (note 24)	0	0	722	681
Prepayments	827	829	795	779
Loans to related parties (note 24)	0	0	200	200
	8,067	9,240	7,960	9,742
Less provision for impairment of receivables	(11)	(15)	(2)	(15)
Total trade and other receivables	**8,056**	**9,225**	**7,958**	**9,727**
Total non-current portion	**0**	**0**	**0**	**0**
Total current portion of trade & other receivables	**8,056**	**9,225**	**7,958**	**9,727**

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 Science and Innovation, 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 2011, all overdue receivables have been assessed for impairment and appropriate provisions applied. Landcare Research 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 Landcare Research's pool of debtors. Expected losses have been determined based on review of specific debtors.

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

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
As at 1 July	15	13	15	13
Additional provisions made during the year	5	30	5	30
Receivables written off during the period	(9)	(28)	(9)	(28)
Transferred to assets held for sale	0	0	(9)	0
As at 30 June	**11**	**15**	**2**	**15**

Age of trade debtors:

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Current	6,710	7,241	6,710	7,048
Outstanding	457	1,037	(765)	901
Total trade debtors	**7,167**	**8,278**	**5,945**	**7,949**

6 INVENTORIES

	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Raw materials (at cost)	0	983	0	0
Work in progress (at cost)	0	121	0	0
Finished goods (at net realisable value)	135	234	128	234
Total inventories	**135**	**1,338**	**128**	**234**

7 ASSETS/(LIABILITIES) HELD FOR SALE

	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Current assets	1,923	0	1,029	0
Non-current assets	1,744	0	1,639	0
Current liabilities	(796)	0	(628)	0
Non-current liabilities	(10)	0	(4)	0
Total assets/(liabilities) held for sale	**2,861**	**0**	**2,036**	**0**

On 1 July 2011 Landcare Research's carboNZero strategic business unit became carboNZero Holdings Limited, a separate legal entity 100% owned by Landcare Research New Zealand Limited. The assets and liabilities of carboNZero Holdings Limited are held for sale and show in the Parent 2011 actual column.

Prior to 30 June 2011 the Landcare Research Board agreed to divest Sirtrack Limited during the next financial year. Post 30 June 2011 negotiations have commenced with a potential purchaser for Sirtrack Limited. The assets of Sirtrack Limited are held for sale and show in the Consolidated Group 2011 actual column. Sirtrack's land and buildings have been recognised at fair value based on a valuation completed by Logan Stone. The transfer of Sirtrack's land and buildings from property, plant and equipment to non-current assets held for sale resulted in an impairment fair value charge of $275,000, which has been recognised in the Statement of Comprehensive Income.

8 ANALYSIS OF FINANCE LEASE RECEIVABLE

	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Total minimum lease payments are receivable:				
Not later than one year	165	165	165	165
Later than one year and not later than five years	638	660	638	660
Later than five years	765	908	765	908
Total minimum lease payments	1,568	1,733	1,568	1,733
Future finance charges	(595)	(686)	(595)	(686)
Total present value of minimum lease payments	**973**	**1,047**	**973**	**1,047**
Present value of minimum lease payments are receivable:				
Not later than one year	81	74	81	74
Later than one year and not later than five years	384	371	384	371
Later than five years	508	602	508	602
Total	**973**	**1,047**	**973**	**1,047**
Current	81	74	81	74
Non-current	892	973	892	973
Total	**973**	**1,047**	**973**	**1,047**

Finance lease receivable relates to the animal house facility. The building transfers to Lincoln University for nil consideration in 2016. Landcare Research New Zealand Limited has the right to continue occupying the building for a further 10 years to 2026 at a rent of $1.00 per annum.

