

Half Year Report 2018





Delivering
prosperity by
transforming
agriculture

Chair and Chief Executive's review	3
Consolidated financial statements	
Consolidated statement of comprehensive income	5
Consolidated statement of financial position	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8
Notes to and forming part of the consolidated financial statements	
1 Presentation and accounting policies	9
2 Operating expenditure	9
3 Other gains/(losses)	10
4 Property held for sale	10
5 Subsidiaries	10
6 Other investments	10
7 Property, plant and equipment	10
8 Provisions	11
9 Contingencies and commitments	11
10 Seasonality of business	11
11 Fair value measurement of financial instruments	11
12 Reconciliation of net surplus/(deficit) after tax with net cash flow from operating activities	13
13 Significant events after reporting date	13
Preparing the report	14
Statement of responsibility	14
Directory	15

Chair and Chief Executive's review

AgResearch ends the first half of the financial year with year-to-date financial performance on plan and projected full year forecasts achieving budget, albeit at a significant loss (\$6.8m). This one-off, FY18 operating loss was agreed with the owners as the best way for AgResearch to retain critical capability in the wake of last year's funding changes, while a Ministry for Business, Innovation and Employment review of Farm Systems and Environment funding is undertaken. The funding challenges remain in our critical environmental science areas and continue to impact the levels of research able to be undertaken.

We continue to anticipate that the planned review of this funding area will provide planning certainty on this matter, although on-going delays in its initiation is causing rising concern. AgResearch has spent the first half of this financial year actively working with industry to find new ways to fund this research, and those promising conversations will continue.

Our significant transformational priorities are advancing well. This first six months of the year have been important for the two significant construction projects we are developing, with early works underway on site in Lincoln and about to begin in Palmerston North.

These new buildings are the tangible results of many years of planning and development for a new way of working at AgResearch and will enable our people and their colleagues at partner organisations to share information and ideas in new ways. The concept is already proving an attraction and key recruitment point for many of AgResearch's new staff members at both Lincoln and Palmerston North.



*Joint Food Science Facility,
Palmerston North*



*Lincoln University and
AgResearch Joint Facility,
Lincoln*

However, there is growing concern around the pace of decision-making regarding funding for Lincoln University's component of that new joint facility. To meet challenging construction timeframes, which are closely linked to the significant AgResearch staff movement programme, we need to continue to work closely with Lincoln's management and Council to find a way to ensure timely progress.

Our capability and reputation for science excellence in the food and bio-products research area have continued to grow this year, with a range of significant MOUs and relationships with international industry and institutes being developed in this area. We look forward to the opportunities this research will bring for New Zealand, as we work hard in our role of helping the agricultural sector maximise the use and development of their land, crops and animals.

During this first half of the financial year we have been pleased to see our people honoured and celebrated by their peers through the inaugural Science New Zealand Awards. One other significant accolade this quarter saw Professor Richard McDowell admitted to the Royal Society as a new Fellow, which was a fitting and well deserved award for his environmental work.

AgResearch's net assets at 31 December 2017 were \$232 million. This represents a net tangible asset value per share of \$4.91 (\$4.71 a share at 31 December 2016).

The performance is summarised in the table below:

	Unaudited 6 months to Dec 2017	Unaudited 6 months to Dec 2016	Audited 12 months to Jun 2017
<i>in thousands of New Zealand dollars</i>			
Revenue	59,768	57,988	148,266
Expenditure	65,891	63,266	142,111
Surplus/(deficit) before tax	(6,123)	(5,278)	6,155
Tax expense/(benefit)	(1,505)	(1,467)	1,507
Surplus/(deficit) after tax for the period	(4,618)	(3,811)	4,648

We look forward to maintaining the positive momentum as we enter 2018 and the second half of the financial year.

