# Agriculture Victoria Services Pty Ltd

## Annual Report 2017

VICTORIA
State Government

Economic Development,
Jobs, Transport
and Resources

AGRICULTURE
VICTORIA
SERVICES

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Ms KH Adams
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Ms SD Andersen
Dr A Caples
Mr A Christianen (until 31 October 2016)
Dr JM Slocombe (until 31 October 2016)
Mr PRE Turvey

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Mr DC Liesegang

**Company Secretary**
Mr SM Cagney

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Front cover photos acknowledgement:
Top left – Photograph of Dairy cattle, courtesy of Agriculture Victoria Research's Ellinbank research facility.
Bottom left – Photograph of Ryegrass field trials, courtesy of Agriculture Victoria Research's Hamilton research facility.
Top right - Photograph of Annual Ryegrass, courtesy of Vicseeds Production Pty Ltd.
Right – Photograph of Safflower, courtesy of Dr Surya Kant, Senior Research Scientist at Agriculture Victoria Research's Horsham research facility.
Bottom right – Photograph of "Mace" Wheat, Winchelsea, courtesy of Agriculture Victoria's image bank.

Back cover photos acknowledgement:
Photographs of Wheat and Holstein calf, courtesy of Agriculture Victoria's image bank.
Photograph of Ryegrass field trials, courtesy of Agriculture Victoria Research's Hamilton research facility.

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# Contents

# Company profile

Agriculture Victoria Services (AVS) Pty Ltd (also referred to as 'the Company') is a private company incorporated under the provisions of the *Corporations Act 2001* (Cth).

The Government of Victoria beneficially owns 100 per cent of the Company's issued capital with the shareholder being represented through the Victorian Minister for Agriculture.

AVS is the specialist, professional entity responsible for protecting and commercialising novel technologies created by the Agriculture Victoria Research Division (AVR) of the Department of Economic Development, Jobs, Transport and Resources (DEDJTR, also referred to as 'the Department').

The Company has a skills-based and gender-balanced board of directors that consists of six members.

## Background

AVS has delivered more than 30 years of service excellence.

The AVS team consists of 17 professional and support staff that provide the specialist capability necessary to meet the Company's obligations to government and the expectations of stakeholders.

AVS holds a significant intellectual property (IP) portfolio on behalf of the Victorian Government and other IP equity holders. The portfolio benefits the agricultural industry and the state's economy through the commercial application of research and development (R&D) outcomes.

## Purpose

The Company's purpose is to help improve the productivity and competitiveness of Victorian farmers where a private sector route to market for the Department's research outputs is needed.

By providing expert intellectual property management and technology commercialisation services, AVS helps maximise the adoption and impact of the Department's scientific research discoveries, technologies and capabilities.

In doing so the Company plays a critical role in enabling the state government to meet its economic development and social objectives.

## Company value

AVS is viewed by industry stakeholders and public and private sector collaborators as a trusted partner. Similarly, the Company is valued by the government as the corporate entity through which commercial risk is managed.

AVS value is demonstrated by:

- providing a specialist and unique entity structure to streamline the interface between the Department and the private sector
- maximising industry adoption and the impact of Department IP assets and R&D capabilities
- ensuring management of the Department's IP and R&D collaborations protect the interests of the state
- investing in Department technology inventions to enhance their value and accelerate industry adoption by the private sector.

## Operating principles

AVS operates in accordance with the following principles in alignment with its strategic objectives:

- AVS helps the Department determine the most appropriate route to market for its R&D discoveries, either through public dissemination or a commercial pathway. AVS pursues a private sector route to market where economic and productivity outcomes for the state will be greater and more rapid than via public dissemination.
- Where an IP protection and commercial approach is pursued by AVS, the primary objective is always to maximise technology adoption by industry for the state's economic development. Financial returns to AVS and the Department are a secondary objective and are sought commensurate with fair and reasonable value attribution.
- AVS manages IP and commercial collaborations consistent with the Department's objectives and the Victorian Government's IP Policy.

## Objectives

AVS aims to meet its objectives and fulfil its purpose by providing a professional and objective commercial interface to support the transfer of the Department's IP and scientific capabilities to the marketplace.

The following three strategic objectives reflect the growing depth, breadth and complexity of the Company's business:

1. Provide IP and commercial services to maximise the impact of the Department's technologies and research capabilities
2. Ensure the Department's IP and commercial risks are well-managed and the state's interests are protected
3. Enhance and accelerate industry adoption of the Department's technologies with support from AVS investment.

## Core values

The Company's board and management have adopted the following core values:

- AVS makes a difference
- AVS works well together
- AVS acts with integrity
- AVS adapts to change.

## Stakeholders and collaborators

AVS is a self-funded entity relying on service fees and investment income to fund its operations and ensure the Company's ongoing viability.

The establishment and maintenance of strong relationships with stakeholders and collaborators are critical to the success of AVS. These include the:

- Victorian Government
- Minister for Agriculture
- DEDJTR's Agriculture Victoria Research division (AVR)
- technology co-investors and joint IP equity holders
- research collaborators
- technology licensees and licensors
- contractors and suppliers.

# Chairman's report

Agriculture Victoria Services Pty Ltd, its board, management and employees are pleased to present the Company's annual report for the period ended 30 June 2017.

In 2016–17, AVS continued to demonstrate the Company's valuable contribution to improving the economic development and prosperity of Victoria's agriculture industries, while meeting its corporate objectives and delivering a strong annual financial result.

**"AVS has continued to deal with the Department, IP co-owners, private sector R&D collaborators and technology licensees with impartiality, honesty and integrity, in full alignment with the state's IP policy and Company values and behaviours."**

The purpose of AVS is to provide a commercial interface between the Department and private sector where the Department's research discoveries and technologies require a commercial route to market.

This year AVS continued to demonstrate its sustained value by working constructively with the Department's Agriculture Victoria Research division (AVR) in providing specialist IP and commercial capabilities to meet the Department's needs.

The Department's service provision priorities were met by AVS pursuant to the five-year service and funding-level agreement, with this year being its third year of operation. The agreement specifies the Department's service delivery needs for the provision of our IP, technology commercialisation, legal and contract management expertise. Each of these is required to maximise uptake of AVR's scientific research outcomes while protecting the state's interests.

The 2016–17 year represented the second year of the Company's current three-year corporate plan, and saw a further strengthening of our value proposition to key stakeholders. AVS has continued to deal with the Department, IP co-owners, private sector R&D collaborators and technology licensees with impartiality, honesty and integrity, in full alignment with the state's IP policy and our company values and behaviours.

In 2016–17, AVS achieved a net result of $3 million and this reflects the strong performance of the AVS investment portfolio during the past three years. The net result in 2015–16 was $3.5 million. The investment portfolio performance means that total net assets are now at the highest level in the Company's history at $20 million. Net assets in 2015–16 were $17 million.

Royalty income at $8.2 million for 2016–17 is the second highest in AVS' history and royalty income during the past three years has been at record levels.

The strong performance of the AVS investment portfolio has enabled AVS to invest $1.1 million in the Department's research into potential future technologies (OHV Canola, ExZact Wheat, OHV Wheat and SaffBio). The investment in new AVR research innovations is planned to continue in order to deliver long-term industry impact and royalty streams.

The AVS corporate plan recognises the importance of our investment fund for enhancing and accelerating the adoption of new technologies created through AVR's research. Funding is governed by an investment subcommittee of the board and managed under the Company's investment policy. The success of the AVS investment portfolio has led to higher revenue flows in recent years. In 2016–17, higher Company cash reserves led to an increase in our investment portfolio value and effectiveness via private sector funding of novel product innovations. Several AVS project investments comprise technologies that have already achieved high levels of industry uptake, that have already delivered significant impact for the Australian agriculture sector and that have delivered positive returns on AVS investment.

These funds will continue to support future investment projects. At present, AVS has a pipeline of investment opportunities identified – through novel Department research outcomes – as having the potential for commercial advancement and adoption. This innovation concept generation process is well-supported by AVR and has resulted in a better quality and quantity of proposals considered. Opportunities are actively screened against AVS investment criteria, the most important of which is the potential to generate impact, value and benefits for local agriculture industries and the state's economy.

This year AVS funded two significant new innovation investment opportunities for the benefit of Australian grain growers. One project aims to develop elite wheat germplasm with genetic resistance to Russian wheat aphid, enabled by an innovation improvement to AVR's genomic selection technology. The other investment project aims to establish a novel transformation system in safflower to produce high-value biomolecules with industrial and agricultural applications.

The function of investing Company funds in the development and commercialisation of AVR-created technologies remains a key role and priority of AVS. As at 30 June 2017, AVS has nine active investment projects and has invested in 17 technology enhancement projects during the past 14 years.

In 2016–17, AVS has been active in guiding, pursuing and maintaining appropriate IP protection and route-to-impact pathways for strategically important IP assets of the Department to help improve industry productivity and global competitiveness.

The AVS IP portfolio is a strategically vital innovation asset of the Department. It comprises patent filings throughout the world of novel plant varieties, genetic traits, biologicals, designer endophytes, genomic selection methods and related technologies. The AVS IP portfolio is crucial to the development of smart agricultural innovations for local industry benefit, particularly for dairy, grain, animal and horticultural producers. A critical principle in AVS IP protection strategy and associated policies is to ensure such protection is in the best interests of our agricultural sector, particularly to ensure current and future access to technologies and freedom-to-operate. The AVS board, management and staff rigorously apply this principle both in decisions to protect IP and to defend it.

In 2016–17, AVS helped the Department with major research collaborations in several emerging areas of transformational bioscience, agriculture and biosecurity research, including:

- integrated systems biology capability, characterised by rapid advances in precision breeding tools and technologies that deliver tailored, accelerated crop design solutions
- improving dairy cattle and the dairy pasture feedbase through advanced genetic and genomic technologies
- novel biologicals, microbiomes and associated symbiota for crop productivity and plant biosecurity.

This year the strategic collaboration between AVS and Dow AgroSciences LLC continued to commercially validate novel, joint discoveries for improved, accelerated, precision breeding of target crops, for which AVS has research and commercialisation rights in Australia. These IP rights are being applied to develop products in crops of strategic relevance to Australia, such as new breeding tools and plant variety innovations for the benefit of Australian dairy, canola and wheat farmers.

The continued success of the collaboration has been assured by concentrating on research that is closely aligned with the objectives of both organisations; that is, to develop technologies that are needed to drive agricultural innovation both in Australia and around the world. At the heart of the collaboration has been the ability of the world-class scientific professionals involved, on two different continents, to work together for mutually beneficial outcomes. This year AVS has also continued to play a key role in guiding the collaboration of a joint research management team consisting of business and technical leaders from both organisations.

The strong performance of the Company in 2016–17 shows that AVS remains very well positioned to continue to add value to the Department's leading-edge science, and to remain as a trusted partner of Department stakeholders, commercial partners and the Victorian Government.

Finally, I would particularly like to express my sincere appreciation to my fellow directors and the management and staff of AVS for the strong performance of the Company during 2016–17. Their dedication during the year has been fundamental to further consolidating the role, performance and reputation of AVS.

**Dr Clive Noble, Chairman**
**Agriculture Victoria Services Pty Ltd**

# Chief executive officer's report

In 2016–17 AVS delivered against the Company's objectives by meeting its service obligations to DEDJTR while generating a strong financial result. The Company achieved this outcome by delivering relevant and valuable IP management, technology commercialisation, collaboration support and research investment services to the Department.

**"AVS has this year continued to grant rights to research outcomes of the Department in a manner that optimises their economic impact and value to the state, and importantly, consistent with societal interests and expectations."**

The AVS corporate plan recognises the benefits of the Company's unique entity structure and its role in providing a commercial interface between the Department and the private sector. Fundamental to the AVS corporate plan is the role of AVS in maximising industry uptake of IP assets and research outcomes of the Department's Agriculture Victoria Research (AVR) division, in a way that protects the interests of the Victorian Government and key stakeholders.

AVS pursues its strategic objectives in alignment with its service delivery obligations under the five-year service and funding agreement with the Department. We perform these services to support achievement of step-change improvements in agriculture, through innovation for enduring farmer profitability.

As this report details, in 2016–17 AVS successfully met its service obligations to the Department and delivered against the Company's objectives. We achieved this by commercialising AVR-created technologies through the private sector to maximise their adoption and impact; by supporting delivery of the Department's scientific capability through strategic research collaborations with private and public sector entities; and by investing in novel research inventions of the Department to provide transformational agri-innovations for Victorian agriculture.

