



AgResearch Limited  
Statement of Corporate Intent  
July 2010 – June 2011

**Farming, Food & Health. First**  
*Te Ahuwhenua, Te Kai me te Whai Ora. Tuatahi*

## **1.0 BACKGROUND**

### **1.1 AgResearch Ltd**

AgResearch is a Crown Research Institute focused on providing knowledge based solutions to resolve the issues facing the New Zealand pastoral sector. This focus will be embedded in our Statement of Core Purpose (SCP) which when completed by July 2010 will function as our touchstone for the next 15 years.

At 1 July 2010 we expect to be employing 617 research FTEs including scientists and technicians, 97 research support FTEs including science management, farm, animal facility and abattoir staff and 126 management and general support FTEs, based at four major research campuses, numerous shared research facilities and 13 research farms throughout New Zealand.

### **1.2 Operating Environment**

A brief scan of international and national matters impacting AgResearch's operating environment includes:

- The implementation of the CRI Taskforce recommendations is underway but the nuances and implications for AgResearch are yet to be fully established and understood. These along with funding uncertainty and a new CEO will likely impact AgResearch's response to the operating environment.
- The world's human population will continue to grow and together with massive growth in relative wealth in newly-developed nations will double the demand for food.
- The global financial crisis will somewhat change the pattern of demand for food, with cheaper foods becoming more popular.
- Growth in demand for food is creating enormous new environmental pressures.
- Human concern is coalescing around global warming and quanta of freshwater.
- New Zealand is increasingly reliant on its natural resources for its wealth.
- The surging global demand for food has translated through to strong commodity prices that may well remain historically high far into the future. Overall, the short-to-long term prospects for the pastoral sector are excellent.
- The New Zealand Science system is undergoing significant reforms which will lead to clarity of role for the CRIs in general and AgResearch in particular, with an enhanced level of funding stability with the introduction of Core Purpose Funding as a result of the CRI Taskforce recommendations agreed by Cabinet.
- The Government has embraced support of the primary industries as a justifiable economic strategy with a commitment to the ongoing Primary Growth Partnership initiative, additional spend announced in the 2010 Budget to support industry based research, technology vouchers and a commitment to invest more in technology transfer initiatives
- The pastoral sector will remain New Zealand's most important, mass-scale, scientifically-dependent industrial base, placing a premium on biosecurity and animal health.
- Over the longer-term a key challenge will be to shift much of its output into more consumer focused (value-added), price-making export products.
- Further consolidation in the meat industry remains likely in order to secure longer-term farmer-processor relationships, which will form the base of a more profitable meat industry.
- Land use is changing rapidly, including urbanisation removing productive land, and New Zealand's commitment to the Kyoto Protocol will also impact the pastoral sector.

- Farming faces increasing environmental compliance, including reduced nitrogen and phosphorus use, faecal pollution of waterways and soil erosion, as well as improved livestock welfare.
- The New Zealand pastoral sector's competitive advantage will depend on efficient farm production systems operating within tightly-specified boundaries of environmental and social sustainability.
- The debate about the role of genetically modified plants and animals has now ceased to be an academic one as research organisations move transgenic work from research to application in both livestock and forage. The cost and time of getting approvals for work with GMOs even in secure containment continues to be a major hindrance with a recent increase in public and activist interest in these activities.

## **2.0 VISION AND MISSION**

### **2.1 Mission**

To help New Zealand lead the world in creating sustainable wealth in the pastoral sector through application of leading-edge knowledge and technologies.

To achieve its Mission, AgResearch will focus research, development and knowledge transfer on **2020 Science** - five major areas of opportunity and need in support of New Zealand's pastoral and biotechnology sectors over the next 10 years. We anticipate that this strategy will align well with AgResearch's SCP when finalised.

#### **Help Create the Future Dairy Industry**

To achieve this we will develop R&D strategies with stakeholders in the dairy industry and in government and implement those strategies for:

- Greater productivity of individual animals
- Optimised productivity and footprints of forage and feed systems
- Cleaner production and dairy farms
- Sustained dairy farming systems
- More process control and automated measurement on dairy farms
- More high value-added, dairy-derived products

#### **Help create the future meat industries**

To achieve this we will develop R&D strategies with stakeholders in the meat industry and in government and implement those strategies for:

- More resilient sheep, beef and deer-farming business
- Optimised, fit-for-purpose forage plants and ruminant animals
- Better managed environmental impacts, resource-use efficiency and system of meat productivity
- Maximised value for meat carcasses

#### **Help create the future textiles and biomaterials industries**

To achieve this we will develop R&D strategies with stakeholders in the textiles and biomaterials industries and in government and implement those strategies for:

- Transformed NZ wool industry
- Greater inventions, development and innovation of wool fibre
- More vibrancy and competitiveness in the wool fibre industry, from fibre to end product
- Wider, newer, more versatile and valuable biomaterials
- More environmentally and socially sustainable wool/textile value chains

### **Help achieve a pest- and disease-free New Zealand**

To achieve this we will develop R&D strategies with stakeholders in the pastoral sector and in government and implement those strategies for:

- Characterised biosecurity threats and risks/incursions
- Managed biosecurity risks/incursions
- Enhanced pastoral product quality and market assurance from better-managed biosecurity

### **Enable capacity for change in agriculture and its future communities**

To achieve this we will develop R&D strategies with stakeholders in the pastoral sector and the communities with which the sector interacts and in government and implement those strategies for:

- Enhanced practise change
- Contributed to a strong Maori agribusiness sector
- Enhanced capacity for rural change in agriculture

In the next 12 months we will implement a programme of science reviews to ensure it is of the highest calibre. This process will include the formal establishment of a science review panel in line with the CRI Taskforce recommendations. We also plan to engage in further partnerships with other research providers as we seek to deliver the best solutions to customers. Again, in line with the CRI Taskforce recommendations, we will establish a stakeholder advisory group.

## **2.1 Vision**

To be an outstanding research and development institute

To achieve its Vision, AgResearch will focus on **2020 AgResearch**, five goals which acknowledge AgResearch's responsibilities as a Crown entity and a good corporate citizen to a diverse group of stakeholders including customers, staff, the public, the environment and our shareholders. The support of those same stakeholders is critical to AgResearch realising its Vision and Mission. We anticipate that many of these bullets below will also be articulated in AgResearch's SCP.

### **To achieve and continuously improve scientific and technological excellence**

To achieve this we will:

- Negotiate a Mission (Statement of Core Purpose) with Government
- Systematically implement 2020 Science
- Achieve R&D quality in all areas of AgResearch's operations
- Strengthen relationships with other R&D organizations to support cutting edge knowledge and innovation
- Develop and acquire knowledge and technologies that will underpin R&D quality in the future

### **To be the leading developer and supplier of innovative solutions for our customers**

To achieve this we will:

- Further develop and build on our customer-centric culture such that we can better understand our customers' needs and so better develop solutions for them
- Develop and maintain the skills and capability needed to identify opportunities that are valuable to both our customers and AgResearch
- Effectively transfer our technologies and knowledge to our customers

**To be a favoured employer of staff and provide an outstanding work environment**

To achieve this we will:

- Position AgResearch as a favoured employer
- Create a culture with a shared sense of purpose that reflects our mission, vision and values
- Create an outstanding work environment
- Optimise staff's performance

**To meet high standards of ethical, social and environmental responsibility**

To achieve this we will:

- Operate in accordance with high standards of legal and ethical compliance
- Be environmentally responsible
- Actively participate in the communities within which AgResearch is located

**To be financially sustainable in the long term**

To achieve this we will:

- Financially manage to a set of fiscal targets designed to provide long-term financial sustainability and to make available the financial resources required to achieve the other Goals
- Increase profitable revenues
- Improve business operational performance and asset utilisation
- Grow the value of assets and divest them when AgResearch no longer adds or receives sufficient value as an owner, in order to maximise the return from company assets

**3.0 NATURE AND SCOPE OF AGRESEARCH'S ACTIVITIES**

Our activities range from:

- Fundamental "blue sky" research into the ecology and biology the soils, plants, rumen microbes, livestock animals, and livestock and plant pests in our pastoral systems; to
- Applied research which applies science and technology in the form of specialised knowledge to meet the needs of farmers, supply and processing businesses, and biosecurity and environmental agencies for a better understanding of the environmental and biological systems on-farm, the processing value chains, the applications of technologies to farming and processing, and the impacts of pastoral farming on the broader environment.
- Development, (either internally or with industry partners) of our knowledge into products and/or services which offer solutions to meet the needs of the pastoral, agritechnology and biotechnology sectors.

AgResearch's science operations are divided into **three Science and Technology Groups**, each led by a General Manager:

- **Agriculture & Environment** (Sections - Agricultural Systems; Biocontrol & Biosecurity; Climate, Land & Environmental; Animal Health; NZ Agricultural Green House Gas Research Centre);
- **Applied Biotechnologies** (Sections - Animal Biosciences, Animal Improvement; Forage Biotechnology; Forage Improvement; Bioinformatics, Mathematics & Statistics); and
- **Food & Textiles** (Sections - Agri-Food & Health; Nutrition & Microbiology; Textiles & Biomaterials).

AgResearch's **Business Group** undertakes technology transfer activities that sees useful knowledge transferred to industry players. This is done via selling time in a fee for service manner, selling access to intellectual property through assignment, licensing, or where suitable industry players do not exist through spin-out ventures based on AgResearch's technologies or unique capabilities. AgResearch has significant interests in the following commercial ventures as at 1 July 2009:

- Grasslanz Technologies Ltd (100%), which in turn has an interest in Grasslands Innovation Ltd (50%)
- PhytaGro LLC (US) (80%)
- BioPacific Management Ltd (50%)
- Farmax Ltd (50%)
- EnCoate Ltd (28%)
- Paraco Technologies Ltd (100%)

In the coming year we will wind up Encoate Limited due to a failure to overcome technical issues. As part of the wind up process AgResearch will have the IP re-assigned to it.

We will also investigate the option of divesting our interest in Phytagro to a third party and will notify the Crown as and when that eventuates. We also will be looking to attract further capital into ParaCo either by way of external investment or through the establishment of a collaborative partnership with a strategic partner.