Jeff Grant

Chair
15 February 2018

Tom Richardson

Chief Executive
15 February 2018

Consolidated statement of comprehensive income

For the six months ended 31 December 2017

<i>in thousands of New Zealand dollars</i>	Note	Unaudited 6 months to Dec 2017	Unaudited 6 months to Dec 2016	Audited 12 months to Jun 2017
Revenue				
Ministry of Business, Innovation and Employment				
- SSIF (previously Core funding)		19,444	19,444	38,889
- Our Land & Water National Science Challenge		3,779	1,883	6,495
- Other		7,058	9,405	21,874
Commercial		20,899	19,338	59,506
Farm produce		1,728	1,699	5,386
Other revenue		6,860	6,219	16,116
Total operating revenue		59,768	57,988	148,266
Operating expenditure	2	(66,476)	(64,729)	(142,546)
Other gains/(losses)	3	729	1,641	1,117
Finance costs		(25)	(4)	(5)
Share of deficit of associates		(119)	(174)	(677)
Surplus/(deficit) before tax		(6,123)	(5,278)	6,155
Tax expense/(benefit)		(1,505)	(1,467)	1,507
Surplus/(deficit) after tax for the period		(4,618)	(3,811)	4,648
Other comprehensive income				
<i>Items that will not be reclassified subsequently to surplus or deficit:</i>				
Revaluation of properties	4	473	-	4,134
		473	-	4,134
<i>Items that may be reclassified subsequently to surplus or deficit:</i>				
Changes in fair value of available-for-sale financial assets		192	281	267
		192	281	267
Income tax relating to components of other comprehensive income		(53)	(77)	(317)
Other comprehensive income for the period net of tax		612	204	4,084
Total comprehensive income for the period net of tax		(4,006)	(3,607)	8,732
Surplus/(deficit) is attributable to:				
Equity holders of the parent		(4,618)	(3,811)	4,648
Total comprehensive income is attributable to:				
Equity holders of the parent		(4,006)	(3,607)	8,732

The accompanying notes form an integral part of these interim financial statements.

Consolidated statement of financial position

As at 31 December 2017

<i>in thousands of New Zealand dollars</i>	Note	Unaudited Dec 2017	Unaudited Dec 2016	Audited Jun 2017
Current assets				
Cash and cash equivalents		51,136	58,075	59,043
Trade and other receivables		18,943	18,227	29,665
Prepayments		1,929	2,238	2,162
Biological assets - livestock		4,799	5,108	4,487
Current tax		1,399	771	-
Inventory		1,156	909	1,173
Derivative financial instruments		28	-	-
Property held for sale	4	751	-	45
Total current assets		80,141	85,328	96,575
Non-current assets				
Investments in associates and joint ventures		5,888	5,710	5,607
Other investments	6	8,008	4,280	7,052
Property, plant and equipment	7	170,061	162,863	167,447
Biological assets - forestry		727	1,041	727
Other non-current receivables		4,434	4,246	4,341
Intangible assets		650	1,037	844
Total non-current assets		189,768	179,177	186,018
Total assets		269,909	264,505	282,593
Less:				
Current liabilities				
Trade and other payables		21,098	24,707	27,835
Derivative financial instruments		-	1	67
Finance leases - current		2	5	4
Provisions - current	8	5,081	4,781	5,103
Current tax		-	-	1,461
Other current liabilities		46	83	60
Total current liabilities		26,227	29,577	34,530
Non-current liabilities				
Deferred tax		10,895	10,399	11,240
Finance leases - term		-	1	-
Other non-current liabilities		655	715	685
Provisions - non-current	8	34	48	34
Total non-current liabilities		11,584	11,163	11,959
Total liabilities		37,811	40,740	46,489
Net assets		232,098	223,765	236,104
Equity				
Share capital		47,268	47,268	47,268
Revaluation reserves		89,686	85,194	89,074
Retained earnings		95,144	91,303	99,762
Total equity		232,098	223,765	236,104

The accompanying notes form an integral part of the interim financial statements.