During the past 14 years, AVS has invested in 17 new technology projects, with four new AVS project investments initiated during the past three years. This year the AVS investment fund performed strongly in line with investment performance indicators set by the AVS board for monitoring fund performance. At year end, AVS was managing nine active investment projects, including two new investment projects funded in 2016–17. One project will support Australian wheat growers. The second project will support development of a new bio-industry for the state.

In 2016–17, AVS played an important role in supporting the Department to devise route-to-impact strategies for several platform technologies and in the commercialisation of key patented IP assets. IP portfolio management by AVS was supported by robust IP and licensee evaluation processes, underpinned by sound IP protection strategy and commercialisation principles. This year the Company also broadened its knowledge of international ag-biosciences, ag-genomic and ag-biologicals technology markets and their key global players. This is essential for the Company to link the world-leading technology innovations and research capabilities of AVR through to farmers, via capable private entity intermediaries.

AVR undertakes innovation in transformational genetics in cereals, oilseeds, forage grasses and pulses in partnership with a number of route-to-impact partners. The Department undertakes this innovative research to enable Victorian farmers to overcome productivity and biosecurity challenges and help them compete in key export markets. Aligned with appropriate IP strategy and sound market valuation, AVS has this year continued to grant rights to research outcomes of the Department in a manner that optimises their economic impact and value to the state, and importantly, consistent with societal interests and expectations.

The Company holds a significant IP portfolio on behalf of the Department and other IP equity holders, represented by 63 patent family filings throughout 34 countries. The AVS patent portfolio comprises a broad range of plant genetics, genetic traits, biologicals and novel breeding methods and enabling technologies, for which AVS seeks to enter into commercialisation agreements that grant fair and reasonable IP access rights. This year AVS entered into several important technology collaboration and licence agreements that appropriately balanced our strategic objectives, commercial risks and the potential commercial returns to the state.

For example, in 2016–17 AVS helped the Department form the DairyBio R&D collaboration, a joint venture between AVR and Dairy Australia that will deliver large-scale improvements in the performance of pastures and herds through bioscience research and technology innovation development. Five project and technology licence arrangements were developed and entered into this year by AVS under the DairyBio program. AVS was also appointed as the IP management and licensing agent of the Department and Dairy Australia for the protection, management and commercialisation of future commercial outputs for four of the DairyBio agreements.

Several commercial licence agreements granting rights to AVR's Artificial Selection and Reagents patented invention were signed by AVS in 2016–17, enabling commercial application of this imputation technology for low-cost implementation of genomic selection. This included a technology licence signed with DataGene Ltd granting research and commercial rights to the AVS imputation patent for its use in dairy cattle to further enhance the genetic improvement of Australian dairy herds. Genomic selection is one of the most significant innovations of AVR scientists during the past decade and is continuing to revolutionise livestock and crop genetic improvement worldwide. The licence with DataGene enables the continued delivery of genomic breeding values to the Australian dairy industry and the continued global impact of genomic selection in dairy genetic improvement.

This year AVS continued to support the Department to assess, develop and negotiate R&D collaborations with major life science organisations and research groups in the Americas and Europe and to pursue technology route-to-impact opportunities. This area of AVS support for the Department will remain a key focus, given international R&D linkages are essential to exchange and capture value from complementary technology innovations globally – for local benefit.

In particular, AVS is increasingly focused on industry uptake of novel AVR inventions that support step-change improvements for agriculture, from genome to phenome to biomes, and on helping to translate AVR's science and technologies into smart agribusiness innovations. This year in these areas, AVS supported AVR in its identification and consideration of commercial and IP risks associated with new strategic partnerships and commercial R&D arrangements. In particular, AVS played a key role in helping to ensure that the bona fides of new commercial research collaborators were assessed appropriately; that legal agreements properly addressed potential risks to AVS and the Department; and that the commercial client interface with the Department was managed professionally, reasonably and responsively.

The strategic collaboration between AVS and Dow AgroSciences LLC remained strong this year, as shown by the continued advancement of joint, novel technologies developed from the foundation research projects in crops of importance to Australia. For example, a new sponsored R&D project was signed in 2016–17 between Dow AgroSciences LLC and AVS to support industry demonstration and delivery of Optimal Haploid Value (OHV) technology – an improvement on the Department's genomic selection technology – for specific pre-breeding trait applications of interest to canola breeding companies and growers in Australia.

AVS is well-positioned to continue to help protect and develop Victoria's innovation economy and its strong agriculture sector. The company's human resource and financial capital base will remain deployed in alignment with our corporate plan to achieve our strategic objectives. The company's role in supporting the Department, our IP co-owners, our technology licensees and our commercial R&D collaborators remains essential for assisting Victorian farmers to be globally competitive, innovative, resilient and diverse.

Fundamental to the performance and value of AVS is our ability to engage positively with the Department, in particular with AVR, in alignment with the Agriculture Victoria Strategy. In that light, I would like to acknowledge the work and collaborative support of AVR, its executive leadership and its world-class scientists and support staff.

Finally, I would like to express my sincere appreciation for the dedication and hard work of the entire AVS team this year, and for the support and guidance of the AVS board of directors.

D. Liesegang

**David Liesegang, Chief Executive Officer**
**Agriculture Victoria Services Pty Ltd**

# Board of directors

For the year ended 30 June 2017

**Dr Clive Noble (Chairman)**
BAgrSci (Hons), PhD, GAICD

Clive is managing director of AgInsight Pty Ltd, a consulting firm that provides science and technology advice to government, industry, universities and the private sector. Clive spent more than 30 years working in the public sector in agriculture and primary industries, most of this period as a senior executive. Clive's background is in research conduct, research and development strategy and management, corporate strategy, governance and technology commercialisation.

Clive joined the AVS board in 1998 and was appointed chairman of the Company on 1 August 2008. Clive is also a director of AVS subsidiary entity Phytogene Pty Ltd.

**Kathryn Adams (Director)**
BSc.Agr (Hons), LLM, M.Bus, M.Env. Stud, Prof Cert Arbitration, FAICD

Kathryn is an agricultural scientist and a lawyer. She has extensive experience in industry-focused R&D investment for agribusiness, having held senior executive and board positions in the public and private sectors, including chief executive officer of two R&D corporations and director of the Queensland Horticulture Institute.

Kathryn was the first registrar of Plant Breeder's Rights in Australia and an executive director with the Queensland Environment Protection Authority. After retiring she became a part-time senior research fellow with the Australian Centre for Intellectual Property in Agriculture (ACIPA) at Griffith University and is on a number of agribusiness boards. Kathryn is also a fellow of the Australian Institute of Company Directors.

**Dr Richard Aldous (Director)**
BSc (Hons), PhD, GAICD

Richard's background is in energy, resources, public policy and research management in both the public and private sectors. For 10 years he was a senior executive and then Deputy Secretary, Energy and Earth Resources at the Victorian Department of Primary Industries. He has also held senior executive roles in resource companies focused on exploration, research and development.

Richard has been a director of the Cooperative Research Centre (CRC) Association, chief executive officer of the CO2CRC and chairman of the CRC for Clean Power from Lignite. At present, he is chairing the Ministerial Advisory Council for Earth Resources in Victoria.

**Sandra (Sam) Andersen (Director)**
LLB, CPA, FAICD, F Finsia

Sam is the chair of the AVS Audit and Risk Management Committee.

Sam has held senior executive positions at the ANZ Bank, Commonwealth Bank and National Australia Bank. Sam has been chief financial officer and chief operating officer at several ASX-listed IT companies leading transformation initiatives, as well as managing director of a listed allied health services company. She currently serves as a director for a number of government, public unlisted corporations and member-owned organisations.

Sam is chair of the Australian Packaging Covenant Organisation Limited; a director of the Chisholm Institute, Beyond Bank Australia, Australian Hearing Services, and Melbourne Convention and Exhibition Trust; and chair of the Audit and Risk Management Committee for the Department of Premier and Cabinet, Victoria.

**Dr Amanda Caples (Director)**
BSc (Hons), PhD, GAICD

Dr Amanda Caples is Victoria's Lead Scientist with broad experience in technology commercialisation (including intellectual property management, licensing and joint ventures), public policy development and governance of public and private entities.

Most recently she has been Deputy Secretary, Sector Development and Programs, at DEDJTR, responsible for developing the Future Industries sector strategies and growth plan, and for supporting the Victorian science, innovation and entrepreneurial sectors.

Amanda has delivered research-led health initiatives, regulatory and legislative scientific reforms and has established international collaborative technology alliances.

**Peter Turvey (Director)**
BA/LLB, MAICD

Peter is a member of the AVS Audit and Risk Management Committee and is chairman of the AVS subsidiary Phytogene Pty Ltd.

Peter is the former Group General Counsel, Company Secretary and Executive Vice-President Licensing of specialty biopharmaceutical company CSL Ltd, having retired in 2011. He is currently a principal of Foursight Associates Pty Ltd, and a non-executive director of Starpharma Holdings Ltd, and Viralytics Ltd.

Peter played a key role in the transformation of CSL from a government-owned entity through Australian Securities Exchange listing in 1994 to the global plasma and biopharmaceutical company that it is today. He was also responsible for the protection and licensing of CSL's intellectual property and for risk management within CSL.

# Review of financial performance

This section provides a five-year financial summary and overview of the 2016–17 year for AVS and its subsidiary.

## Summary

Full financial performance details for the 2016–17 year are shown in the accompanying financial statements.

A consolidated five-year financial summary for AVS and its subsidiary is provided in the following table.

**Table 1:** Five-year financial summary

**($ thousands)**

| Five-year financial summary | 2016–17 | 2015–16 | 2014–15 | 2013–14 | 2012–13 |
|---|---|---|---|---|---|
| Total income from transactions | 17,250 | 19,666 | 20,488 | 17,032 | 19,275 |
| Total expenses from transactions | (14,405) | (16,170) | (18,434) | (16,100) | (18,079) |
| Net result from transactions | 2,845 | 3,496 | 2,054 | 932 | 1,196 |
| Net result for the period | 2,978 | 3,512 | 1,812 | 772 | 1,198 |
| Net cash flows from operating activities | 4,771 | 1,896 | (2,705) | 5,548 | 450 |
| Total assets | 28,912 | 23,926 | 21,707 | 24,462 | 19,936 |
| Total liabilities | 8,961 | 6,952 | 8,245 | 12,812 | 9,058 |
| Net assets | 19,951 | 16,974 | 13,462 | 11,650 | 10,878 |

## Overview

*Net result for the period*
In 2016–17, AVS achieved a net result of $3 million which reflects the strong performance of the AVS investment portfolio during the past three years. The net result in 2015–16 was $3.5 million and in 2014–15 was $1.8 million.

*Net assets*
The investment portfolio performance means that total net assets are now at the highest level in the Company's history at $20 million. Net assets in 2015–16 were $17 million and in 2014–15 $13.5 million.

*Royalty income*
Royalty income at $8.2 million for 2016–17 is the second highest in AVS' history. Royalty income in 2015–16 was $8.7 million and in 2014–15 was $7.7 million.

*AVS investment portfolio*
The strong performance of the AVS investment portfolio has enabled AVS to invest $1.1 million in the Department's research into potential future technologies, namely OHV Canola, ExZact Wheat, OHV Wheat and SaffBio.

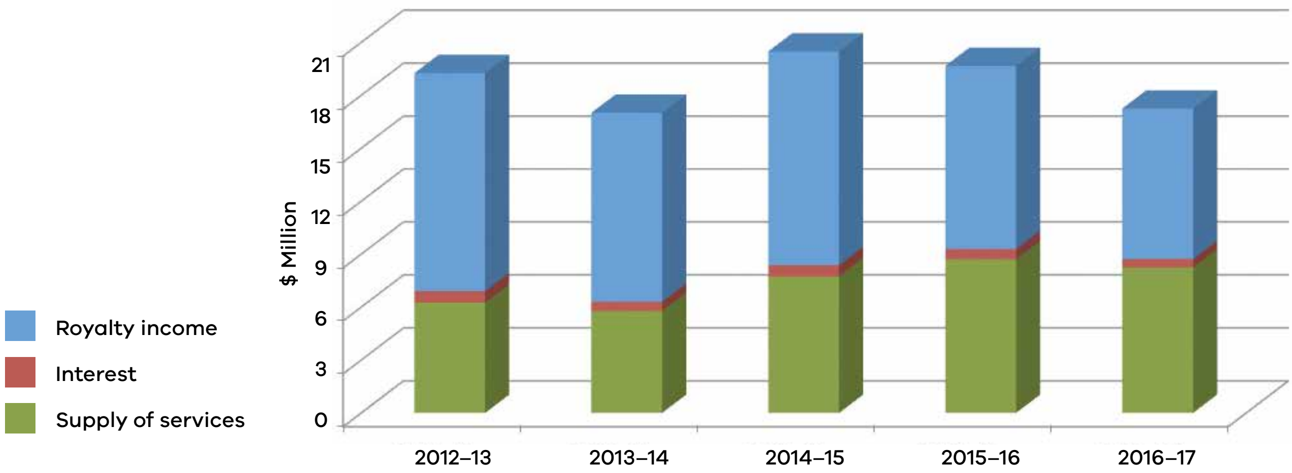
*Net result from transactions*
The net result from transactions is an appropriate measure of financial management and performance. The net result from transactions excludes other economic flows, which include asset impairments and revaluations.