In seeking to improve our investment processes to ensure we invest in technologies that have the maximum benefit to NZ, we will investigate partnering with the UNICOM group of Universities in using a common allocation process for the allocation of Government PSAF funding. This will be additional to an AgResearch Board sub-committee reviewing many of our other investments.

#### **4.0 ACCOUNTING POLICIES**

AgResearch operates to generally accepted accounting principles endorsed by the New Zealand Institute of Chartered Accountants and complies with the relevant provisions in the Financial Reporting Act 1993. A full Statement of Accounting Policies is Appendix 4. AgResearch is required to comply with and report in accordance with International Financial Reporting Standards (IFRS) and the financial information presented in the Strategic Plan and this Statement of Corporate Intent has been prepared on that basis.

#### **5.0 PERFORMANCE TARGETS**

##### **5.1 Financial**

The financial objective for AgResearch is based around the principles of the CRI Act. AgResearch must maintain financial viability, i.e. achieve an adequate return on shareholders' funds and be a successful going concern. To meet this objective AgResearch has several targets including:

- Minimum 5% revenue growth on core activities,
- Overall profit margin (EBIT to Revenue) for Science of at least 12%,
- Operating profit margin (EBIT before Reinvestment and Restructuring to Revenue) of at least 10%,
- Term debt up to 15% of total assets (excluding revaluation reserve), and return on shareholder's funds of at least 5% on average over time.

AgResearch's financial performance to 30 June each year is:

2010	Measure	2011	2012	2013
Forecast		Projected		
155.0	Revenue \$m	157.3	163.3	170.1
1.0	EBIT \$m	6.0	7.1	7.4
3.8	Adjusted EBIT \$m	8.9	10.0	10.3
0.6	Adjusted EBIT Margin %	5.6	6.1	6.1
-0.4	NPAT \$m	3.5	5.0	5.5
-0.2	Return on Equity %	1.8	2.5	2.7
2.7	Adjusted Return on Adjusted Equity %	4.7	5.7	5.8
0.4	Return on Assets %	2.4	2.8	3.0
3.1	Adjusted Return on Adjusted Assets %	4.6	5.2	5.6
76.4	Equity Ratio %	77.0	80.5	83.9
1.3	Quick Ratio	1.2	1.1	1.2
9.3	Gearing %	9.2	0.0	0.0
1.5	Interest Cover	4.9	27.6	0.0

While financial performance is projected to improve over the next three years there remain risks around revenue (i.e. targeted revenue and certainty of Primary Growth Partnership and Wool Consortia funding), expenditure (i.e. achieving projected operational and corporate cost savings) and lack of certainty of returns from commercialisation events.

## 5.2 **Non-Financial**

AgResearch's non-financial performance indicators are shown in the following tables:

Indicator	Projected year ending 30 June 2011
<b>General Research Indicators</b>	
Commissioned reports to users	500
Presentations on technical information and research results	500
Publications on technical information and research results	450
Peer-reviewed articles	325
Keynote and plenary presentations	8
New and improved products, processes and services	110
Patents granted in New Zealand	6
Patents granted overseas	4
Requests for information from databases and collections	No targets set - will report totals to Minister at year end
<ul style="list-style-type: none"> <li>• Margot Forde Germ Plasm Collection</li> </ul>	
Licensing arrangements entered into	10
Joint ventures or formal associations	0
Spin out companies formed (subsidiaries)	0
Spin off companies formed (associate companies)	0
<b>Staff Indicators</b>	
Total number of FTEs	845
Research FTEs <sup>1</sup>	625
Research support FTEs <sup>2</sup>	100
Management and general support FTEs	120

<sup>1</sup> Includes Scientists and Technicians

<sup>2</sup> Includes Science Management, Farm, Animal Facility and Abattoir staff

## **6.0 DIVIDEND POLICY**

The Company's policy is that when no sound investment opportunities (including reinvestment, commercialisation, capital expenditure and the retention of important capabilities) exist, it will return surplus cash to shareholders in the form of a dividend.

It is forecasted that no dividends will be paid in the year ending 30 June 2011.

## **7.0 REPORTING TO SHAREHOLDING MINISTERS**

AgResearch makes available to the Shareholders the following documents and information:

- **Quarterly Reports, including:**  
Financial statements, comparisons with budgets and comments on financial activities for the quarter, and comment on research achievements and comparisons of such achievements with business plans, so long as such reports continue to be required by Shareholding Ministers.
- **Half-yearly Reports, including:**
  - Unaudited financial statements and notes (including accounting policies) for the half year within two months of the half year.
  - Comparative actual figures for the corresponding period of the previous financial year.
  - A commentary on the operations and overall performance for the period.
  - A statement of management.
  - A statement that the CRI has operated in accordance with the principles set out in Section 5 of the CRI Act and the Companies Act 1993 during the period.
  - Commentary on progress towards achieving annual performance targets (financial and non financial).
- **An Annual Report is delivered to the Shareholding Ministers within 3 months of the end of each financial year. In it, the Board incorporates:**
  - A statement specifying the targeted financial performance during the financial year as established at the beginning of the financial year in the Statement of Corporate Intent.
  - Audited consolidated financial statements for that financial year consisting of a report of the operations of AgResearch and its subsidiaries during that financial year, statements of financial position, statement of financial performance, cashflows, comparisons with budget, commitments, contingent liabilities, accounting policies and such other statements as may be necessary to show the financial results of the operations of AgResearch and its subsidiaries during the financial year and their financial position at the end of the year.
  - Comparative information for the previous financial period.
  - The auditors' report on these financial statements.
  - The statement of management.
  - A report against financial and non-financial performance indicator targets set in the Statement of Corporate Intent.