9 DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Current asset/(liability) portion				
Foreign currency forward contracts	(56)	55	(56)	4
Total derivative financial instruments	**(56)**	**55**	**(56)**	**4**

10 PROPERTY, PLANT AND EQUIPMENT

2010	Parent Land $000s	Parent Buildings $000s	Parent Plant & equipment $000s	Parent Library assets $000s	Parent Total $000s	Subsidiary Land $000s	Subsidiary Buildings $000s	Subsidiary Plant & equipment $000s	Subsidiary Finance lease $000s	Subsidiary Total $000s	Group Total $000s
Cost at 1 July 2009	519	20,820	32,455	3,988	57,782	480	1,357	813	40	2,690	**60,472**
Accumulated depreciation	0	(6,240)	(19,695)	(2,738)	(28,673)	0	(125)	(384)	(20)	(529)	**(29,202)**
Net book value at the beginning of the year	519	14,580	12,760	1,250	29,109	480	1,232	429	20	2,161	**31,270**
Year ended 30 June 2010											
Net book value at the beginning of the year	519	14,580	12,760	1,250	29,109	480	1,232	429	20	2,161	**31,270**
Additions	0	1,624	2,167	441	4,232	0	1	55	0	56	**4,288**
Disposals	0	(178)	(698)	0	(876)	0	0	0	0	0	**(876)**
Accumulated depreciation on disposals	0	157	697	0	854	0	0	0	0	0	**854**
Current year depreciation	0	(409)	(2,487)	(484)	(3,380)	0	(45)	(96)	(12)	(153)	**(3,533)**
Net book value at the end of the year	519	15,774	12,439	1,207	29,939	480	1,188	388	8	2,064	**32,003**
At 30 June 2010											
Cost	519	22,266	33,924	4,429	61,138	480	1,358	868	40	2,746	**63,884**
Accumulated depreciation	0	(6,492)	(21,485)	(3,222)	(31,199)	0	(170)	(480)	(32)	(682)	**(31,881)**
Net book value at the end of the year	519	15,774	12,439	1,207	29,939	480	1,188	388	8	2,064	**32,003**

2011	Parent Land $000s	Parent Buildings $000s	Parent Plant & equipment $000s	Parent Library assets $000s	Parent Finance lease $000s	Parent Total $000s	Subsidiary Land $000s	Subsidiary Buildings $000s	Subsidiary Plant & equipment $000s	Subsidiary Finance lease $000s	Subsidiary Total $000s	Group Total $000s
Cost at 1 July 2010	519	22,266	33,802	4,429	122	61,138	480	1,358	868	40	2,746	**63,884**
Accumulated depreciation	0	(6,492)	(21,485)	(3,222)	(0)	(31,199)	0	(170)	(480)	(32)	(682)	**(31,881)**
Net book value at the beginning of the year	519	15,774	12,317	1,207	122	29,939	480	1,188	388	8	2,064	**32,003**
Year ended 30 June 2011												
Net book value at the beginning of the year	519	15,774	12,317	1,207	122	29,939	480	1,188	388	8	2,064	**32,003**
Additions	0	1,290	2,235	504	0	4,029	0	0	7	0	7	**4,036**
Disposals & transfers	0	0	(308)	0	0	(308)	(480)	(1,083)	(875)	(40)	(2,478)	**(2,786)**
Accumulated depreciation on disposals and transfers	0	0	308	0	0	308	0	213	562	39	814	**1,122**
Fair value impairment	0	0	0	0	0	0	0	(275)	0	0	(275)	**(275)**
Current year depreciation	0	(432)	(2,577)	(484)	(5)	(3,498)	0	(43)	(82)	(7)	(132)	**(3,630)**
Net book value at the end of the year	519	16,632	11,975	1,227	117	30,470	0	0	0	0	0	**30,470**
At 30 June 2011												
Cost	519	23,556	35,729	4,933	122	64,859	0	0	0	0	0	**64,859**
Accumulated depreciation and impairment changes	0	(6,924)	(23,754)	(3,706)	(5)	(34,389)	0	0	0	0	0	**(34,389)**
Net book value at the end of the year	519	16,632	11,975	1,227	117	30,470	0	0	0	0	0	**30,470**

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.