In 2016–17, AVS achieved a net result from transactions of $2.8 million (2015–16: $3.5 million).

*Total income from transactions*
The five-year total income from transactions includes the royalty income, interest revenue and supply of services and is summarised in the following graph.

**Review of financial performance** continued

**Figure 1:** Five-year total income from transactions




**Interest income** is interest earned on financial assets.

The **supply of services** includes services provided by AVS to the Department, contracted research revenue where AVS acts as agent on behalf of the Department, and the recovery of IP costs. The supply of services in 2016–17 is $8.5 million, which is $1.9 million less than $10.4 million in 2015–16, primarily due to several large contracts concluding.

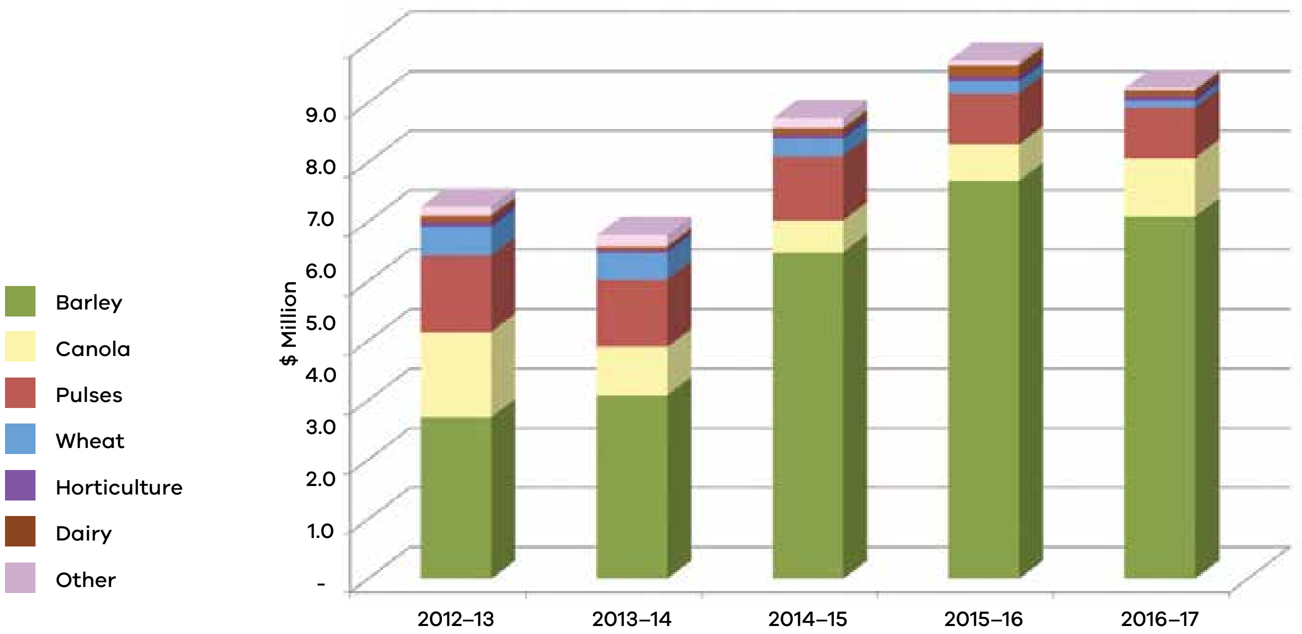
**Royalty income** is at $8.2 million for 2016–17 which is the second highest in AVS' history. This includes AVS retained royalty revenue and royalty revenue collected on behalf of and distributed to IP equity holders including the Department.

Royalty income during the past three years is at record levels. Royalty income in 2015–16 was $8.7 million and in 2014–15 was $7.7 million. Average royalty income during the past three years exceeds the prior three-year period by 66 per cent.

The graph below presents the **royalty income** by AVS plant species (variety) type during the past five years.

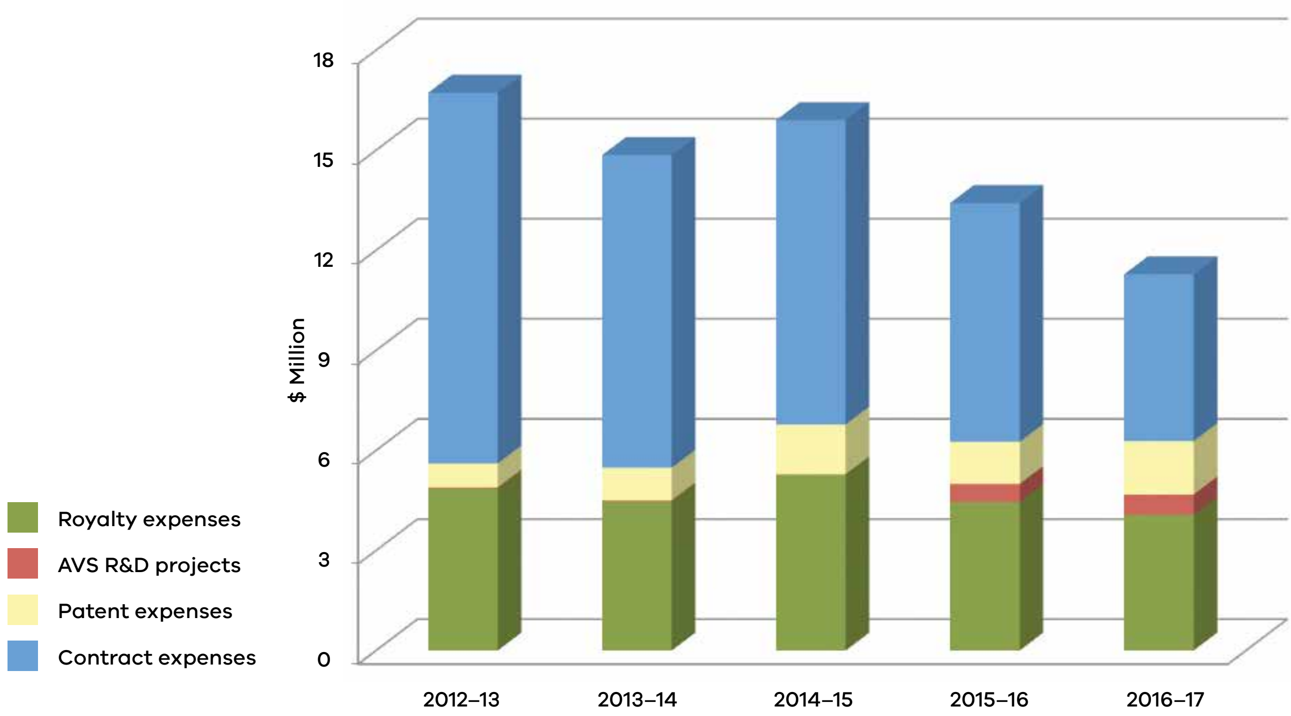
AVS' herbicide-tolerant barley varieties continued to deliver the majority of royalty receipts this year, accounting for $6.1 million of the $8.2 million in royalty income in 2016–17 and $6.7 million of the $8.7 million in 2015–16).

**Figure 2:** AVS five-year royalty income



**Review of financial performance** continued

**Figure 3:** AVS five-year research, royalty and patent expenses




### AVS research investment, royalty, patent and contract expenses

A five-year research investment, royalty, patent and contract expenses summary is provided in the graph above.

Research investment, royalty, patent and contract expenses make up the largest expenditure item.

**Royalty expenses** represent the distribution of royalty revenue to IP equity holders including the Department. A total of $4.1 million was distributed in 2016–17 (2015–16: $4.5 million).

**AVS R&D (investment) project expenses** represent investments made by the AVS investment fund in research projects of the Department. These research projects are expensed to the operating statement as distinct from development projects that are capitalised in the balance sheet. In 2016–17 research investments amounted to $606,000 and included OHV Canola, ExZact Wheat, OHV Wheat and SaffBio. (In 2015–16 research investments amounted to $543,000 and included OHV Canola and ExZact Wheat & Forages.

**Patent expenses** represent intellectual property registration expenses for the protection of the IP assets of AVS, the Department and other IP equity holders. In 2016–17 patent expenses amounted to $1.6 million (2015–16: $1.3 million).

**Contract expenses** represent funds collected by AVS (as agent for the Department) and paid to the Department for the provision of contracted research services by the Department to commercial third parties. In 2016–17 contract expenses amounted to $5 million. This is $2.2 million less than the amount of $7.2 million in 2015–16, primarily due to several large contracts concluding.

### Alternative presentation – net surplus after IP and contract agency distribution

As third-party recoverable *IP income and expenses* and *contract income and expenses* cause variability in AVS income and expenditure (with no financial impact on the net result from transactions), the net surplus after royalty, IP and agency distribution enables AVS to present its underlying financial performance for the year.

The following table shows the net surplus after royalty, IP and agency distribution, net of all third-party associated income and expenses.

**Review of financial performance** continued

**Table 2:** 2016–17 year in review

($ thousands)

| | 2016–17 | | | 2015–16 | | |
|---|---|---|---|---|---|---|
| | Net | Income | Expenses | Net | Income | Expenses |
| AVS net royalties | 4,172 | 8,245 | 4,073 | 4,257 | 8,712 | 4,455 |
| Supply of services (net AVS) | 1,935 | 8,534 | 6,599 | 1,956 | 10,374 | 8,418 |
| Contracted research projects | (606) | n/a | 606 | (543) | n/a | 543 |
| AVS interest income | 471 | 471 | n/a | 580 | 580 | n/a |
| Total income from transactions (a) | | 17,250 | | | 19,666 | |
| Total R&D, royalty and patent expenses (b) | | | 11,278 | | | 13,416 |
| Net surplus after royalty, IP & agency distribution (c) | 5,972 | | | 6,250 | | |

(a) minus (b) equals (c)

**AVS net royalties** (after distributions to IP equity holders, including the Department) in 2016–17 is $4.2 million. This is the second-highest net royalty result in AVS' history, with 2015–16 being the highest at $4.3 million.

The **supply of services (net AVS)** is $1.9 million in 2016–17 (2015–16: $2 million). Supply of services (net AVS) includes services provided to the Department and does not include contract revenue and expenditure transmitted on behalf of contract parties (including the Department) and patent and IP expenses recovered from non-AVS equity holders.

**AVS research investment project** expenses are included in R&D, royalty and patent expenses.

**Interest revenue** is included in total income from transactions.

**Surplus after royalty, IP and agency distribution** is $6 million in 2016–17 (2015–16: $6.3 million). This demonstrates a relatively consistent underlying result.

### Funding delivery of AVS services

The table below shows the AVS net result with application of the surplus after royalty and agency distribution in 2016–17.

**Table 3:** AVS net financial performance

($ thousands)

| Five-year financial summary | 2016–17 | 2015–16 |
|---|---|---|
| Surplus after royalty, IP and agency distribution | 5,972 | 6,250 |
| Employee expenses | (1,735) | (1,685) |
| Depreciation | (66) | (87) |
| Interest expense | (1) | – |
| Operating expenses | (1,324) | (981) |
| **Net result from transactions (net operating balance)** | **2,845** | **3,496** |
| Other economic flows | 132 | 14 |
| **Net result** | **2,977** | **3,512** |

**Employee expenses** increased by 3 per cent in 2016–17, in line with expectations and the annual wage increase provided in the current Victorian Public Sector Enterprise Bargaining Agreement.

**Operating expenses** for 2016–17 amounted to $1.3 million compared with $1 million in 2015–16. The increase of $343,000 was primarily driven by a program of strategic initiatives undertaken during 2016–17. The program included IP strategy development, target partner identification, business case development, capability and succession planning, office relocation planning, stakeholder engagement planning, investment modelling, website optimisation and a uniform employment conditions project.