Jeff Grant
Chair
15 February 2018



Kim Wallace
Director
15 February 2018

Consolidated statement of changes in equity

For the six months ended 31 December 2017

<i>in thousands of New Zealand dollars</i>	Revaluation reserves				
	Share capital	Property, plant and equipment	Available-for-sale assets	Retained earnings	Total equity
Unaudited 6 months to December 2017					
Balance at beginning of period	47,268	88,204	870	99,762	236,104
Deficit after tax for the period	-	-	-	(4,618)	(4,618)
Revaluation of properties (note 4)	-	473	-	-	473
Changes in fair value of available-for-sale financial assets	-	-	192	-	192
Income tax relating to components of other comprehensive income	-	-	(53)	-	(53)
Total comprehensive income	-	473	139	(4,618)	(4,006)
Balance at end of period	47,268	88,677	1,009	95,144	232,098
Unaudited 6 months to December 2016					
Balance at beginning of period	47,268	84,314	681	95,109	227,372
Deficit after tax for the period	-	-	-	(3,811)	(3,811)
Changes in fair value of available-for-sale financial assets	-	-	281	-	281
Transfer of revaluation reserve on sold assets	-	-	(5)	5	-
Income tax relating to components of other comprehensive income	-	-	(77)	-	(77)
Total comprehensive income	-	-	199	(3,806)	(3,607)
Balance at end of period	47,268	84,314	880	91,303	223,765
Audited 12 months to June 2017					
Balance at beginning of period	47,268	84,314	681	95,109	227,372
Surplus after tax for the period	-	-	-	4,648	4,648
Revaluation of properties	-	4,134	-	-	4,134
Changes in fair value of available-for-sale financial assets	-	-	267	-	267
Transfer of revaluation reserve on sold assets	-	-	(5)	5	-
Income tax relating to components of other comprehensive income	-	(244)	(73)	-	(317)
Total comprehensive income	-	3,890	189	4,653	8,732
Balance at end of period	47,268	88,204	870	99,762	236,104

The accompanying notes form an integral part of these interim financial statements.

Consolidated statement of cash flows

For the six months ended 31 December 2017

<i>in thousands of New Zealand dollars</i>	Note	Unaudited 6 months to Dec 2017	Unaudited 6 months to Dec 2016	Audited 12 months to Jun 2017
Cash received from operating activities				
Receipts from customers		70,570	77,076	153,949
Interest received		1,169	1,044	2,089
Dividends received		105	56	164
Total cash received from operating activities		71,844	78,176	156,202
Cash disbursed on operating activities				
Payments to employees		32,240	31,882	62,793
Payments to suppliers		35,323	35,121	72,319
Restructuring		128	384	757
Income tax paid		1,752	117	248
Interest paid		25	4	5
Total cash disbursed on operating activities		69,468	67,508	136,122
Net cash flow from operating activities	12	2,376	10,668	20,080
Cash received from investing activities				
Disposal of property, plant, equipment and biological assets		73	91	240
Disposal of investments and intangible assets		95	1,175	1,188
Total cash received from investing activities		168	1,266	1,428
Cash disbursed on investing activities				
Investment in property, plant, equipment and biological assets		8,805	4,828	9,844
Purchase of other investments and intangible assets		1,268	5,725	8,723
Partner contribution to research consortiums		400	400	976
Total cash disbursed on investing activities		10,473	10,953	19,543
Net cash flow from investing activities		(10,305)	(9,687)	(18,115)
Total net cash flow		(7,929)	981	1,965
Cash at beginning of the period		59,043	57,087	57,087
Effects of exchange rate changes on the balance of cash held in foreign currencies		22	7	(9)
Cash at end of the period		51,136	58,075	59,043

The accompanying notes form an integral part of these interim financial statements.

Notes to and forming part of the consolidated financial statements

For the six months ended 31 December 2017

1 Presentation and accounting policies

These consolidated condensed interim financial statements of AgResearch Limited and its subsidiaries (the Group) have been prepared in accordance with New Zealand Equivalent to International Accounting Standard (NZ IAS) 34 Interim Financial Reporting. The Group is profit-orientated.

The consolidated condensed interim financial statements of the Group for the six months ended 31 December 2017 have been prepared applying the same accounting policies and methods of computation as, and should be read in conjunction with, the financial statements and related notes included in the Group's Annual Report for the year ended 30 June 2017.