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

- The New Zealand Arthropod Collection (NZAC), including the New Zealand National Nematode Collection (NZNNC) and associated database NZACbugs, BUGS bibliography and Pacific database
- The New Zealand Fungal & Plant Disease Herbarium (PDD)
- The International Collection of Micro-Organisms from Plants (ICMP) and associated NZFungi 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 2011–16 (pages 26–28). The nature of these heritage assets and their significance to the science and research that Landcare Research 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.

11 PATENTS AND INTELLECTUAL PROPERTY

	Consolidated Actual $000s	Parent Actual $000s
As at 1 July 2009		
Cost	220	118
Accumulated amortisation and impairment	(115)	(13)
Net book amount	**105**	**105**
Year ended 30 June 2010		
Opening net book amount	105	105
Additions	375	375
Amortisation charge	(3)	(3)
Closing net book amount	477	477
As at 1 July 2010		
Cost	595	493
Accumulated amortisation and impairment	(118)	(16)
Net book amount	477	477
Year ended 30 June 2011		
Opening net book amount	477	477
Additions	43	43
Disposal/transfers	0	(136)
Amortisation charge	(4)	(4)
Closing net book amount	**516**	**380**
As at 30 June 2011		
Cost	638	399
Accumulated amortisation and impairment	(122)	(19)
Net book amount	**516**	**380**

Landcare Research has patents and trademarks amounting to $516,000 (2010: $477,000), which are carried at an indefinite life in the financial statements. These assets have not been impaired during the year (2010: no impairment write-down). Landcare Research has not recognised an impairment charge, as these assets are still used by the business.

12 INTANGIBLE ASSETS

	Consolidated Actual $000s	Parent Actual $000s
As at 1 July 2009		
Cost	2,909	2,736
Accumulated amortisation and impairment	(1,914)	(1,780)
Net book amount	**995**	**956**
Year ended 30 June 2010		
Opening net book amount	995	956
Additions	266	256
Amortisation charge	(416)	(394)
Closing net book amount	**845**	**818**
As at 1 July 2010		
Cost	3,175	2,992
Accumulated amortisation and impairment	(2,330)	(2,174)
Net book amount	**845**	**818**
Year ended 30 June 2011		
Opening net book amount	845	818
Additions	210	208
Disposals/transfers	(259)	(196)
Amortisation on disposals/transfers	245	168
Amortisation charge	(392)	(377)
Closing net book amount	**649**	**621**
As at 30 June 2011		
Cost	3,126	3,004
Accumulated amortisation and impairment	(2,477)	(2,383)
Net book amount	**649**	**621**

13 INVESTMENTS IN SUBSIDIARIES

	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Investment in Sirtrack Limited	0	0	0	1,450
Investment in Landcare Research US Limited	0	0	71	71
Investment in carboNZero Holdings Limited	0	0	0	0
Total investments in subsidiaries	**0**	**0**	**71**	**1,521**

Landcare Research New Zealand Limited has 100% interest in Sirtrack Limited, Landcare Research US Limited and carboNZero Holdings Limited. The investment in Sirtrack was classified as held for sale as at 30 June 2011.

Environmental Certification Services Limited and GHG Advisory Services Limited were amalgamated with carboNZero Holdings Limited, their parent company, on 30 June 2011 to become carboNZero Holdings Limited.

carboNZero Holdings Limited will commence trading on 1 July 2011.