**Review of financial performance** continued

Table 4: Five-year AVS investment fund performance

($ thousands)

| Five-year investment fund performance | 2016–17 | 2015–16 | 2014–15 | 2013–14 | 2012–13 |
|---|---|---|---|---|---|
| Royalty income | 8,245 | 8,712 | 7,743 | 5,779 | 6,257 |
| Royalty expenses | (4,073) | (4,455) | (5,290) | (4,468) | (4,860) |
| AVS investment fund return | 4,172 | 4,257 | 2,453 | 1,311 | 1,397 |
| AVS research investment projects | 606 | 543 | – | 33 | 31 |
| Net result from transactions | 2,845 | 3,496 | 2,054 | 932 | 1,196 |
| Net assets | 19,951 | 16,974 | 13,462 | 11,650 | 10,878 |

### AVS investment fund performance

The five-year AVS investment fund performance is provided in the table above. The table also shows the annual net result from transactions and net assets during the past five years.

The strong performance of the AVS investment fund during the past three years has resulted in:

- an increase net result from transactions to $2.8 million in 2016–17 (2015–16: $3.5 million; 2014–15: $2.1 million)
- an increase net assets by $3 million in 2016–17 (2015–16: $3.5 million; 2014–15: $1.8 million)
- investment of $1.1 million in four investment projects (OHV Canola, ExZact Wheat, OHV Wheat and SaffBio)

### Financial position – balance sheet

Net assets increased by $3 million in 2016–17 to $20 million (2015–16: $17 million). This is primarily due to increases in total assets of $5 million and an increase in total liabilities of $2 million.

The increase of $5 million in total assets comprises an increase of $4.9 million in financial assets and an increase of $0.1 million in non-financial assets.

The increase in financial assets reflects the increase in cash and deposits to $26.9 million in 2016–17 from $22.1 million in 2015–16.

The increase of $2 million in total liabilities relates to an increase in trade creditors of $1.5 million, an increase in the amount payable to the Department of $300,000 and an increase in other payables and accrued expenses of $200,000. The increase primarily relates to the timing of royalty distributions in 2016–17.

### Cash flows

The overall cash surplus of $4.8 million for the 2016–17 financial year is a net increase of $2.9 million compared with the surplus of 2015–16. This additional cash is the result of a large net cash inflow from operating activities of $4.8 million, primarily relating to the timing of royalty distributions in 2016–17.

# Review of operational performance

This section summarises key achievements for the 2016–17 financial year in alignment with the Company's three strategic objectives, as set out in the AVS corporate plan:

1. Provide IP and commercial services to maximise the impact of technologies and R&D capabilities
2. Ensure IP and commercial risks are well-managed and the state's interests are protected
3. Enhance and accelerate the adoption of technologies with support from AVS investment.

## Intellectual property and commercial services

In 2016–17, AVS contributed to maximising the impact of agricultural technologies and research capabilities by undertaking the following core IP and commercial management services:

- IP protection and portfolio management for maximising industry benefits from agricultural inventions
- technology assessment and valuation in guiding IP strategy and commercialisation decision-making
- technology commercialisation for maximising industry adoption through private route-to-impact partners
- legal review, negotiation and establishment of commercial agreements that have effectively balanced agricultural research aims with the prospect for financial returns and contractual risks
- prospective collaborative R&D and licence partner assessment and due diligence analysis
- interfacing with local and global private sector partners to manage major R&D collaborations
- governance of several commercial IP joint ventures and new collaborative R&D entities.

**AVS IP portfolio**

Inventions held by the Company are represented by 506 patent filings in 34 countries and comprise a broad range of bioscience and agricultural technologies.

The scientific research of the Department's Agriculture Victoria Research division (AVR) is aimed at developing and disseminating technologies for the economic benefit of the Australian dairy, grains, red meat and horticulture industries.

AVS patent filings are increasingly related to the genetic improvement of plants and animals that are important to Victoria, pest and disease management, and novel molecular technologies for the analysis of microbiomes in association with plants and animals.

Related AVS patented inventions include bioactive compounds, fungal endophytes, genomic and molecular methods for improving plant productivity, tools for improved plant and animal breeding, and desirable traits for plants.

Several of the Company's more recent filings relate to inventions that support accelerated precision breeding of crops such as wheat, canola, field peas, lentils, forage grasses and several horticulture species.

AVS has also filed and acquired Plant Breeder's Rights (PBR) registrations in Australia for several plant cultivars previously bred by AVR. These PBR registrations relate to varieties of cereals (e.g. wheat and barley), canola and forage grasses (e.g. perennial ryegrass), along with new varieties of pears, strawberries, peaches and potatoes.

AVS holds several trademarks related to its businesses and AVR outputs. Most of these are held in Australia with several trademarks registered in Europe, New Zealand, United States and Indonesia.

The table below summarises the AVS IP portfolio held at 30 June for the past seven years.

**Table 5:** AVS IP portfolio from 2010 until 30 June 2017

| AVS portfolio | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15 | 2015–16 | 2016–17 |
|---|---|---|---|---|---|---|---|
| Patented inventions (patent families) | 61 | 67 | 70 | 60 | 61 | 63 | 65 |
| Plant Breeder's Rights | 54 | 52 | 56 | 58 | 54 | 53 | 56 |
| Trademarks | 12 | 11 | 12 | 12 | 15 | 14 | 14 |

**Review of operational performance** continued

**Figure 4:** Geographic representation of AVS IP portfolio


### IP registration achievements

AVS lodged 12 patent filings during 2016–17.

These filings comprised new research inventions by AVR, as well as extensions and variations to existing patents that enhanced their technical and geographic coverage.

Two such recent patent filings relate to the deployment of novel fungal endophytes in forage grasses.

Another recent patent filing describes novel methods to identify, characterise and use endophytes associated with forage grasses.

Five PBR applications were filed in 2016–17. All were individual PBR applications for new potato varieties bred by AVR.

Three of the new potato varieties display purple flesh: they have now been commercially released and are being sold to consumers in Australia as purple crisps.

### Technology commercialisation achievements

The following activities in 2016–17 relate to the licensing of AVS IP rights associated with AVR research outputs to maximise technology adoption by industry and deliver economic benefits to Victoria.

"DairyBio represents a five-year commitment to dairy bioscience innovation. By applying a range of new technologies, the program intends to deliver large-scale improvements in the performance of dairy forages and herds."

In July 2016 several project and licence arrangements were initiated under the new DairyBio program – a joint venture between the Victorian Government (through the Department) and Dairy Australia.

DairyBio represents a five-year commitment to dairy bioscience innovation. By applying a range of new technologies, the program intends to deliver large-scale improvements in the performance of dairy forages and herds.

Pasture and herds are the key drivers of profitability for the Australian dairy industry. To that end, the DairyBio initiative is expected to deliver transformational genetic innovation in pasture and dairy cattle. The initiative will advance and commercialise technology innovations that are anticipated to help increase Australian forage grass

**Review of operational performance** continued

productivity by $800 per hectare per year and to raise the productivity of Australia's dairy herd by $350 per head per year.

In 2016–17, AVS licensed several key AVR technology inventions to the DairyBio initiative. AVS was also appointed as the IP management and licensing agent by the Department and Dairy Australia to protect, manage and commercialise the future commercial outputs from the inaugural DairyBio forage project agreements signed in 2016–17. Four DairyBio forage project agreements were signed with Heritage Seeds, specifically for R&D to be conducted by AVR to:

- deploy a novel F1 hybrid breeding scheme for the development of world's first hybrid varieties in perennial ryegrass, and deploy accelerated breeding technologies (i.e. genomic selection and genome editing) supported by high-throughput phenomic technologies in perennial ryegrass
- develop next-generation elite endophyte strains (using ExZact genome editing technology) that are stable, broadly compatible, animal safe, pest deterrent and have low to no regulatory burden
- develop and deploy a novel F1 hybrid breeding scheme for short-term ryegrasses
- develop an F1 hybrid breeding scheme for tall fescue as well as tall fescue elite germplasm for increased digestibility using ExZact genome editing.

AVS also licensed several key AVR technology inventions for the inaugural DairyBio animal (herd) project agreement signed with CRV International BV (The Netherlands). AVR will undertake this research project to help accelerate the rate of genetic gain in dairy cows by improving the reliability and robustness of genomic breeding values, with a focus on traits that significantly contribute to dairy farmer profits.

Genomic selection is one of the most significant innovations from AVR which is continuing to revolutionise livestock and crop genetic improvement worldwide. Three commercial licence agreements granting rights to the AVR's *Artificial Selection and Reagents* patented invention on imputation technology for low-cost implementation of genomic selection (imputation patent) were signed by AVS in 2016–17. These were:

- A technology licence signed with DataGene Ltd granting research and commercial rights to the imputation patent for its use in dairy cattle to enhance the genetic improvement of the Australian dairy herd. This licence enables the continued delivery of genomic breeding values to the Australian dairy industry and the continued global impact of genomic selection in dairy genetic improvement
- A technology licence signed with CRV BV granting research and commercial rights to the imputation patent for its use in The Netherlands and Belgium in CRV dairy herd improvement programs
- A research and commercial licence signed with CSIRO for it to use Australian patent application no. 2007335195 (*Artificial Selection and Reagents*). As a result of signing this licence, CSIRO discontinued an appeal to the Federal Court of Australia relating to a decision of the Delegate of the Commissioner of Patents (VID705/2016) on this patent. The patent subsequently proceeded to grant.

AVS undertakes innovation in transformational genetics in cereals, oilseeds and pulses in partnership with a number of route-to-impact partners.

A new sponsored R&D project requiring the use of key AVS intellectual property was signed in 2016–17 between Dow AgroSciences LLC and AVS. The project will support industry to demonstrate the value of Optimal Haploid Value (OHV) technology – which provides a method to select the optimal parental genetics for plant breeding. OHV is of potential interest to commercial canola breeding companies in Australia. Dow AgroSciences has previously collaborated with AVS in jointly developing the OHV technology.

A licence for the OHV technology was signed between AVS, Dow AgroSciences, Boyce Thomson Institute (BTI) and Cornell University. This licence provides BTI and Cornell University with rights to the non-profit use of OHV technology in cassava to support cassava production and contribute to global food security. The OHV technology is deployed in a humanitarian project on cassava genetic improvement for Africa, funded by the Gates Foundation.

AVS signed a licence agreement with Agrigenetics Inc. for the release of canola parental germplasm lines. AVR developed the parental lines in association with the Grains Research and Development Corporation (GRDC) under the National Brassica Germplasm Improvement Program (NBGIP).

A plant variety licence agreement was signed between AVS and Landmark Operations Limited (trading as Seednet) to further exploit the malting barley variety, Hindmarsh. This will enable the variety's commercial benefits to continue to be realised by Australian barley growers. Hindmarsh was bred by AVR and is broadly adapted to several key barley growing areas of south-eastern Australia.

AVS signed an evaluation and licence option agreement with Abel Agrico International, granting rights to several new potato varieties developed by AVR with support from Horticulture Innovation Australia Limited (HIAL) and Abel Agrico International.

A licence was signed between Eleos Technologies Pty Ltd and AVS to provide Eleos with rights to a knowledge management solution, developed by AVR, which connects databases and database-driven information technology (IT) systems. Known as the Enhanced Metadata Management Application (EMMA) registry and repository system, EMMA provides a single point of access to all of an organisation's knowledge, information and data. Eleos is a Victorian ICT company that will license EMMA technology to make organisational knowledge more discoverable through improved information sharing and navigation across ICT systems.

## IP and commercial risk management support

In 2016–17, AVS protected Victoria's interests by providing the following IP and commercial risk management services for the Department:

- identifying IP associated with AVR R&D and assisting with IP route-to-impact assessments
- supporting and guiding IP protection decision-making, registration, defence and route-to-market strategy
- developing, reviewing and helping to negotiate important strategic partnership agreements for innovation.

### IP evaluation and identification

In 2016–17, AVS provided specialist IP identification and evaluation support services to the Department by guiding IP protection decision-making and portfolio management of important IP assets for Victoria. AVS regularly provided specialist advice on IP protection considerations and route-to-impact strategy options for novel research outcomes, including:

"In 2016–17, AVS provided specialist IP identification and evaluation support services to the Department by guiding IP protection decision-making and portfolio management of important IP assets for Victoria."

- the protection and commercialisation of a horticulture wrapping material
- novel endophytes and related bioactives
- biological control agents to control weeds
- essential oil compounds to inhibit fungal growth.

AVS provided its IP knowledge and capabilities to support AVR on various IP matters, including presentations on approaches for effective identification and registration of background IP contributions to, and project IP arising from, agriculture research projects.

### Commercial R&D contract management

In 2016–17, AVR established Australia's first facilities for the cultivation, production and manufacture of medicinal cannabis, under Good Manufacturing Practice (GMP) accreditation. The facilities will produce medicinal cannabis suited to specific therapeutic uses and will help build a new bio-industry in Australia.