The Annual Report will comply with the annual reporting provisions in Part V of the Public Finance Act 1989, in Section 17 of the Crown Research Institute Act 1992 and the Companies Act 1993.

- **Any other information required by the Shareholding Ministers in their capacity as Shareholders.**

## **8.0 ACQUISITIONS AND DIVESTMENTS OF ASSETS**

As required by section 13(1)(d) of the Crown Research Institutes Act, AgResearch will not acquire shares that give it substantial influence in or over a company; or acquire an interest in any partnership, joint venture, or other association of persons, or an interest in a company other than in its shares except after written notice to the shareholding Ministers.

The Board will obtain the prior written consent for any transaction or series of transactions involving a full or partial acquisition, disposal or modification of property (buildings, land and capital equipment) and other assets with a value equivalent to or greater than \$10 million.

The Board will obtain the prior written consent for any transaction or series of transactions with a value equivalent to or greater than \$5 million involving:

- The acquisition or disposal, in full or in part, of shares or interests in a subsidiary, external company or business unit;
- Transactions that affect a company's ownership of a subsidiary or a subsidiary's ownership of another entity (provided that transactions which include "drag-along" clauses that compel AgResearch to sell interests at a future date the direction of the investors shall be valued at the time of the investment transaction);
- Other transactions that fall outside the scope of the definition of the company's core business or that may have a material effect on the company's science capabilities.

The Board will advise shareholding Ministers in writing before entering into any transaction related to property and commercialisation activities below this threshold in accordance with notice requirements agreed between the Ministers and AgResearch from time to time.

## **9.0 ACTIVITIES FOR WHICH AGRESEARCH SEEKS COMPENSATION FROM THE CROWN**

At the date of this Statement of Corporate Intent no compensation has been sought from the Government.

## **10.0 ESTIMATE OF CURRENT COMMERCIAL VALUE**

AgResearch was purchased in December 1992 for \$56.9 million. The Board's estimate of the current commercial value of the Crown's investment in the Group over the forecast period is approximately \$200m and has not materially changed from the past year. This value is based on the forecast financial statements which indicate that based on the Fair Values derived from the Company's accounting policies the value of the Crown's investment, which is forecast to be \$195 million at 30 June 2010 will increase to \$209 million at 30 June 2013. AgResearch's assets are primarily land (including farms) and buildings, valued at market value, and therefore this is appropriate proxy for AgResearch's commercial value.

## **11.0 CAPABILITY FUND**

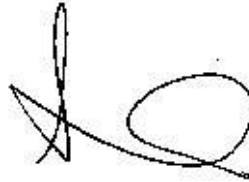
AgResearch has entered into an agreement with the Ministry of Research, Science and Technology for the provision of capability funding. An outline of the use of capability funding is set out in Appendix 2.

**12.0 PURPOSE AND EFFECT OF THIS STATEMENT**

This Statement of Corporate Intent is supplied to Shareholding Ministers pursuant to, and only for the purposes of, the CRI Act 1992. This Statement is not intended to, and cannot be relied upon to, benefit or create rights against the Company, Shareholding Ministers, or the Directors, by any third party.



Sam Robinson  
Chair  
28 June 2010



Susan Huria  
Deputy Chair  
28 June 2010

## APPENDIX 1 - KEY PERFORMANCE INDICATORS

Indicator	How Measured
<b>Revenue</b>	Revenue includes science research, contract work for the Crown or third party clients, royalties, licence fees etc., plus income from the sale of produce and the lease of assets. It excludes income from capital gains, foreign currency gains/losses and interest on investments.
<b>EBIT</b>	EBIT = Earnings before interest and tax
<b>Adjusted EBIT</b>	Earnings before interest and tax adjusted for Extraordinary strategic investments
<b>Adjusted EBIT Margin</b>	EBIT Margin = Adjusted EBIT ÷ Revenue, expressed as a percentage. Adjusted EBIT is earnings as defined above. Revenue is as defined above.
<b>Return on Equity</b>	Return on Equity = NPAT ÷ Average shareholder's funds, expressed as a percentage. NPAT is net profit after tax. Shareholder's funds include share capital and retained earnings.
<b>Adjusted Return on Adjusted Equity</b>	Adjusted Return on Equity = (NPAT excluding restructuring costs and depreciation on asset revaluations, net of associated tax impact) ÷ Average shareholder's funds excluding asset revaluation reserve, expressed as a percentage. NPAT is net profit after tax. Shareholder's funds include share capital and retained earnings.
<b>Return on Assets</b>	Return on assets = EBIT ÷ Average total assets, expressed as a percentage. EBIT is as defined above. Total assets include all the assets on the balance sheet at book value.
<b>Adjusted Return on Adjusted Assets</b>	Adjusted Return on assets = (EBIT excluding restructuring costs and depreciation on asset revaluations, net of associated tax impact) ÷ Average total assets less asset revaluation reserve, expressed as a percentage. EBIT is as defined above. Total assets include all the assets on the balance sheet at book value.
<b>Equity Ratio</b>	Equity Ratio = Average shareholder's funds ÷ Average total assets. Shareholder's funds include share capital and retained earnings calculated at the end of each month. Total assets comprise all the assets on the balance sheet calculated at the end of each month.