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

14 TRADE AND OTHER PAYABLES	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Trade payables	3,094	3,469	2,980	3,232
Amounts due to related parties	0	0	71	71
Amounts due to directors	1	7	1	7
GST & PAYE	987	999	877	976
Short-term loan	0	0	0	0
Sundry creditors and accruals	1,415	1,913	1,362	1,881
Total trade and other payables	**5,497**	**6,388**	**5,291**	**6,167**

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

15 EMPLOYEE BENEFIT LIABILITIES	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Accrued pay	605	576	567	521
Annual leave	1,971	2,110	1,881	1,979
Long service leave	1,056	1,039	1,052	1,031
Retirement leave	59	102	59	102
Time in lieu	149	168	143	168
Sick leave	62	65	59	63
Bonus provision	1,064	1,006	928	1,006
Restructuring provision	50	202	50	146
Total employee benefit liabilities	**5,016**	**5,268**	**4,739**	**5,016**
Comprising:				
Current	4,412	4,654	4,139	4,410
Non-current	604	614	600	606
Total	**5,016**	**5,268**	**4,739**	**5,016**

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis by Eriksens and Associates Limited as at 30 June 2011. 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 2.82–6.20% based on the risk-free rates as calculated from the yields on New Zealand Government Bonds.
  - Inflation factor of 2.75% based on the expected long-term increase in remuneration of employees.

16 BORROWINGS	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Current	0	0	0	0
Bank overdraft	**0**	**0**	**0**	**0**
Non-current	4,000	4,000	4,000	4,000
Borrowings	**4,000**	**4,000**	**4,000**	**4,000**

The overdraft is unsecured.

The carrying value of borrowings approximates their fair value. Borrowings are unsecured. The $4,000,000 non-current borrowings have a maturity date of 8 March 2013 and a floating interest rate of 4.75% as at 30 June 2011. The intention is borrowings will be rolled over upon maturity with an expiry date greater than one year and are therefore treated as non-current borrowings.

	Consolidated Overdraft $000s	Consolidated Borrowings $000s	Parent Overdraft $000s	Parent Borrowings $000s
Maturity analysis and effective interest rates				
2010				
Less than one year	0	0	0	0
Later than one year	0	4,000	0	4,000
Greater than five years	0	0	0	0
2011				
Less than one year	0	0	0	0
Later than one year	0	4,000	0	4,000
Greater than five years	0	0	0	0
Interest rates				
June 2010	0.00%	4.36%	0.00%	4.36%
June 2011	0.00%	5.20%	0.00%	5.20%

17 ANALYSIS OF FINANCE LEASE LIABILITIES	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Total minimum lease payments are payable:				
Not later than one year	49	60	49	49
Later than one year and not later than five years	45	104	45	93
Later than five years	0	0	0	0
Total minimum lease payments	94	164	94	142
Future finance charges	(11)	(28)	(11)	(23)
Present value of minimum lease payments	**83**	**136**	**83**	**119**
Present value of minimum lease payments are payable:				
Not later than one year	41	45	41	36
Later than one year and not later than five years	42	91	42	83
Later than five years	0	0	0	0
Total	**83**	**136**	**83**	**119**
Current	41	45	41	36
Non-current	42	91	42	83
Total	**83**	**136**	**83**	**119**

18 REVENUE IN ADVANCE

	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
MSI public good science funding	2,237	2,301	2,237	2,301
MSI capability funding	161	573	161	573
Commercial contracts	1,895	1,998	1,817	1,884
	4,293	**4,872**	**4,215**	**4,758**

The carrying value of revenue in advance approximates fair value.

19 EQUITY

	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Retained earnings				
As at 1 July	14,928	17,433	14,226	16,031
Dividends paid	(717)	(479)	(717)	(479)
Transfer of minority interest	0	0	0	(3)
Surplus/(deficit) for the year	2,250	(2,026)	2,465	(1,323)
As at 30 June	**16,461**	**14,928**	**15,974**	**14,226**
Share capital				
As at 1 July	10,515	10,515	10,515	10,515
As at 30 June	**10,515**	**10,515**	**10,515**	**10,515**

The issued capital of the company is 10,515,000, fully paid up, and equally ranking shares.
Dividends of $0.0682 (June 2010 full year: $0.0456) per share were paid during the year ended 30 June 2011.