To support the Department in developing a medicinal cannabis bio-industry in Victoria, AVS and Cann Group Limited signed three technical service agreements in relation to AVR providing technical services and AVS providing proprietary medicinal cannabis strains to the Cann Group.

In 2016–17, AVS also entered into several other contract research agreements with the private sector on behalf of the Department, including the following:

- barley and wheat disease screening
- seed cleaning, seed testing and seed evaluation
- forage grass endophyte diagnostics
- crop-health surveys
- phylloxera surveillance studies
- viricide screening for horticulture applications
- pre- and post-harvest fruit handling for canning peaches

- integrated pest management for carpophilus beetle
- soil, plant and water monitoring for the dairy industry
- dairy effluent farm planning
- satellite-based estimation of Mallee crop water use and root zone drainage
- Murray–Darling Basin salinity management of the Campaspe, Ovens and Kiewa river catchments.

## Collaborative R&D guidance and support

In 2016–17, AVS was required to review commercial and non-commercial agreements for several Department R&D collaborations to help identify contractual and IP risks and advise on their management.

AVS expertise in legal, commercial and IP matters was applied to bring to completion a broad range of agreement types to support exploratory R&D collaborations. These included research funding agreements, material transfer agreements, research subcontracts, fee-for-service agreements, confidentiality agreements and memoranda of understanding.

## AVS investment fund

Through the investment of Company funds, AVS enhances and accelerates the commercial development and adoption of AVR's innovations. The investment of AVS funds to advance and commercialise AVR-created technologies has been a central element of the Company's business since its formation in 1986.

### AVS investment portfolio

Strategic Objective 3 of the AVS corporate plan reflects the importance of the Company's investment function in advancing industry adoption of technology inventions arising from agricultural research.

The AVS investment function and available funds are managed by the AVS investment Committee, which meets on a regular basis to consider new investment opportunities, review and monitor the performance of existing investment projects, and plan for the financial resources necessary to deliver future investment opportunities.

As at 30 June 2017, AVS has nine active investment projects and has invested in 19 technology enhancement projects during the past 14 years. See the *Current investment project status* section on page 22 for a detailed review of each active project. The following table briefly summarises the current investment projects.

**Table 6:** Summary of AVS investment fund active projects, objectives and expenditures

| Investment fund projects | Key objective of investment project | Project expenditure treatment |
|---|---|---|
| 1. Phytogene Pty Ltd | Phytogene is a biotechnology start-up company wholly owned by AVS that was incorporated to commercialise a proprietary and patented delayed plant leaf senescence technology, with the trademark LXR. The technology has potential application in a wide range of crops to increase their yield and provide drought tolerance. | Development project – reported in the AVS Balance Sheet as an investment in wholly owned subsidiary |
| 2. Primary Oilseeds | Primary Oilseeds aims to deliver canola germplasm and elite new canola varieties in Australia through three genetic trait pipelines: conventional (non-herbicide-tolerant) canola cultivars; triazine-tolerant canola cultivars; and imidazolinone-tolerant canola genetics. | Development project – reported in the AVS Balance Sheet as an intangible asset |
| 3. AVS HOLL Canola | AVS HOLL Canola aims to develop High Oleic, Low Linolenic (HOLL) canola hybrids with tolerance to key herbicides. Oil produced from HOLL canola offers improved shelf-life and stability at high temperatures due to its oxidative stability, as well as lower saturated 'trans' fats. | Development project – reported in the AVS Balance Sheet as an intangible asset |

**Review of operational performance** continued

| Investment fund projects | Key objective of investment project | Project expenditure treatment |
|---|---|---|
| 4. Herbicide-Tolerant (HT) Barley | The initial project aimed to establish herbicide tolerant (HT) barley cultivars to enable farmers to better manage weeds and provide a new crop rotation option. With proof of concept established and the world's first HT barley variety in the market, a second phase of the project seeks to further maximise adoption of HT barley genetics for the benefit of Australian barley growers. | Research project – expenditure charged against the income statement in the year incurred |
| 5. Herbicide-Tolerant (HT) Lentils | The HT Lentils project aims to develop and commercially release elite, new lentil cultivars with tolerance to a class of important herbicides for Australian and Victorian lentil growers. | Research project – expenditure charged against the income statement in the year incurred |
| 6. Blackleg Tolerant Canola (OHV Canola) | Blackleg Tolerant Canola (OHV technology) aims to validate, de-risk and demonstrate the value of a new technology for use in canola pre-breeding applications by commercial breeding companies in Australia. | Research project – expenditure charged against the income statement in the year incurred |
| 7. Genome Edited Wheat and Forages | This project aims to develop and validate platform technology for wheat to enable ExZact™ precision genome editing technology to be directly deployed in elite wheat germplasm. It also aims to develop new forage product innovations for the dairy industry by applying ExZact™ precision genome editing technology. | Research project – charged against the income statement in the year incurred |
| 8. Russian Wheat Aphid Tolerant Wheat (OHV Wheat) | This project aims to develop, implement and demonstrate the efficacy of OHV technology selection methods. The new OHV methods will be made available to commercial wheat breeders as a tool to accelerate the development of new wheat varieties with resistance to Russian wheat aphid, while simultaneously increasing genetic gain for yield, rust disease resistance and other breeding traits. | Research project – charged against the income statement in the year incurred |
| 9. Novel Safflower Transformation (SaffBio) | This project aims to establish a novel transformation system for safflower that will enable the generation of new safflower plant events producing biomolecules with industrial and agricultural applications. This investment will also seek to advance AVS RNAse5 technology for animal production and related health benefits. | Charged against the income statement when incurred |

Review of operational performance continued

"The four new AVS investment projects reflect a gradual shift toward the development by AVR of transformational technology innovations that will enable significant and accelerated rates of genetic gain in strategic crops of importance to Australia and the state, such as wheat, canola and forage grasses."

Of the nine active investments, four are in their early stages of development – with AVS having committed to their funding during the past three years, namely:

- Blackleg Tolerant Canola (OHV Canola), which began during the 30 June 2015 financial year
- Genome Edited Wheat and Forages, which began during the 30 June 2016 financial year
- Russian Wheat Aphid Tolerant Wheat (OHV Wheat), which began during the 30 June 2017 financial year
- Novel Safflower Transformation (SaffBio), which began during the 30 June 2017 financial year.

The four new AVS investment projects reflect a gradual shift toward the development by AVR of transformational technology innovations that will enable significant and accelerated rates of genetic gain in strategic crops of importance to Australia and the state, such as wheat, canola and forage grasses. In addition, these platform-based technologies will have broad industry applications for the economic benefit of the state.

### Investment fund performance

Key indicators used by AVS to measure the performance of the AVS investment fund are provided in the table below:

**Table 7:** Summary of AVS investment fund performance

| Investment fund indicator | Performance (2016–17) | Performance (2015–16) |
|---|---|---|
| Value of the AVS investment portfolio (NPV) | In 2016–17, the investment fund NPV (excluding subsidiary entity Phytogene) amounted to $23.9 million, representing an increase of $6.2 million or 35 per cent on the prior year. The increase in NPV is due to the inclusion of the NPV values of two new investment projects and the upward NPV revision of an existing investment project.<br>In 2016-17, the investment fund NPV for the subsidiary (Phytogene) amounted to $18.1 million. | In 2015–16, the investment fund NPV (excluding subsidiary) amounted to $17.7 million.<br>In 2015–16, the investment fund NPV for the subsidiary (Phytogene) amounted to $29.6 million. |
| Projects that attract private sector investment | In 2016–17, eight out of nine active projects had attracted private sector investment, with co-investment plans for the most recent project (SaffBio) in place. | In 2015-16, all seven active projects had attracted private sector investment. |

**Review of operational performance** continued

| Investment fund indicator | Performance (2016–17) | Performance (2015–16) |
|---|---|---|
| Projects that generate new products | As anticipated, in 2016–17, no new commercial products were released to the market by investment fund technology licensees. Four of the nine current active investment projects have been successful in generating commercial products, while a fifth project has a product undergoing commercial field trials (with release subject to regulatory approval).<br>As noted above, the remaining four projects are relatively new and product release by licensees is not expected for some time. | 2015–16 saw two new commercial product releases from investment projects. 2016–17 forecast no new commercial product releases. |
| Financial return on AVS portfolio funds invested | In 2016–17, the annual financial return to AVS on all funds invested was 46 per cent. | In 2015–16, the annual return on all funds invested was 47 per cent. |

The fund performed in line with the investment performance measures established by the board, with projects attracting significant private sector investment in technology development and products in the market continuing to deliver impact for Australian farmers. Returns to AVS will ensure the fund is able to support further investment.

### Current investment project status

See below for background summaries and annual highlights for each of the Company's current investment projects.

***Phytogene Pty Ltd***

Phytogene Pty Ltd is a wholly owned subsidiary company of AVS. The company's purpose is to commercialise a proprietary and patented delayed plant leaf senescence technology, with the trade mark LXR®. The technology has a wide range of potential applications for major plant crops by increasing dry matter production, seed yield and drought tolerance. Phytogene also holds exclusive commercialisation rights to another yield-enhancing trait – biomass enhancement technology (BET) – which is complementary to the LXR® technology and was developed by AVR and the former Molecular Plant Breeding CRC.

Following early seed funding from AVS, Phytogene has been financially self-sufficient since 2008 with payments received from licensees providing sufficient funding to support its operations.

Glasshouse and field trial results to date have provided proof of concept for LXR® in the dicotyledonous species alfalfa, canola and white clover. Proof of concept in a monocotyledonous species has most recently been demonstrated in wheat through extensive field trials of the LXR® and BET trait technologies. The trials were conducted by AVR for Phytogene in 2014–15 and 2015–16. Results from LXR®-BET wheat field trials showed yield gains that ranged between 10 and 30 per cent in irrigated conditions and up to 60 per cent under drought (rain-fed) conditions.

In 2016–17, Phytogene's commercial licensee for LXR® alfalfa in Argentina, The Instituto de Agrobiotechnologia de Rosario (INDEAR), conducted field trials to collect data to support an application for regulatory approval of commercial release of LXR® alfalfa in Argentina.

In 2016–17, INDEAR and Phytogene signed a material transfer agreement for INDEAR to begin the development and evaluation of triple-trait stacked LXR® alfalfa varieties for Argentina, Uruguay and Brazil. INDEAR is planning to introduce two important agronomic traits for alfalfa (alfalfa mosaic virus resistance and aluminium tolerance) to complement and enhance the value proposition of LXR® technology in South America, in particular for the Brazil market. During the year, Phytogene and INDEAR also signed a material transfer agreement for INDEAR to evaluate LXR® wheat events in Argentina.

**Review of operational performance** continued

Phytogene maintains a strong intellectual property portfolio of LXR® and BET patents comprising 31 granted patents, with an additional seven under examination. In 2016–17, Phytogene continued to strengthen the IP portfolio with the granting of LXR® and BET patents in several countries.

The Brazilian modified promoter LXR® patent was granted in May 2017, while all other modified promoter LXR® applications are under examination. The original LXR® technology patents have now been granted in all 11 countries except Brazil. The BET patent was granted in November 2016 in Mexico and has now been granted in nine countries. The patent is being examined in another 17 countries. A patent for the Improved Biomass Enhancement Technology (BET-CIP) was granted in Mexico in November 2016.

Phytogene continues to maintain a low-cost structure while it builds value in its technology and seeks further commercial opportunities, particularly in crops of strategic importance to Victoria. As a result, Phytogene has been able to meet the operating loss of $68,866 incurred in 2016–17 from its own internal cash resources. Internal cash reserves provide sufficient funds to support Phytogene's operations for at least the next two years, after which time commercial income is projected to ensure the company's ongoing financial viability.

***Primary Oilseeds***

Primary Oilseeds is an oilseed cultivar development and commercialisation program that has delivered elite *Brassica napus* canola germplasm and varieties through three genetic trait pipelines: conventional (non-herbicide-tolerant) canola cultivars, triazine-tolerant canola cultivars, and imidazolinone-tolerant canola parental lines.

Investment provided by AVS over a four-year period was completed in 2007 when, in alignment with departmental policy for investment in plant breeding, the Department divested from canola varietal development – shifting to germplasm enhancement. AVS implemented a transition process which resulted in the successful transfer of canola varietal development activities and IP rights from the state to the private sector. AVS and the Department receive royalties from commercialisation of related canola cultivars by private sector partners.

This project has been highly successful through its facilitation of the growth of a viable commercial canola breeding capacity in the private sector and through its generation of financial returns to help sustain the AVS investment fund.

***AVS HOLL Canola***

The AVS HOLL Canola investment project was established to develop High Oleic, Low Linolenic (HOLL) Brassica napus canola hybrids with tolerance to key herbicides. Oil produced from HOLL canola offers improved shelf-life and stability at high temperatures due to its oxidative stability, as well as lower saturated 'trans' fats.