Indicator	How Measured
<b>Quick Ratio</b>	<p>Quick Ratio = Current assets ÷ Current liabilities.            Current assets include bank balances, short term deposits, debtors, and prepayments, but exclude inventory.            Current liabilities include bank overdraft, accounts payable, revenue in advance, current portion of term liabilities and tax payable, but exclude staff entitlements.</p>
<b>Gearing</b>	<p>Gearing = Financial debt divided by financial debt plus shareholders funds expressed as a percentage.</p>
<b>Interest Cover</b>	<p>The number of times earnings covers the interest expense where earnings is Net Profit Before Tax plus interest expense</p>

## **APPENDIX 2 - CAPABILITY FUND**

The Capability Funding received from the Ministry of Research, Science and Technology is a key element in carrying out AgResearch's mission to create sustainable wealth in the New Zealand pastoral and biotechnology sectors. This mission requires world-class core competencies in science and technology development, and in commercialisation.

AgResearch has agreed to provide planning information with respect to its allocation of the CRI Capability Fund to the Minister of Research, Science & Technology within its SCI.

### **A statement of the role of the CRI in delivering national benefits and maintaining and building key capabilities**

AgResearch's Mission and "2020 Science", five strategic Goals to achieve the Mission, are set out in section 2 of this SCI.

AgResearch will give priority to 2020 Science when securing government and industry funds, and investing its own funds in maintaining and building capability (whether people, intellectual property or infrastructure)". This includes the application of Capability Funding.

### **A discussion of how the CRI will use the Funding over the next one to three years to strengthen its capabilities to improve its organisational performance in delivering on its goals**

AgResearch's CRI Capability Fund investment allocations are recommended to the Board by the Science & Technology Subcommittee (S&T Committee) of the Executive Management Committee, who take a high level, long-term interest in investment outcomes. The fund is administered by the General Manager Commercial Services with periodic auditing by the Board's Audit and Risk Committee.

Allocation is made using a combination of strategy-driven and contestable processes that result in a balanced investment portfolio. Allocations are made for periods of one to three years into the future but with a proviso that AgResearch receives sufficient Capability Fund allocation from MoRST to honour all commitments. If not, a prioritisation process would be entered into by the S&T Committee. This has not yet happened in the Capability Fund's history.

This balanced portfolio helps fulfil AgResearch's mission to create sustainable wealth in NZ's pastoral and biotechnology sectors by:

- Maintaining, rebuilding or growing nationally important capability
- Initiating new strategic projects and programmes
- Funding or co-funding strategically important research that is insufficiently supported by external funders
- Developing new strategic inter-organisation collaborations that leverage new capabilities and infrastructure
- Allowing researchers to contribute fresh new ideas and develop students, new researchers and emerging leaders through a contestable process.

In July 2011 the Capability Fund will become part of AgResearch Core Purpose Funding. It is anticipated that in the short-term, at least while the transition to Core Purpose Funding environment is embedded in, AgResearch look to continue to set aside a similar level of funds to allocate similarly and for the same purposes as the Capability Fund.

The total funds allocated in the 2010/11 financial year amount to \$12,979,929, including GST. Funds are allocated by project and the projects can be divided into three categories:

- Maintaining and enhancing existing capabilities
- New and emerging capabilities  
This category includes support to develop new capabilities that AgResearch expects to be required to benefit the pastoral and biotechnologies in the future, but which do not yet have sufficient scale or strength to secure external funding. Some key projects in this area include:
- Over the Horizon – discovery and creative insight activity  
This category includes limited investment in developing leading-edge areas with the potential to have substantial impacts in the future.

## **APPENDIX 3 - DIRECTORY**

### ***Board of Directors***

Mr Sam Robinson (Chair)  
Ms Susan Huria (Deputy Chair)  
Dr Jane Adams  
Mr Danny Chan  
Dr Michael Dunbier  
Mr Barry Harris  
Mr John Loughlin  
Mr Andrew MacPherson

### ***Management***

Chief Executive Officer	Dr Andrew West
Chief Financial Officer	Mr Geoff Balme
General Manager, Applied Biotechnologies	Dr Jimmy Suttie
General Manager, Agriculture and Environment	Mr Peter Benfell
General Manager, Food and Textiles	Professor Warren McNabb
General Manager Commercial	Dr Ian Boddy
Group Manager Human Resources	Ms Ellen Dunster
Chief Information Officer	Dr Phillip Lindsay