20 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 Entities Act 2004, Crown Research Institutes Act 1992 and the Shareholding Ministers' Annual Operating Framework, which impose 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.

21 RECONCILIATION OF NET SURPLUS/(DEFICIT) AFTER TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Surplus/(deficit) after tax	2,250	(2,026)	2,465	(1,323)
Add/(less) non-cash items:				
Depreciation and amortisation	4,024	3,953	3,879	3,777
Fair value impaiment	275	0	0	0
Non-current employee entitlements	(10)	(20)	(6)	(19)
Deferred tax	(173)	3,715	55	3,472
Add/(less) items classified as investing or financing activities:				
Loss on sale of non-current assets	(13)	6	(13)	6
Working capital items transferred to assets held for sale	(900)	0	(395)	0
Capital creditor movement	(152)	0	(157)	0
Movement in finance lease receivable	74	67	74	67
Add/(less) movements in working capital items:				
Inventory	1,203	(32)	106	(145)
Trade and other receivables	1,167	(1,580)	1,770	(1,932)
Trade and other payables	(862)	568	(810)	621
Employee benefit liabilities	(242)	152	(271)	234
Derivative financial instruments	111	(13)	60	3
Revenue in advance	(579)	2	(543)	25
Net cash inflow/(outflow) from operating activities	**6,173**	**4,792**	**6,214**	**4,786**

22 CAPITAL COMMITMENTS AND OPERATING LEASES	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Capital commitments				
Estimated capital expenditure contracted for at balance date but not paid or provided for	993	372	993	372
Operating lease commitments				
Lease commitments under non-cancellable operating leases:				
Within one year	420	460	420	460
Later than one year and not later than two years	447	375	447	375
Later than two years and not later than five years	977	996	977	996
Later than five years	3,008	3,349	3,008	3,349

23 CONTINGENCIES

The Group is not aware of any significant contingent liabilities as at balance date (2010:nil). A contingent asset exists as at balance date (2010:nil) to the extent that the parent suffered earthquake damage at its Lincoln site in February 2011. An insurance claim has been lodged with our insurers. The claim has not been finalised by the insurers and therefore there is no certainty as to the amount or timing of any payment.

24 RELATED PARTY TRANSACTIONS

Landcare Research New Zealand Limited is the ultimate parent of the Group and controls three entities, being Sirtrack Limited, Landcare Research US Limited and carboNZero Holdings Limited.

Amalgamation

On 30 June 2011 Environmental Certification Services Limited and GHG Advisory Services Limited were amalgamated into carboNZero Holdings Limited.

Intercompany transactions between Landcare Research New Zealand Limited and its subsidiaries 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.

	Parent	
The following transactions were carried out with related parties:	**2011 Actual $000s**	**2010 Actual $000s**
Sirtrack Limited:		
Interest received	71	36
Dividend received	0	0
Services provided to Sirtrack	57	57
Products and services provided by Sirtrack	173	132
Loan outstanding	200	200
Intercompany current account receivable	722	681
Landcare Research US Limited:		
Intercompany current account receivable/(payable)	(71)	(71)

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

	Consolidated		Parent	
Key management personnel compensation	**2011 Actual $000s**	**2010 Actual $000s**	**2011 Actual $000s**	**2010 Actual $000s**
Salaries and other short-term employee benefits	1,899	2,071	1,550	1,477
Post-employment benefits	0	0	0	0
Other long-term benefits	0	0	0	0
Termination benefits	0	0	0	0

Key management personnel include 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.