The Company's original co-investment with Cargill Inc. enabled the co-development of improved conventional and new herbicide-tolerant 'Victory' HOLL canola hybrids, primarily for Australian and North American production areas.

The collaboration has resulted in the release by Cargill of new commercial canola varieties in Australia with proprietary HOLL canola traits that offer value to the food and food processing sectors based on the product's health benefits to consumers. Current variety releases include the conventional hybrid HOLL variety, Victory V3002, and the Round-Up Ready® herbicide-tolerant hybrid HOLL variety, Victory V5002.

In 2016–17, the Victory Round-Up Ready® HOLL canola variety, Victory V5003, continued to replace Victory V5002 due to its improved blackleg resistance. Several other Victory HOLL canola hybrids are being evaluated for potential release in the next three to five years, with the outlook for continued grower adoption of Victory HOLL canola technology remaining promising.

***Herbicide-Tolerant (HT) Barley***

Weed control is a key issue in Australian grain production, including in barley crops. Effective chemical weed control is desirable to maximise production of the crop and limit the need for mechanical cultivation and its resultant damage to soil structure and erosion. In barley cropping systems, a greater range of herbicides to control the full spectrum of relevant weeds is considered highly advantageous to cereal growers. With this aim, AVS originally invested in an R&D project by AVR for the development of herbicide-tolerant (HT) barley.

The project screened genotypes from barley mutant populations for improved tolerance to herbicides for broadleaf and grass weed control. Following technical proof of concept, AVS secured global patent protection of the HT barley trait. Local seed partner, Seednet, was licensed to commercially release the world's first HT barley variety, Scope CL.

Scope CL has been successfully commercialised in Australia, as shown by its rapid and early adoption by the Australian barley industry. This was further supported by a licence signed between AVS and Plant Science Company GmbH (BASF), which enabled the use of Intervix® herbicide on Clearfield® Scope barley pursuant to strict BASF stewardship and herbicide application protocols.

In 2015–16 a development and licence agreement was signed with InterGrain Pty Ltd. The agreement allows InterGrain to breed with and commercialise the AVS HT barley trait in Australia and to commercially release the next generation of HT barley varieties. Spartacus CL is the first HT barley line released by InterGrain.

***Herbicide-Tolerant (HT) Lentils***

The AVS HT Lentils investment project was established to develop and commercialise elite, first-generation lentil cultivars with tolerance to a class of herbicides used by Victorian and Australian lentil growers. Group B (acetoacetate-synthase-inhibiting) herbicides are used to control broadleaf weeds in pulses.

The project first conducted a small-scale, commercially focused, mutagenesis-based breeding program to produce a pipeline of non-transgenic HT lentil varieties. The project successfully demonstrated proof of concept in several lentil varieties with tolerance to the Group B herbicide, imidazolinone.

Lead candidate HT lentil cultivars were developed and, through the Company's HT Lentils licensee, PB Seeds Pty Ltd, underwent wide-scale commercial grower evaluation before release. The first AVS HT lentil variety, PBA Herald XT, was commercially launched by PB Seeds Pty Ltd in 2011. The second AVS HT lentil variety, PBA Hurricane XT, was released in 2013 and in 2016–17 continued to receive strong seed orders for sowing. Preliminary 2016–17 harvest data showed strong production of PBA Hurricane XT lentils, accounting for more than 60 per cent of total PBA varieties.

PB Seeds began commercial evaluation of a third HT lentil variety in 2015–16 which, subject to performance, is expected to be released in 2018–19.

***Blackleg-Tolerant Canola (OHV Canola)***

Optimal Haploid Value (OHV) selection is a novel technology created by AVR in collaboration with Dow AgroSciences LLC. The technology enables prediction of a plant's potential to produce an elite doubled haploid based on genetic marker analysis. It is a transformational improvement of genomic selection with the potential to provide the future basis for accelerated breeding in crops and contribute to global food security.

"OHV technology enables prediction of a plant's potential to produce an elite doubled haploid based on genetic marker analysis. It is a transformational improvement of genomic selection with the potential to provide the future basis for accelerated breeding in crops and contribute to global food security."

The AVS investment project is testing the efficacy of OHV technology to demonstrate its value to commercial plant breeding companies for pre-breeding applications targeted at conferring resistance to blackleg disease in canola. Blackleg is a fungal pathogen that poses a significant threat to the Australian canola industry and is responsible for the greatest production losses for growers.

Successful validation of this method through AVS investment will lead to enhanced prediction of blackleg-pathogen resistance, shortening of the breeding process and accelerated delivery of elite new canola germplasm and varieties to growers.

***Genome-Edited Wheat and Forages (ExZact technology)***

This AVS investment project aims to develop and validate platform technologies enabling precision genome editing in wheat and forage grasses for the benefit of Australian grain and dairy farmers. The resulting tools will enable plant breeders to develop new wheat and pasture grass varieties with genome-edit-enabled traits into any genetic background, in a targeted manner. In addition, when combined with other novel breeding methods, provides the ability to generate fixed lines with the targeted trait in a single breeding cycle.

***Russian Wheat Aphid Tolerant Wheat (OHV Wheat)***

The project aims to develop and demonstrate the efficacy of OHV technology selection methods for use by commercial wheat breeders to accelerate the development of new wheat varieties with resistance to Russian wheat aphid, while simultaneously increasing genetic gain for yield, rust disease resistance and other key breeding traits. The resulting breeding tool will be made available under licence to commercial wheat breeding companies and ultimately is expected to deliver significant benefit to the Australian grains industry.

Russian wheat aphid *(Diuraphis noxia)* is a major insect pest of wheat and barley worldwide, capable of causing high economic losses through yield reduction and insecticide inputs.

***Novel Safflower Transformation System (SaffBio)***
This AVS investment seeks to establish a novel transformation system in safflower to enable the generation of plants producing high-value biomolecules with industrial and agricultural applications.

The project is also aiming to de-risk and demonstrate the commercial value of the new transformation platform by generating safflower events that produce RNAse5 in the seed. RNAse5 is a bioactive polypeptide with commercial applications as a novel feedstock.

Safflower is also able to produce super high oleic oil suitable for bio-based oil production. AVS investment in transformational safflower genetic innovation aims to support the creation of a new bio-based oils industry for Victoria, and help replace fossil fuels in products such as lubricants and plastics.

# Corporate governance and organisation structure

AVS has established a comprehensive governance framework to ensure that the Company complies with its legal obligations, meets expected standards of propriety and delivers against its corporate responsibility to provide IP and commercialisation services to the Department.

## Company incorporation status

AVS is a private company incorporated under the provisions of the *Corporations Act 2001* (Cth). The Victorian Government beneficially owns 100 per cent of the Company's issued capital with the shareholder being represented through the Minister for Agriculture. Originally established as Daratech Pty Ltd in 1986, AVS' name was changed to Agriculture Victoria Services Pty Ltd in 1998.

AVS has five million issued shares that are held non-beneficially on behalf of the State of Victoria by the Secretary of DEDJTR, Richard Bolt. The shares are subject to a declaration of trust that requires the shareholder to exercise their rights in such manner as the Minister for Agriculture, the Honourable Jaala Pulford MP, or her delegate shall from time to time direct.

## Responsibilities and composition of the board of directors

The directors of AVS are responsible for the overall corporate governance of the Company including setting its direction, establishing goals and monitoring performance.

The board consists of six non-executive directors. Directors are appointed in accordance with Victorian Appointment and Remuneration guidelines, 1 July 2017. The current board members are as follows:

| Director | Current term |
|---|---|
| Dr Clive Noble (Chairman) | 1 August 2011 to 30 June 2018 |
| Ms Kathryn Adams | 1 August 2011 to 30 June 2018 |
| Dr Richard Aldous | 1 November 2016 to 31 October 2019 |
| Ms Sam Andersen | 1 November 2016 to 31 October 2019 |
| Dr Amanda Caples | 1 November 2016 to 31 October 2019 |
| Mr Antony Christianen* | 1 August 2011 to 31 October 2016 |
| Dr Judith Slocombe* | 1 August 2011 to 31 October 2016 |
| Mr Peter Turvey | 13 July 2012 to 31 October 2018 |

* term of appointment expired on this date

## Board committees

The Board has three sub-committees.

### Audit and Risk Management Committee

The purpose and objectives of the Audit and Risk Management Committee (ARMC) are defined in the AVS ARMC Charter and include oversight and advice on matters of accountability, compliance, performance and risk management. Members of the ARMC during 2016–17 were:

| | |
|---|---|
| Ms Sam Andersen | Chair of ARMC from 15 December 2016 and AVS director from 1 November 2016 |
| Mr Peter Turvey | AVS director |
| Mr Antony Christianen | Chair of ARMC until 15 December 2016 and independent member from 16 Dec 2016 |
| Mr Des Hill | Independent member until 15 December 2016 |

The committee met four times during 2016–17.

The ARMC was assisted in the discharge of its duties by HLB Mann Judd Pty Ltd, which has been appointed as the Company's internal auditor for a three-year period to June 2018.

The main responsibilities of the ARMC are to:

- review and report independently to the AVS board on the annual report and all other financial information published by AVS
- assist the AVS board in reviewing the effectiveness of its internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- determine the scope of the internal audit function and ensure its resources are adequate and used effectively, including coordination with the external auditors
- oversee the effective operation of the risk management framework.

### Remuneration Committee

The Remuneration Committee meets on an as-needed basis to determine, approve and set remuneration terms and conditions for Company employees. All directors are members of the Remuneration Committee, which met twice during 2016–17.

### Investment Committee

The Investment Committee is constituted under the AVS investment policy and procedure. It is responsible for assisting and advising the AVS board on matters relating to the investment of AVS funds and their periodic review and valuation. All directors are members of the Investment Committee, which met four times during 2016–17.

## Policies and procedures

AVS has developed a comprehensive set of policies, procedures and guidelines designed to protect the Company's assets, uphold the integrity of its reporting systems, provide operational consistency and ensure compliance with legislation and Victorian Government policies. All policies, procedures and guidelines are subject to review on a regular basis under the ARMC's guidance.

## Risk management

AVS has adopted the Victorian Government Risk Management Framework (VGRMF). The framework brings together information on Victorian Government policies, accountabilities and roles and responsibilities for all involved in risk management across the state's public sector.

In adopting the VGRMF, AVS has established good governance over its risk management framework and includes AVS policy, procedures and processes.

The AVS Risk Management Framework is overseen by the ARMC. The ARMC assesses risk management at each meeting and regularly reports its assessment to the board.

As a Corporations Act company, AVS is not required to complete the annual risk management attestation contained in the Financial Management Compliance Framework (FMCF). However, the AVS board has adopted a self-assessment framework to align with the FMCF and to ensure the Company's Risk Management Framework meets the standards prescribed in the FMCF.

## Executive management

AVS is led by its Chief Executive Officer who reports to the Chairman of the AVS board.

The Company has an executive management group comprising five senior employees who, as the AVS executive, provide leadership and direction to ensure that the Company's objectives are achieved.

***Mr David Liesegang***
David was appointed as Chief Executive Officer in November 2015, having previously held the role of Chief Operating Officer. He leads the AVS team of 17 professional and support staff in the delivery of technology commercialisation, intellectual property and legal services to ensure the successful transfer of commercially valuable research outputs and science capability to the private sector.

***Mr Shane Cagney***
Shane is Chief Financial Officer and Company Secretary, appointed in November 2016. He is responsible for the Company's financial planning and management, which includes budget preparation, monitoring and reporting, financial systems, human resources, and information technology. As Company Secretary, Shane is also responsible for governance, risk management and corporate compliance frameworks and procedures and for providing board secretariat services to AVS and Phytogene Pty Ltd.