The same significant judgements, estimates and assumptions included in the notes to the financial statements in the Group's Annual Report for the year ended 30 June 2017 have been applied to these interim financial statements.

The financial statements were authorised for issue by the Directors on 15 February 2018.

2 Operating expenditure

	Unaudited 6 months to	Unaudited 6 months to	Audited 12 months to
<i>in thousands of New Zealand dollars</i>	Dec 2017	Dec 2016	Jun 2017
<i>Employee related</i>			
Salary and wages	31,354	30,660	61,465
Defined contribution plans	837	818	1,638
<i>Operational</i>			
Amortisation of intangible assets	178	165	360
Depreciation	4,601	4,806	9,595
Operating lease expenses	1,580	1,451	3,025
Other operating expenses	12,815	10,893	24,100
Science 3rd party sub-contracts	6,311	7,158	23,365
Site and property expenses	2,864	3,141	5,806
Supplies	5,624	5,440	12,543
<i>Financial and administration</i>			
Auditors' remuneration - for services as auditors	114	-	266
Bad debts	-	-	370
Change in provision for doubtful debts	(22)	2	(371)
Directors' fees	173	162	324
Donations	1	-	-
<i>Impairments and write downs</i>			
Impairment of investments	25	33	221
Impairment/(write back) of available-for-sale financial assets	-	-	(251)
Impairment of ETS Units	-	-	31
Impairment of property, plant and equipment (note 4)	21	-	59
	66,476	64,729	142,546

3 Other gains/(losses)

	Unaudited 6 months to	Unaudited 6 months to	Audited 12 months to
<i>in thousands of New Zealand dollars</i>	Dec 2017	Dec 2016	Jun 2017
Net gain (loss) from foreign currency exchange	(15)	(3)	(18)
Net gain (loss) on sale of property, plant and equipment	-	56	165
Net gain (loss) on sale of other investments	-	357	275
Net gain (loss) on sale of non-current assets held for sale	1	-	-
Change in fair value of derivative financial instruments	96	40	(26)
Change in fair value of forestry	-	-	103
Change in fair value of livestock	647	1,191	618
	729	1,641	1,117

4 Property held for sale

The Group intends to sell within the next 12 months, a parcel of freehold land it no longer utilises. The land has been revalued on reclassification as an asset held for sale, to its expected fair value less costs to sell, based upon Directors' expectations of its realisable value. A small impairment loss has been recorded on the write-down of an unused building situated on the land. It is expected that the building will be demolished prior to sale.

5 Subsidiaries

Activities undertaken through AgResearch (Johnes Disease Research Consortium) Limited ceased during the year ended 30 June 2017 and steps are currently underway to wind up this entity.

6 Other investments

During the period AgResearch and Lincoln University established LUAGRJF Limited Partnership to oversee the development of, own and manage a research and education facility at Lincoln. Refer also notes 9 and 11 below.

There has been no other significant changes relating to investments in the period.

7 Property, plant and equipment

	Unaudited 6 months to	Unaudited 6 months to	Audited 12 months to
<i>in thousands of New Zealand dollars</i>	Dec 2017	Dec 2016	Jun 2017
Balance at beginning of period	167,447	162,944	162,944
Additions	7,526	4,760	10,126
Disposals	-	(35)	(58)
Reclassified as 'Property held for sale'	(763)	-	(45)
Revaluations	473	-	4,134
Impairments	(21)	-	(59)
Depreciation	(4,601)	(4,806)	(9,595)
Balance at end of period	170,061	162,863	167,447

8 Provisions

	Unaudited 6 months to Dec 2017	Unaudited 6 months to Dec 2016	Audited 12 months to Jun 2017
<i>in thousands of New Zealand dollars</i>			
Current			
ACC Levies	289	345	272
Employee entitlements	4,733	4,300	4,666
Restructuring	59	136	165
Total current	5,081	4,781	5,103
Non-current			
Employee entitlements	34	48	34
Total non-current	34	48	34
Total provisions	5,115	4,829	5,137

9 Contingencies and commitments

There are no significant known contingent liabilities or pending litigation. As at 31 December 2017, the total capital commitments are \$44m.