	2011 Services received from $000s	2010 Services received from $000s	2011 Services provided to $000s	2010 Services provided to $000s	2011 Amounts (Payable to)/ Receivable $000s	2010 Amounts (Payable to)/ Receivable $000s
Jo Brosnahan Leadership	52	48	0	0	0	(1)
Boyd Insight Limited	25	22	0	0	0	(1)
Luxton & Co. Limited	25	22	0	0	0	(1)
Hall Family Trust	24	7	0	0	(1)	(1)
Feronia Limited (retired)	12	22	0	0	0	(1)
Antipodes Consult Limited (retired)	0	28	0	0	0	0
Structure Ventures Limited (inactive)	0	11	0	0	0	0

During the year Landcare Research provided services to or received services from the following companies, in which Directors have declared an interest. These transactions were conducted on normal commercial terms. Related parties have ceased and commenced during the year due to changes in directorships as noted.

	2011 Services received from $000s	2010 Services received from $000s	2011 Services provided to $000s	2010 Services provided to $000s	2011 Amounts (Payable to)/ Receivable $000s	2010 Amounts (Payable to)/ Receivable $000s
University of Waikato	608	337	65	92	(101)	(96)
University of Auckland (commenced)	490	0	107	0	(12)	0
Telarc SAI Limited (ceased)	32	66	2	4	0	0
Haines NZ Limited (ceased)	0	44	0	0	0	0
Testing Laboratories Registration Council (ceased)	0	11	0	0	0	0
NZ Institute of Chartered Accountants	4	4	0	0	0	0
Mighty River Power Limited	0	0	15	19	2	0
Dairy NZ Inc. Limited	0	0	54	130	9	115

The ultimate shareholder of the company is the Crown. The company undertakes many transactions with other CRIs, government departments and Crown agencies. These transactions are carried out on a commercial basis. During the year the following transactions occurred:

	2011 Services received from $000s	2010 Services received from $000s	2011 Services provided to $000s	2010 Services provided to $000s	2011 Amounts (Payable to)/ Receivable $000s	2010 Amounts (Payable to)/ Receivable $000s
Crown entities, SOEs and government departments	5,593	5,222	45,600	45,400	2,434	2,933
Inland Revenue Department	15,368	13,206	1	0	(1,480)	(1,468)

25 EVENTS AFTER THE BALANCE SHEET DATE

On 1 July 2011 Landcare Research's carboNZero strategic business unit became carboNZero Holdings Limited, a separate legal entity 100% owned by Landcare Research New Zealand Limited.

Post 30 June 2011 negotiations have commenced with a potential purchaser for Sirtrack Limited.

26 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.

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 dollar and UK pound. 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.

At 30 June 2011, if the US dollar had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, surplus after tax for the year would have been $15,000 (2010: $28,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US-dollar-denominated trade payables and receivables.

At 30 June 2011, if the Australian dollar had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, surplus after tax for the year would have been $31,000 (2010: $24,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Australian-dollar-denominated trade payables and receivables.

At 30 June 2011, if the Euro dollar had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, surplus after tax for the year would have been $1,000 (2010: $3,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-dollar-denominated trade payables and receivables.

At 30 June 2011, if the UK pound had weakened/strengthened by 10% against the New Zealand dollar with all other variables held constant, surplus after tax for the year would have been $4,000 (2010: $2,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of UK-pound-denominated trade payables and receivables.

The Group foreign exchange management policy is to cover the risk on any foreign currency transactions greater than $100,000.

Interest rate risk

The interest rates on the Group's borrowings are disclosed in note 16.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Cashflow interest rate risk is the risk that the cashflows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings issued at variable interest rates expose the Group to cash flow interest rate risk.

If interest rates on borrowings at 30 June 2011 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the deficit after tax by $14,000 (2010: $14,000) as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

Credit risk is the risk that a third party will default on its obligation to Landcare Research, causing Landcare Research to incur a loss. Landcare Research has a significant concentration of credit risk with the Ministry of Science and Innovation; however, the risk is mitigated as this entity is also Government owned.

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.

FINANCIAL INSTRUMENT RISKS CONTINUED

Contractual maturity analysis of financial liabilities, excluding derivatives

The table below analyses the Parent and 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.