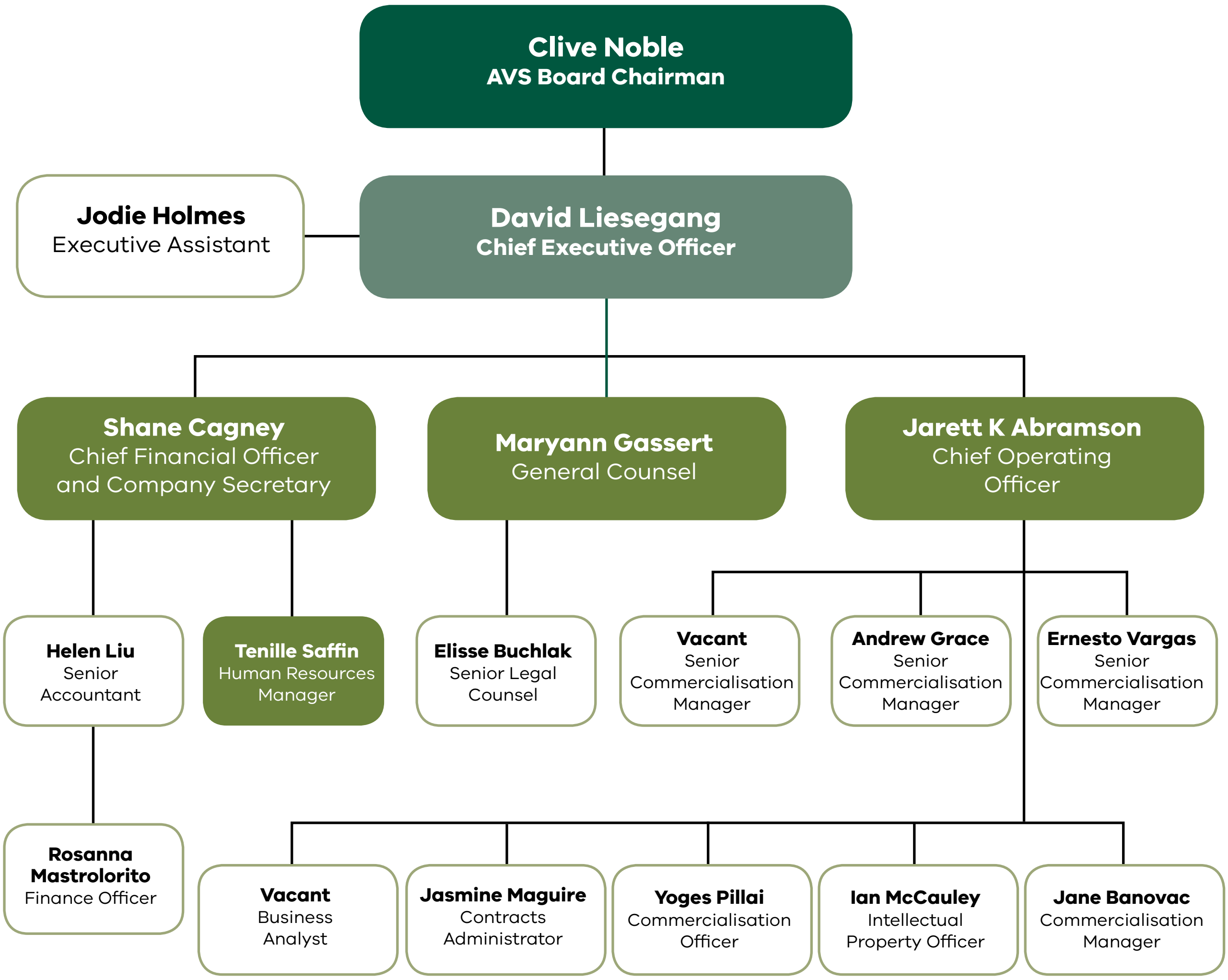
***Mr Jarett K Abramson***
Jarett is Chief Operating Officer, appointed in August 2016. He is responsible for leading the Company's operations team of specialist commercialisation and intellectual property professionals in delivering effective IP protection, management and commercialisation of AVR-created technologies to maximise their adoption by industry and deliver economic benefits to Victoria.

***Ms Maryann Gassert***
Maryann is General Counsel, appointed in April 2015. She provides legal advice, contract development and negotiation services to support the Company's IP management and commercialisation activities.

***Ms Tenille E Saffin***
Tenille is Human Resource Manager, appointed in May 2016. She is responsible for providing specialist advice on a broad range of human resource compliance matters, policies and procedures, which include AVS employment agreements, recruitment, occupational health and safety, learning and development, workplace culture and performance and key stakeholder engagement procedures.

**Corporate governance and organisation structure** continued

**Figure 6**: AVS Organisational Chart




## Occupational health and safety

AVS is committed to minimising or eliminating as far as practicable risks to the safety and wellbeing of employees, contractors and any other person performing work for, or on premises controlled by AVS.

The AVS Safety and Wellbeing Management System (SWMS) was approved by the AVS Board in 2015.

The SWMS consists of a continuous improvement process; risk management framework; and a range of policies, procedures and guidelines.

During the 2016–17 financial year, AVS participated in several initiatives to improve the health, wellbeing and safety of staff including the Department's People Matter survey, an Organisational Cultural Index Survey and quarterly safety audits to identify and address any workplace risks.

Access to the Department's Employee Assistance Program and its Health and Wellbeing Portal was also available to AVS staff.

An internal audit conducted by HLB Mann Judd in April 2017 confirmed that AVS complies with its OHS obligations.

AVS achieved its health, wellbeing and safety targets for 2016–17 as described in the following table:

| 2016–17 health, wellbeing and safety targets | Target |
|---|---|
| Lost time incidents – total | 0 |
| Accepted WorkCover claims | 0 |
| Percentage of employees having completed safety and wellbeing training including introductory or refresher course within last 24 months | 100% |
| Safety and wellbeing incidents – investigations began within two business days of reporting | 100% |
| Percentage of site safety meetings attended by an AVS representative | 100% |

### Employee appointment principles

AVS is committed to applying merit and equity principles when appointing staff. The selection processes ensure that applicants are assessed and evaluated fairly and equitably on the basis of the key selection criteria and other accountabilities without discrimination.

### Public sector values and employment principles

The *Public Administration Act 2004* (Vic) established the Victorian Public Sector Commission (VPSC). The VPSC's role is to strengthen public sector efficiency, effectiveness and capability, as well as advocate for public sector professionalism and integrity.

AVS has a range of policies and practices that are consistent with the VPSC's employment standards and provide for fair treatment, career opportunities and the early resolution of workplace issues. AVS also advises its employees on how to avoid conflicts of interest, how to respond to offers of gifts and how the Company deals with related misconduct.

# Legislative framework

The legislative framework that guides the Company's operations includes the following Commonwealth (Cth) and Victorian (Vic) Acts:

**_Corporations Act 2001_ (Cth)**

AVS is an incorporated entity limited by shares, registered under the provisions of the Corporations Act, which provides the legislative base for the management and operations of the Company.

**_Public Administration Act 2004_ (Vic)**

The Public Administration Act incorporates a set of values and principles to support public administration and provides a framework designed to ensure effective and consistent governance across the entire Victorian public sector. The Victorian Public Sector Commission is established under the Act to support its administration and implementation. AVS is classified as a Public Entity under this Act and, by Order in Council dated 25 June 2013, became subject to divisions 2 and 3 of part 5 of the Act and the governance principles contained therein.

**_Financial Management Act 1994_ (Vic)**

The Financial Management Act was promulgated in 1994 to provide for improved financial management in the public sector and provides for annual reporting to Parliament. While the Act provides broad coverage of matters relating to public sector financial management, accountability of officers and reporting obligations, a significant number of its provisions do not apply to the Company. However, AVS is a declared body under section 53A of the Act and this requires the Company's annual report to be tabled in Parliament on an annual basis by the Minister for Agriculture.

**_Audit Act 1994_ (Vic)**

The Audit Act provides for the conduct of efficient and effective financial audits of the Victorian public sector. Under this Act AVS is subject to annual audit by the Auditor General of Victoria. At present, the audit of AVS is conducted by McLean Delmo Bentleys under contract to the Auditor General of Victoria.

**_Privacy and Data Protection Act 2014_ (Vic)**

The Privacy and Data Protection Act specifies 10 Information Privacy Principles (IPPs). With limited exemptions, all Victorian Government organisations contracted service providers and local councils must comply with these principles.

**_Protected Disclosure Act 2012_ (Vic)**

The Protected Disclosure Act was part of a package of integrity reforms introduced by the Victorian Government, which also established the Independent Broad-based Anti-corruption Commission (IBAC). The Act enables people to make disclosures about improper conduct within the public sector without fear of reprisal. It aims to ensure openness and accountability by encouraging people to make disclosures and protecting them when they do.

The Act encourages and assists people in making disclosures of improper conduct by public officers and public bodies. It also provides protection to people who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

AVS does not tolerate improper conduct by employees, or the taking of reprisals against those who come forward to disclose such conduct.

AVS will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosures.

Disclosures of improper conduct or detrimental action by AVS or any of its employees may be made directly to IBAC:

**Independent Broad-Based Anti-Corruption Commission Victoria**
Level 1, North Tower,
459 Collins Street
Melbourne, VIC 3000
Phone: 1300 735 135
Web: www.ibac.vic.gov.au
Email: (the above website provides a secure email disclosure process)
Mail: IBAC, GPO Box 24234, Melbourne VIC 3000

The Protected Disclosure Policy and Procedures are available on the AVS website at www.agvic.com.au

**Disclosures under the _Protected Disclosure Act 2012_**

| Disclosures | 2016–17 | 2015–16 |
|---|---|---|
| The number of disclosures made by an individual to the Department and notified to IBAC | | |
| Assessable disclosures | 0 | n.a. |

# Directors' report

The directors of Agriculture Victoria Services Pty Ltd (AVS) present their report together with the consolidated financial statements of AVS and its subsidiary, Phytogene Pty Ltd, for the year ended 30 June 2017 and the independent auditor's report thereon.

### Directors

The directors of AVS at any time during or since the end of the financial year are:

- Ms Kathryn Adams
- Dr Richard Aldous (appointed 1 November 2016)
- Ms Sam Andersen (appointed 1 November 2016)
- Dr Amanda Caples (appointed 1 November 2016)
- Mr Tony Christianen (retired 31 October 2016)
- Dr Clive Noble
- Dr Judith Slocombe (retired 31 October 2016)
- Mr Peter Turvey

The directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Details of current directors, their qualifications, experience and membership of board sub-committees are set out in the *Board of directors* section on page 8.

The Company Secretary at any time during or since the end of the financial year is:

- Mr Bruce Lang (resigned 15 December 2016)
- Mr Shane Cagney (appointed 16 December 2016)

### Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and the number of eligible meetings attended by each of the directors of AVS during the financial year were:

| | Board of directors | | Committees of the board of directors | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Full board | | Audit & Risk Management | | Investment | | Remuneration | |
| | No. of eligible meetings attended | No. of eligible meetings held | No. of eligible meetings attended | No. of eligible meetings held | No. of eligible meetings attended | No. of eligible meetings held | No. of eligible meetings attended | No. of eligible meetings held |
| KH Adams | 6 | 6 | – | – | 3 | 3 | 2 | 2 |
| RTH Aldous | 4 | 4 | – | – | 3 | 3 | – | – |
| SD Andersen | 4 | 4 | 2 | 2 | 3 | 3 | – | – |
| A Caples | 4 | 4 | – | – | 3 | 3 | – | – |
| A Christianen | 2 | 2 | 2 | 2 | – | – | 2 | 2 |
| CL Noble | 6 | 6 | – | – | 3 | 3 | 2 | 2 |
| JM Slocombe | 1 | 2 | – | – | – | – | 2 | 2 |
| PRE Turvey | 6 | 6 | 4 | 4 | 3 | 3 | 2 | 2 |

Three new directors were appointed on 1 November 2016. Two directors retired on 31 October 2016. These board appointments and retirements reflect the respective commencement and end dates of the directors' tenure. This table shows the number of eligible meetings held and attended by directors in line with each director's tenure.

**Directors' report** continued

### Principal activities

During the year, the principal activities of AVS were:

- the provision of IP and commercial services to the Department
- the provision of IP and commercial risk management services to the Department
- investment in Department technologies and research outputs to enhance and accelerate adoption.

There was no significant change in the nature of the activities of the consolidated entity during the financial year.

### Financial performance

A detailed review of financial results is provided in the *Review of financial performance* section on page 10. The net result for the Company for the year was $3.047 million (2016 profit $3.573 million). The net result for the consolidated entity for the year was $2.978 million (2016 profit was $3.512 million).

### Operational performance

A comprehensive review of operations is provided in the *Review of operational performance* section on page 15.

### Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of AVS that occurred during the year under review.

### Dividends

The directors have neither declared nor recommended a dividend for the year ended 30 June 2017. No dividend has been paid during the year ended 30 June 2017 (2016: nil).

### Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of AVS, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

### Likely developments

The consolidated entity will continue to provide IP, commercial and risk management services to the Department and invest in Agriculture Victoria Research technologies during the next financial year.

### Impact of legislation and other external requirements

In addition to the Corporations Act, AVS is required to comply with additional legislation: these are detailed in the *Legislative framework* section on page 30. This legislative framework is required given the State of Victoria is the sole shareholder of AVS.

### Environmental legislation

AVS operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a state or territory in Australia.