### ***Address for Service***

AgResearch  
5<sup>th</sup> Floor  
Tower Block  
Ruakura Research Centre  
East Street  
Private Bag 3123  
HAMILTON 3240

Telephone: (07) 834 6600  
Facsimile: (07) 834 6640  
Internet: [www.agresearch.co.nz](http://www.agresearch.co.nz)  
Email: [infor@agresearch.co.nz](mailto:infor@agresearch.co.nz)

## **APPENDIX 4 – STATEMENT OF ACCOUNTING POLICIES**

### **REPORTING ENTITY**

AgResearch Limited (the Company) is a profit oriented entity incorporated in New Zealand. Operating as a Crown Research Institute its principal activity is research and development in the pastoral sector of New Zealand. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993, the Crown Research Institutes Act 1992, and the Public Finance Act 1989.

The Company is a limited liability company incorporated and domiciled in New Zealand. The Company, its subsidiaries, associates, and joint ventures comprise the Group.

### **STATEMENT OF COMPLIANCE**

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for profit-orientated entities.

The financial statements comply with International Financial Reporting Standards (IFRS).

### **BASIS OF PREPARATION**

The financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments.

Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2011 and the comparative information presented in these financial statements for the year ended 30 June 2010.

Standards, amendments and interpretations not yet effective have not been early adopted by the Group.

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective as at 26 May 2010:

- NZIFRS 2 Share-based Payment: Group Cash-Settled Share-based Payment Transactions (effective for accounting periods beginning on or after 1 January 2010).
- Amendment to NZ IAS 32 Financial Instruments: Presentation (effective for accounting periods beginning on or after 1 February 2010).
- IFRIC 19 Extinguishing Liabilities with Equity Instruments (effective for accounting periods beginning on or after 1 July 2010).
- NZ IAS 24 Related Party Disclosures (revised 2009) (effective for accounting periods beginning on or after 1 January 2011).
- Amendment to IFRIC 14 - Prepayments of a Minimum Funding Requirement (effective for accounting periods beginning on or after 1 January 2011).
- NZ IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2013).

### **Critical Accounting Estimates and Assumptions**

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant accounting policy or in the relevant note.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are related to estimated impairment of assets, income taxes, fair value of financial instruments and revenue recognition. In respect to the impairment of assets, an asset impairment methodology has been developed to guide the accounting estimate and assumptions for the assessment of impairment.

### **Fair Value Estimates**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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 fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

## **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation and presentation of the financial statements are as follows:

### **(A) BASIS OF CONSOLIDATION**

The consolidated financial statements comprise AgResearch Limited (the Company), together with its subsidiaries (the Group) as defined in NZ IAS 27 'Consolidated and Separate Financial Statements' and the Group's interest in associates and through limited partnerships. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

### **Subsidiaries**

Subsidiaries are entities controlled by the Group. Control is achieved where the Group has the power to govern the financial and operating policies. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the Group's share of identifiable net assets

acquired exceed the cost of acquisition, the excess is credited to profit or loss in the period of acquisition.

Subsidiaries held for sale are recognised and measured at fair value less costs to sell.

The results of any subsidiaries that become or cease to be part of the Group during the year are consolidated from the date that control commenced or until the date that control ceased.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised on acquisition together with the minority interests' share of post acquisition surpluses.

All inter-company transactions, balances and unrealised profits are eliminated on consolidation. Investments in subsidiaries are recorded at cost in the Company's financial statements.

A list of subsidiaries appears in the relevant note.

### **Investments in Associates**

An associate is an investee, not being a subsidiary or joint venture, over which the Group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

The Group financial statements incorporate the Group's interest in associates, using the equity method, as from the date that significant influence commenced or until the date the significant influence ceased. The investments are initially recorded at cost and subsequently at the lower of carrying value and recoverable amount. Associates held for sale are accounted for in accordance with NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The Group recognises its share of the associate's post acquisition net surplus or deficit for the year in its profit or loss. The Group's share of associates' surplus or deficit is adjusted to align the accounting policies of the associate with that of the Group. The Group recognises its share of other post-acquisition movements in reserves in equity. Dividends received from associates are recognised directly against the carrying value of the investment. In the Statement of Financial Position the investment and the reserves are increased by the Group's share of the post-acquisition retained surplus and other post-acquisition reserves of the associates. In assessing the Group's share of earnings of associates, the Group's share of any unrealised profits between Group companies and associates is eliminated.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Whenever there is an indication that the goodwill may be impaired any impairment is recognised immediately in profit or loss and is not subsequently reversed.

A list of associates appears in the relevant note.

### **Interests in Joint Ventures**

Joint ventures are joint arrangements between the Group and another party in which there is a contractual agreement to undertake a specific business project in which the venturers share several liability in respect of costs and liabilities of the project and share in any resulting output. The Group's share of the assets, liabilities, revenues and expenses of joint ventures are incorporated into the Group financial statements on a line by line basis using the proportionate method. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Joint Ventures held for sale are accounted for in accordance with NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

A list of joint ventures appears in the relevant note.