Limited Partnership and Shareholder Agreements for the Lincoln University AgResearch Joint Facility were entered into during the period. These agreements outline the way in which the two parties will work together in developing the joint facility and contribute to costs. If the development concludes as expected, AgResearch's contributions will be circa \$80m, including costs incurred to date.

The Joint Venture agreement between AgResearch and Massey University is now in place. If this development concludes as expected, AgResearch's contributions will be circa \$35m.

Contingent Assets:

Currently there is a claim with the Company's insurer in respect of damage as a result of the Christchurch earthquake which has been accepted by the insurer. The quantum of the claim is still to be determined.

10 Seasonality of business

The timing of research contract negotiations and delivery gives rise to a higher level of income in the second half of the year.

11 Fair value measurement of financial instruments

The following table provides an analysis of items that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<i>in thousands of New Zealand dollars</i>	Level 1	Level 2	Level 3	Total
31 December 2017				
Available-for-sale financial assets				
Other investments	3,230	875	10	4,115
Financial assets designated at fair value				
Derivative financial assets	-	28	-	28
Non-financial assets				
Livestock	-	4,799	-	4,799
Forestry	-	727	-	727
Land and building improvements	-	78,745	-	78,745
Buildings	-	71,243	-	71,243
	3,230	156,417	10	159,657
31 December 2016				
Available-for-sale financial assets				
Other investments	3,053	957	-	4,010
Non-financial assets				
Livestock	-	5,108	-	5,108
Forestry	-	1,041	-	1,041
Land and building improvements	-	73,339	-	73,339
Buildings	-	72,119	-	72,119
	3,053	152,564	0	155,617
Financial liabilities designated at fair value				
Derivative financial liabilities	1	-	-	1
	1	0	0	1
30 June 2017				
Available-for-sale financial assets				
Other investments	3,042	969	10	4,021
Non-financial assets				
Livestock	-	4,487	-	4,487
Forestry	-	727	-	727
Land and building improvements	-	76,688	-	76,688
Buildings	-	72,511	-	72,511
	3,042	155,382	10	158,434
Financial liabilities designated at fair value				
Derivative financial liabilities	-	67	-	67
	-	67	-	67

Other investments reflected in the financial statements include \$3,893k related to funds expended on behalf of the Lincoln AgResearch Joint Facility. This amount has been omitted from the above table as it is carried at cost (additional information in note 9).

There were no transfers between Level 1 and Level 2 during the six months ended 31 December 2017 (six months ended 31 December 2016: Nil; and year ended 30 June 2017: Nil)

12 Reconciliation of net surplus/(deficits) after tax with net cash flow from operating activities

	Unaudited 6 months to Dec 2017	Unaudited 6 months to Dec 2016	Audited 12 months to Jun 2017
<i>in thousands of New Zealand dollars</i>			
Surplus/(deficit) after tax	(4,618)	(3,811)	4,648
Non-cash items:			
Depreciation	4,601	4,806	9,595
Intangible assets amortisation and impairment	178	165	391
Share of deficit of associates	119	174	677
Investment write down and revaluation	25	33	-
Change in fair value of forestry	-	-	(103)
Change in fair value of livestock	(647)	(1,191)	-
Change in fair value of financial assets or liabilities designated at fair value	-	-	(45)
Property, plant and equipment impairment/write down	21	-	59
Net (gain)/loss from foreign currency exchange	15	(3)	(18)
Change in fair value of derivative financial instruments	(96)	(40)	26
Change in deferred tax	(345)	(291)	(928)
Change in other non-current liabilities	-	(29)	-
Change in other receivables	-	(93)	-
Other non-cash items	(125)	(96)	(240)
Movements in working capital:			
Change in current taxation	(2,860)	(1,176)	2,187
(Increase)/decrease in inventory	17	(60)	(324)
(Increase)/decrease in livestock	335	(200)	(770)
(Increase)/decrease in receivables	10,722	14,827	3,059
(Increase)/decrease in prepayments	233	323	399
(Increase)/decrease in property held for sale	(706)	-	-
Increase/(decrease) in provisions	(22)	(726)	(418)
Increase/(decrease) in payables	(4,471)	(1,531)	2,051
Items classified as investing activities:			
Net (gain)/loss on sale of property, plant and equipment	-	(56)	(165)
Net (gain)/loss on sale of investments and intangible assets	-	(357)	(1)
Net cash flow from operating activities	2,376	10,668	20,080