2010	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	6,388	6,388	6,388	0	0	0
Secured loans	4,000	4,326	193	4,133	0	0
Finance leases	136	164	60	104	0	0
Total	**10,524**	**10,878**	**6,641**	**4,237**	**0**	**0**
Parent						
Creditors & other payables	6,167	6,167	6,167	0	0	0
Secured loans	4,000	4,326	193	4,133	0	0
Finance leases	119	142	49	93	0	0
Total	**10,286**	**10,635**	**6,409**	**4,226**	**0**	**0**

2011	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	5,497	5,497	5,497	0	0	0
Secured loans	4,000	4,321	190	4,131	0	0
Finance leases	83	94	49	45	0	0
Total	**9,580**	**9,912**	**5,736**	**4,176**	**0**	**0**
Parent						
Creditors & other payables	5,291	5,291	5,291	0	0	0
Secured loans	4,000	4,321	190	4,131	0	0
Finance leases	83	94	49	45	0	0
Total	**9,374**	**9,706**	**5,530**	**4,176**	**0**	**0**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

27 TAXATION

	Consolidated		Parent	
	2011 Actual $000s	2010 Actual $000s	2011 Actual $000s	2010 Actual $000s
Components of tax expense				
Current tax	1,119	604	1,068	738
Adjustments to current tax in prior years	(153)	14	(153)	18
Deferred tax expense	(173)	3,715	55	3,472
Income tax expense	**793**	**4,333**	**970**	**4,228**

27 TAXATION CONTINUED

	Consolidated 2011 Actual $000s	Consolidated 2010 Actual $000s	Parent 2011 Actual $000s	Parent 2010 Actual $000s
Relationship between tax expense and accounting profit				
Surplus/(deficit) before tax	3,043	2,307	3,435	2,905
Tax at 30%	913	691	1,031	871
Non-deductible expenditure	110	40	26	37
Non-taxable income	(231)	(62)	50	(62)
Prior-year adjustment	1	0	0	3
Group loss offset	0	0	(137)	0
Income tax expense	793	669	970	849
Impact of 0% building depreciation	0	3,664	0	3,379
Total income tax expense	**793**	**4,333**	**970**	**4,228**

Deferred tax assets/(liabilities)	Property, plant and equipment $000s	Employee entitlements $000s	Other provisions $000s	Total $000s
Parent				
Balance at 1 July 2009	(1,065)	932	67	(66)
Charged to surplus/(deficit)	(3,434)	(60)	22	(3,472)
Balance at 1 July 2010	(4,499)	872	89	(3,538)
Transfer asset held for sale	0	(24)	(1)	(25)
Charged to surplus/(deficit)	9	(54)	(10)	(55)
Charged to other comprehensive income	0	0	0	0
Balance at 30 June 2011	**(4,490)**	**794**	**78**	**(3,618)**
Group				
Balance at 1 July 2009	(1,065)	969	110	14
Charged to surplus/(deficit)	(3,719)	(41)	45	(3,715)
Charged to other comprehensive income	0	0	0	0
Balance at 1 July 2010	(4,784)	928	155	(3,701)
Transfer asset held for sale	0	(30)	(35)	(65)
Charged to surplus/(deficit)	294	(80)	(41)	173
Charged to other comprehensive income	0	0	0	0
Balance at 30 June 2011	**(4,490)**	**818**	**79**	**(3,593)**

The corporate tax rate has been reduced from 30% to 28% with effect from the 2011/12 year. The financial effect of the change in tax rate on deferred taxation has been included in the financial statements for the year ended 30 June 2011.

	2011 Actual $000s	2010 Actual $000s
Imputation credit account (Subsidiary–Sirtrack Limited only)		
Opening balance at 1 July	667	619
Taxation paid/(refund)	(5)	48
Attached to dividends	0	0
Closing balance at 30 June	**662**	**667**

28 EXPLANATION OF SIGNIFICANT VARIANCES AGAINST BUDGET

There were the following significant variances:

Statement of Comprehensive Income

- The June 2010 comparative result was impacted by the 0% depreciation on buildings announced in the Government's Budget 2010. This increased tax expense by $3,664,000.