## **(B) REVENUE RECOGNITION**

### **Sale of Goods**

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

### **Rendering of Services**

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the end of the reporting period. The stage of completion is the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

### **Royalties**

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

### **Dividend and Interest Revenue**

Dividend revenue from investments is recognised in the financial period in which the right to receive payment is established. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

## **(C) INCOME TAX**

### **Current Tax**

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

### **Deferred Tax**

Deferred Tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liabilities giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to the income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net tax basis.

### **Current and Deferred Tax for the Period**

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited to equity, in which case the deferred tax or current tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### **Foreign Tax Liabilities and Assets**

Exchange differences on deferred foreign tax liabilities or assets recognised in profit or loss for the period are classified as deferred tax expense or income.

Foreign deferred tax assets that result from operating losses in respect of subsidiaries, associates, joint venture entities or interests in joint venture operations are recognised in the financial statements, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the future.

### **(D) FOREIGN CURRENCY**

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each group entity are expressed in New Zealand dollars ('NZ\$'), which is the functional currency of the Company and the presentation currency for the Group financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

### **(E) DERIVATIVE FINANCIAL INSTRUMENTS**

The Group enters into forward foreign exchange contracts to manage its exposure to foreign exchange rate risk and interest rate swaps to manage its exposure to interest rate risk. Further details of derivative financial instruments are disclosed in the relevant note to the financial statements.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions (cash flow hedges), or hedges of net investments in foreign operations.

### **Fair Value Hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedge item arising from the hedge risk is amortised to profit or loss from that date.

Currently the Group does not have any items in this category.

### **Cash Flow Hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised in profit or loss.

Amounts deferred in equity are recycled in the profit or loss in the periods when the hedged item is recognised in the profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss deferred in equity is recognised immediately in profit or loss.

The Group's cash flow hedges are detailed in the relevant note.

### **Net Investment Hedge**

Hedges of net investment in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the foreign currency translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains and losses deferred in the foreign currency translation reserve are recognised immediately in profit or loss when the foreign operation is disposed of.

### **Derivatives that do not Qualify for Hedge Accounting**

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

### **Embedded Derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

## **(F) FINANCIAL ASSETS**

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### **Financial Assets at Fair Value through Profit or Loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired

principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading if they are not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are recognised initially at fair value. Gains and losses arising from changes in the fair value are included in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Fair value is determined in the manner described in the relevant note.

### **Held to Maturity Investments**

Financial instruments purchased with the intention of being held for the long term or until maturity are recorded at amortised cost using the effective interest rate method less impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate a shorter period, to the net carrying amount of the financial asset.

### **Available-for-sale Financial Assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Certain shares held by the Group are classified as being available-for-sale and are stated at fair value less impairment. Fair value is determined in the manner described in the relevant note. Gains or losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve with the exception of impairment loss, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the profit or loss. Where the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit or loss for the period.

### **Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are stated at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate.

### **Impairment of Financial Assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as available-for-sale and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off through profit or loss. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

#### **Assets Carried at Fair Value**

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in the fair value are recognised in profit or loss.

Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

#### **(G) PAYABLES**

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

#### **(H) INVENTORIES**

Inventories are valued at the lower of cost, determined on a first in first out basis, and net realisable value. Inventory comprises feedstock, cereal crops, wool, breeder seed, farm sundry consumables and property and plant maintenance consumables. The cost of harvested agricultural produce is measured at fair value less estimated point-of-sale costs at the point of harvest.

#### **(I) PROPERTY, PLANT AND EQUIPMENT**

The Group has the following classes of property, plant and equipment:

- Land - Campus
- Land - Farm
- Land Improvements
- Buildings - Campus
- Buildings - Farm
- Leasehold Improvements
- Vehicles
- Plant and Equipment

Land and buildings are measured at fair value. Fair value is determined on the basis of an independent valuation prepared by external valuation experts less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings are revalued at least every 3 years or whenever there has been a significant movement in the fair value. The fair values are recognised in the financial statements of the Group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from their fair values.

Any revaluation increase arising on the revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount on the revaluation of land and buildings is charged as an expense in profit or loss to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

All other assets are recorded at cost less accumulated depreciation and accumulated impairment.

Capital work in progress is recorded at cost.

Depreciation is provided for on a straight line basis on all tangible property, plant and equipment, other than freehold land and capital work in progress, at depreciation rates calculated to allocate the assets' cost or other revalued amount over their estimated useful lives. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Land Improvements	40 years
Buildings (Including Farms)	10-80 years
Leasehold Improvements	5 years
Vehicles	3-10 years
Plant and Equipment	
Computer Hardware	3-5 years
Other Plant and Equipment	5-10 years

#### **(J) BIOLOGICAL ASSETS**

##### **Livestock**

Livestock are valued at their fair value less estimated point-of-sale costs by reference to the most relevant active market. An allowance is made for diminution in value of certain livestock held for research trials. Changes in the valuation of livestock are recognised in profit or loss for the period. Gains or losses for livestock held throughout the year are recorded as holding gains and losses and are included in the fair value changes recognised in profit or loss.