13 Significant events after reporting date

There were no significant events after 31 December 2017 that would have a material effect on the financial statements.

Preparing the report

In preparing this Half-year Report and the Financial Statements contained herein, I certify on the behalf of the Board that the Company has operated in accordance with provisions of the Crown Research Institutes Act 1992 (including the Principles of Operation in Section 5 of the Act), the Crown Entities Act 2004 and the Companies Act 1993



Jeff Grant

Chair

15 February 2018

Statement of responsibility

For the six months ended 31 December 2017

AgResearch Limited certifies that:

1. The Board of AgResearch Limited accepts responsibility for the preparation of the interim financial statements and judgements used in them;
2. The Board of AgResearch Limited accepts responsibility for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and
3. In the opinion of the Board of AgResearch Limited, the interim financial statements for the six months ended 31 December 2017 fairly reflect the financial position and operations of AgResearch Limited and its subsidiaries that collectively comprise the Group.



Jeff Grant

Chair

15 February 2018



Kim Wallace

Director

15 February 2018

Directory

Executive Team

Dr Tom Richardson

Chief Executive

Andy Anderson

National Manager Health and Safety

Monique Devereux

Communications and Marketing Director

Lee Gardiner

People and Culture Director

Stuart Hall

Partnerships and Programmes Director

Tony Hickmott

Finance and Business Performance Director

Chris Koroheke

Kaiurungi Ahuwhenua

Andrew McSweeney

Shared Services Director

Greg Murison

Research Director

Board of Directors

Jeff Grant

Chair

Kim Wallace

Chair – Audit and Risk

Colin Armer

Director

Jackie Lloyd

Director

Andrew Macfarlane (Resigned 29 November 2017)

Director

Dr Paul Reynolds

Director

Tania Simpson

Director

Dr Peter Stone

Director

Information

Auditors

Deloitte on behalf of the Auditor-General

Bankers

Westpac Banking Corporation

Solicitors

Buddle Findlay, Auckland

Patent Attorney

AJ Park, Wellington

Contact Details

AgResearch Limited Corporate Office and

AgResearch Ruakura

Ruakura Research Centre
10 Bisley Road, Private Bag 3123
Hamilton 3240

Corporate Office

T +64 7 856 2836

F +64 7 834 6640

Ruakura

T +64 7 856 2836

F +64 7 838 5012

AgResearch Grasslands and

Hopkirk Research Institute

Grasslands Research Centre
Tennent Drive, Private Bag 11008
Palmerston North 4442

Grasslands

T +64 6 356 8019

F +64 6 351 8032

Hopkirk

T +64 6 351 8600

F +64 6 353 7853

AgResearch Lincoln

Lincoln Research Centre
Cnr Springs Road and Gerald Street, Private Bag 4749
Christchurch 8140
T +64 3 321 8800
F +64 3 321 8811

AgResearch Invermay

Invermay Agricultural Centre
Puddle Alley, Private Bag 50034
Mosgiel 9053
T +64 3 489 3809
F +64 3 489 3739



■ Research Centres

Ruakura – Hamilton
Grasslands – Palmerston North
Lincoln – Canterbury
Invermay – Mosgiel

■ Research Farms

Tokanui – Te Awamutu
Ruakura – Hamilton
Aorangi – Palmerston North
Kaitoke – Upper Hutt
Woolfords Block – Bulls
Lincoln – Canterbury
Winchmore – Ashburton
Invermay – Mosgiel
Woodlands – Invercargill