Statement of Financial Position

- On 1 July 2011 Landcare Research's carboNZero strategic business unit became carboNZero Holdings Limited, a separate legal entity 100% owned by Landcare Research New Zealand Limited. The assets of carboNZero Holdings Limited have been classified as held for sale in the June 2011 Parent result; this impact was not budgeted.
- The assets of Sirtrack Limited have been classified as held for sale in the June 2011 Consolidated Group result; this impact was not budgeted.
- The June 2010 comparative result was impacted by the 0% depreciation on buildings announced in the Government's Budget 2010. This increased deferred tax liability by $3,664,000.

STATEMENT OF RESPONSIBILITY

In terms of Section 155 of the Crown Entities Act 2004, we hereby certify that:

1 We have been responsible for the preparation of these financial statements and the judgements used therein.

2 We have been responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

3 We are of the opinion that the financial statements of Landcare Research New Zealand Limited and the Group fairly reflect the financial position and operations for the year ended 30 June 2011.

JA Brosnahan
Chair
29 August 2011

PM Schuyt
Deputy Chair
29 August 2011

AUDIT REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

INDEPENDENT AUDITOR'S REPORT

To the readers of
Landcare Research New Zealand Limited
and group's financial statements
for the year ended 30 June 2011

The Auditor-General is the auditor of Landcare Research New Zealand Limited (the company) and group. The Auditor-General has appointed me, Bede Kearney, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the company and group, on her behalf, for the year ended 30 June 2011.

We have audited the financial statements of the company and group on pages 8 to 33, that comprise the statement of financial position as at 30 June 2011, 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.

Opinion on the financial statements

In our opinion the financial statements of the company and group on pages 8 to 33:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's:
  - financial position as at 30 June 2011; and
  - financial performance and cash flows for the year ended on that date.

Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 29 August 2011. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company and group's preparation of the financial statements that fairly reflect the matters to which they relate. We consider internal control 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 company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company and group's financial position, financial performance and cash flows.

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

The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Research Institutes Act 1992.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit, we completed an assurance engagement reporting on the profit calculation pursuant to the staff profit share scheme. This engagement is compatible with those independence requirements.

Other than the audit and this engagement, we have no relationship with or interests in the company or any of its subsidiaries.

Bede Kearney
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Landcare Research New Zealand Limited (the company) for the year ended 30 June 2011 included on the company's website. The company's Board of Directors is responsible for the maintenance and integrity of the company's website. We have not been engaged to report on the integrity of the company's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 29 August 2011 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

DIRECTORY

DIRECTORS

Jo A Brosnahan (Chair)
Graeme S Boyd (Retired 30 June 2011)
Prof. W Grant Guilford
Hon. M John F Luxton
Robin Pratt (Resigned 31 December 2010)
Peter M Schuyt
Tania J Simpson
Victoria A Taylor
Dr Emily J Parker (From 1 July 2011)
Gavan J Herlihy (From 1 July 2011)

SENIOR MANAGEMENT TEAM

Dr Richard FS Gordon: Chief Executive Officer (From 25 May 2011)
Previously General Manager Environment & Society
Dr Warren J Parker: Chief Executive Officer (Resigned 22 February 2011)
Carol R Bellette: Chief Financial Officer
Katrina F Direen: General Manager People & Performance
Mike S Lee: General Manager Business
Dr David P Choquenot: General Manager Biological Systems
Dr Alison J Collins: Acting General Manager Environment & Society (From 1 July 2011)

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AUDITORS: Audit New Zealand on behalf of the Auditor-General
SOLICITORS: Buddle Findlay

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ANNUAL REPORT 2011 PART II

Landcare Research
Manaaki Whenua