##### **Forestry Assets**

Forests are recorded at their fair value less point-of-sale costs based on an annual basis using anticipated harvesting timing and yield and an applicable discount rate. Changes in the valuation of forests are accounted for through profit or loss.

#### **(K) LEASED ASSETS**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### **Group as Lessor**

Amounts due from leases under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term.

Finance lease payments are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

### **Group as Lessee**

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset or the lease term, whichever is the shorter.

Operating lease payments are included in profit or loss in equal instalments over the lease term.

### **(L) INTANGIBLE ASSETS**

#### **Purchased Intangible Assets**

Purchased intangible assets such as intellectual property, patents, trademarks and licences are recorded at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight line basis over their estimated useful lives, which varies between 3 and 7 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

#### **Computer Software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (between 3 and 5 years). Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

#### **Internally-Generated Intangible Assets - Research and Development Expenditure**

Research expenditure is expensed in the period incurred.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only.

Development expenditure is expensed in the period incurred unless all of the following conditions have been demonstrated:

- the intention to complete the intangible asset and use or sell it;
- how the asset created will generate future economic benefits;
- the ability to measure reliably the expenditure attributable to the intangible asset during its development; and
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Internally-generated intangible assets that satisfy the asset recognition criteria above, are amortised on a straight line basis over future periods from which benefits are expected to accrue. These future periods are between 5 and 7 years.

Computer software development costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding 5 years).

#### **Goodwill on Acquisition**

Goodwill, which represents the excess of the cost of acquisition over the fair value of the assets, liabilities and contingent liabilities, acquired at the time of acquisition of a business, is not amortised,

but tested for impairment annually. Whenever there is an indication that the goodwill may be impaired any impairment is recognised immediately in profit or loss and is not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in Associates' above.

#### **Other Intangible Assets**

Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment. Where there is an active market for an intangible asset, the asset is recorded at a revalued amount, being fair value less any subsequent accumulated amortisation and subsequent accumulated impairment losses. Revaluations are for each intangible asset, not for a class of asset.

#### **Disposal of Intangible Assets**

Realised gains and losses arising from disposal of intangible assets are recognised in profit or loss in the period in which the transaction occurs.

#### **(M) NON-CURRENT ASSETS HELD FOR SALE**

Non-current assets (and disposal groups) classified as held for sale are recorded at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

#### **(N) INVESTMENT PROPERTY**

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured at its fair value at the reporting date. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

#### **(O) IMPAIRMENT OF ASSETS**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets that are subject to amortisation or depreciation to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation increase.

**(P) PROVISIONS**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

All provisions are recorded at the best estimate of the expenditure required to settle the obligation at balance date. Where the effect is material, the expected expenditures are discounted to their present value using pre-tax discount rates.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Onerous Contracts**

A provision for an onerous contract is recognised where the economic benefits expected to be derived from a contract are less than the unavoidable costs of meeting the Group's obligation under the contract. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

**(Q) BORROWINGS**

Borrowings are recorded at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate method.

**(R) BORROWING COSTS**

Borrowing costs directly attributable to buildings under construction are capitalised as part of the cost of those assets.

**(S) EMPLOYEE BENEFITS**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, retirement leave/gratuities and sick leave where it is probable that settlement will be made and they are capable of being measured reliably.

Provision for employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rates as at the reporting date and are recorded as current liabilities.

Provision for employee benefits which are not expected to be settled within 12 months, are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date and are recorded as non-current liabilities.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

**Defined Contribution Plan**

There are a small number of employees that are a part of Crown Defined Benefit Superannuation Plan. Future benefits are generated by the Crown and the Group has no legal or financial contribution liability for future benefits. The Group's contributions to the plan are expensed when incurred.

**(T) GOODS AND SERVICES TAX**

The financial statements are prepared on a GST exclusive basis with the exception of receivables and payables which include GST.

**(U) STATEMENT OF CASH FLOWS**

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, cash in banks, demand deposits and other highly liquid investments readily convertible into cash. Bank overdrafts are shown as current liabilities in the Statement of Financial Position.

**Operating Activities**

Operating activities include all transactions and other events that are not investing or financing activities.

**Investing Activities**

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

**Financing Activities**

Financing activities are those activities relating to changes in the equity and debt structure of the Group.

**(v) SEGMENTAL REPORTING**

The Group operates in one segment.

**(w) INSURANCE CONTRACTS**

The Group has elected to join the Accident Compensation Commission (ACC) Partnership Programme. Under the Partnership Programme the Group is liable for all its claim costs for a period of 4 years up to a specified maximum. At the end of the 4 year period, the Group pays a premium to ACC for the value of residual claims, and the liability for ongoing claims from that point passes back to ACC.

The liability for the ACC Partnership Programme is recognised in the ACC provision and measured as the present value of expected future payments to be made in respect of the employee injuries and claims up to the reporting date using actuarial techniques. Consideration is given to expected future wage and salary levels and experience of employee claims and injuries. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**(x) BUDGET FIGURES**

The budget figures are those approved by the Board. They have been prepared using the same accounting policies as for these financial statements.

**CHANGES IN ACCOUNTING POLICIES**

Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information.

There were no changes in accounting policies.