### Directors' interests

No director holds an interest in any shares. The sole beneficial shareholder is the State of Victoria.

### Indemnification and insurance of officers and auditors

The Company has not, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of AVS against a liability incurred as such by an officer or auditor.

### Non-audit services

As required by the Victorian Auditor General's Office, the auditor has not performed any services for the Company and its subsidiary entity other than the audit and review of the financial statements.

### Proceedings on behalf of the Company

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

### Auditor's independence declaration

The auditor's independence declaration is set out on page 38 and forms part of the directors' report for the financial year ended 30 June 2017.

This directors' report is made out in accordance with a resolution of the directors:

**Dr Clive Noble**
**Chairman**
**22 August 2017**

**Ms Sam Andersen**
**Director**
**22 August 2017**

# Annual financial statements 2016–17

Agriculture Victoria Services Pty Ltd (AVS) has presented its audited general purpose financial statements for the financial year ended 30 June 2017 in the following structure to provide users with the information about the AVS stewardship of resources entrusted to it.

# Directors' declaration

In the opinion of the directors of Agriculture Victoria Services Pty Ltd (the 'Company'):

1. The consolidated financial statements and notes are in accordance with the *Corporations Act 2001*, including:
    a. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
    b. complying with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 22 August 2017.

**Dr Clive Noble**
**Director**
**22 August 2017**

**Ms Sam Andersen**
**Director**
**22 August 2017**

# Independent Auditor's Report

*To the Directors of Agriculture Victoria Services Pty Ltd*

| | |
|---|---|
| **Opinion** | I have audited the consolidated financial report of Agriculture Victoria Services Pty Ltd (the company) and its controlled entities (together the consolidated entity), which comprises the:<br>• consolidated entity and company balance sheet as at 30 June 2017<br>• consolidated entity and company comprehensive operating statement for the year then ended<br>• consolidated entity and company statement of changes in equity for the year then ended<br>• consolidated entity and company cash flow statement for the year then ended<br>• notes to the financial statements, including a summary of significant accounting policies<br>• directors' declaration.<br><br>In my opinion the financial report is in accordance with the *Corporations Act 2001* including:<br>• giving a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2017 and of their financial performance and cash flows for the year then ended<br>• complying with Australian Accounting Standards and the *Corporations Regulations 2001.* |
| **Basis for Opinion** | I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. My responsibilities under the Act are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.<br><br>My independence is established by the *Constitution Act 1975*. My staff and I are independent of the company and the consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Australia. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.<br><br>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. |
| **Directors' responsibilities for the financial report** | The Directors of the company are responsible for the preparation of a financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.<br><br>In preparing the financial report, the Directors are responsible for assessing the company and the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so. |

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T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

| | |
|---|---|
| **Auditor's responsibilities for the audit of the financial report** | As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.<br><br>As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:<br><br>• identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control<br>• obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and the consolidated entity's internal control<br>• evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors<br>• conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company and the consolidated entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the company and the consolidated entity to cease to continue as a going concern.<br>• evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation<br>• obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the company and the consolidated entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the audit of the company and the consolidated entity. I remain solely responsible for my audit opinion. |

| | |
|---|---|
| **Auditor's responsibilities for the audit of the financial report (continued)** | I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.<br><br>I also provide the Directors with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards. |

MELBOURNE
28 August 2017

Anna Higgs
*as delegate for the Auditor-General of Victoria*

VAGO
Victorian Auditor-General's Office

# Auditor-General's Independence Declaration

**To the Directors, Agriculture Victoria Services Pty Ltd**

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General, an independent officer of parliament, is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised.

Under the *Audit Act 1994*, the Auditor-General is the auditor of each public body and for the purposes of conducting an audit has access to all documents and property, and may report to parliament matters which the Auditor-General considers appropriate.

## *Independence Declaration*

As auditor for Agriculture Victoria Services Pty Ltd for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of auditor independence requirements of the *Corporations Act 2001* in relation to the audit.
- no contraventions of any applicable code of professional conduct in relation to the audit.

MELBOURNE
28 August 2017

Anna Higgs
*as delegate for the Auditor-General of Victoria*

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

# Financial statements

# Comprehensive operating statement

For the financial year ended 30 June 2017

| | Notes | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| **Income from transactions** | | | | | |
| Revenue from services and royalties | 2 | 16,778,988 | 19,085,944 | 16,794,287 | 19,086,244 |
| Interest revenue | 2 | 471,372 | 580,493 | 466,610 | 572,992 |
| **Total income from transactions** | | **17,250,360** | **19,666,437** | **17,260,897** | **19,659,236** |
| **Expenses from transactions** | | | | | |
| Employee expenses | 3.2 | 1,734,764 | 1,685,088 | 1,734,764 | 1,685,088 |
| Depreciation and amortisation | 4.1.1 & 4.2.1 | 66,184 | 87,445 | 66,184 | 87,445 |
| Interest expense | 6.2 | 1,283 | 323 | 1,283 | 323 |
| Research and development, royalty and patent expenses | 3.3 | 11,278,422 | 13,416,186 | 11,227,326 | 13,354,613 |
| Operating expenses | 3.4 | 1,324,271 | 981,187 | 1,317,038 | 974,322 |
| **Total expenses from transactions** | | **14,404,924** | **16,170,229** | **14,346,595** | **16,101,791** |
| **Net result from transactions (net operating balance)** | | **2,845,436** | **3,496,208** | **2,914,302** | **3,557,445** |
| Other economic flows included in net result | | | | | |
| Net gain/(loss) on non-financial assets [a] | 8.1 | 137,834 | 18,678 | 137,834 | 18,678 |
| Net gain/(loss) on financial instruments [b] | 8.1 | 152 | (130) | 152 | (130) |
| Other gains/(losses) from other economic flows | 8.1 | (5,624) | (3,181) | (5,624) | (3,181) |
| **Total other economic flows included in net result** | | **132,362** | **15,367** | **132,362** | **15,367** |
| **Net result** | | **2,977,798** | **3,511,575** | **3,046,664** | **3,572,812** |
| **Comprehensive result** | | **2,977,798** | **3,511,575** | **3,046,664** | **3,572,812** |

The accompanying notes form part of these financial statements.

Notes:

(a) 'Net gain/(loss) on non-financial assets' includes unrealised and realised gains/(losses) from revaluations, impairments, and disposals of all physical assets and intangible assets, except when these are taken through the asset revaluation surplus.

(b) 'Net gain/(loss) on financial instruments' includes bad and doubtful debts from other economic flows, unrealised and realised gains/(losses) from revaluations, impairments and reversals of impairment, and gains/(losses) from disposals of financial instruments, except when these are taken through the financial assets available for sale revaluation surplus.

# Balance sheet

As at 30 June 2017

| | Notes | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Financial assets** | | | | | |
| Cash and deposits | 6.4 | 26,884,023 | 22,106,033 | 26,609,748 | 21,746,356 |
| Receivables | 5.1 | 1,587,986 | 1,453,905 | 1,602,203 | 1,453,254 |
| Other financial assets | 5.3 | - | - | 855,002 | 855,002 |
| **Total financial assets** | | **28,472,009** | **23,559,938** | **29,066,953** | **24,054,612** |
| **Non-financial assets** | | | | | |
| Plant, equipment and motor vehicle | 4.1 | 82,599 | 105,774 | 82,599 | 105,774 |
| Intangible assets | 4.2.2 | 357,839 | 260,446 | 357,839 | 260,446 |
| **Total non-financial assets** | | **440,438** | **366,220** | **440,438** | **366,220** |
| **Total assets** | | **28,912,447** | **23,926,158** | **29,507,391** | **24,420,832** |
| **Liabilities** | | | | | |
| Payables | 5.2 | 8,617,865 | 6,589,488 | 8,602,869 | 6,543,088 |
| Borrowings | 6.1 | 40,655 | 30,799 | 40,655 | 30,799 |
| Employee related provisions | 3.2.2 | 302,464 | 332,206 | 302,464 | 332,206 |
| **Total liabilities** | | **8,960,984** | **6,952,493** | **8,945,988** | **6,906,093** |
| **Net assets** | | **19,951,463** | **16,973,665** | **20,561,403** | **17,514,739** |
| **Equity** | | | | | |
| Accumulated surplus/(deficit) | | 14,951,463 | 11,973,665 | 15,561,403 | 12,514,739 |
| Contributed capital | | 5,000,000 | 5,000,000 | 5,000,000 | 5,000,000 |
| **Net worth** | | **19,951,463** | **16,973,665** | **20,561,403** | **17,514,739** |

The accompanying notes form part of these financial statements.

# Cash flow statement

For the financial year ended 30 June 2017

| | Notes | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| **Receipts** | | | | | |
| Receipts from customers | | 17,366,616 | 20,118,955 | 17,351,798 | 20,117,740 |
| Interest received | | 502,329 | 551,077 | 497,038 | 543,977 |
| Goods and services tax received from the ATO[a] | | 194,921 | - | 188,732 | - |
| **Total receipts** | | **18,063,866** | **20,670,032** | **18,037,568** | **21,046,255** |
| **Payments** | | | | | |
| Payments to suppliers and employees | | (13,291,879) | (18,610,924) | (13,180,180) | (18,575,501) |
| Goods and services tax paid to the ATO[a] | | - | (162,741) | - | (161,075) |
| Interest and other costs of finance paid | | (1,283) | (322) | (1,283) | (322) |
| **Total payments** | | **(13,293,162)** | **(18,773,987)** | **(13,181,463)** | **(18,736,898)** |
| **Net cash flows from/(used in) operating activities** | 6.4.1 | **4,770,704** | **1,896,045** | **4,856,105** | **1,924,819** |
| **Cash flows from investing activities** | | | | | |
| Proceeds from sale of plant and equipment | | 15,727 | 50,310 | 15,727 | 50,310 |
| Purchases of non-financial assets | | - | (62,397) | - | (62,397) |
| **Net cash flows from/(used in) investing activities** | | **15,727** | **(12,087)** | **15,727** | **(12,087)** |
| **Cash flows from financing activities** | | | | | |
| Repayment of borrowings and finance leases | | (8,440) | (8,658) | (8,440) | (8,658) |
| **Net cash flows from/(used in) financing activities** | | **(8,440)** | **(8,658)** | **(8,440)** | **(8,658)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **4,777,991** | **1,875,300** | **4,863,392** | **1,904,073** |
| Cash and cash equivalents at beginning of financial year | | 22,106,033 | 20,230,733 | 21,746,356 | 19,842,283 |
| **Cash and cash equivalents at end of financial year** | 6.4 | **26,884,024** | **22,106,033** | **26,609,748** | **21,746,356** |

The accompanying notes form part of these financial statements.

Notes:
(a) GST paid to the Australian Taxation Office is presented on a net basis.

# Statement of changes in equity

For the financial year ended 30 June 2017

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | Accumulated surplus | Contributions by owner $ | Total $ | Accumulated surplus $ | Contributions by owner $ | Total $ |
| **Balance at 1 July 2015** | **8,462,090** | **5,000,000** | **13,462,090** | **8,941,927** | **5,000,000** | **13,941,927** |
| Net result for the year | 3,511,575 | - | 3,511,575 | 3,572,812 | - | 3,572,812 |
| **Balance at 30 June 2016** | **11,973,665** | **5,000,000** | **16,973,665** | **12,514,739** | **5,000,000** | **17,514,739** |
| Net result for the year | 2,977,798 | - | 2,977,798 | 3,046,664 | - | 3,046,664 |
| **Balance at 30 June 2017** | **14,951,463** | **5,000,000** | **19,951,463** | **15,561,403** | **5,000,000** | **20,561,403** |

The accompanying notes form part of these financial statements.

# Notes to the financial statements

## 1. About this report

Agriculture Victoria Services Pty Ltd (the Company) is domiciled in Victoria, Australia.

The Company's registered office is at 475 Mickleham Road, Attwood, VIC 3049, Australia.

The Company is a private company incorporated under the provisions of the *Corporations Act 2001*. The Government of Victoria beneficially owns 100 per cent of the Company's issued capital with the shareholder being represented through the State Minister for Agriculture.

These consolidated financial statements comprise the Company and its subsidiary (together referred to as the 'Group').

A description of the nature of the Company's operations and its principal activities are included in the *Review of operational performance*, which does not form part of these financial statements.

These financial statements were authorised for issue by the directors of Agriculture Victoria Services Pty Ltd on 22 August 2017.

### 1.1 Basis of preparation

These financial statements are presented in Australian dollars, and prepared in accordance with the historical cost convention the exception of long-term employee benefit provisions which are stated at the present value of estimated future cash flows and the revaluation of selected financial instruments for which the fair value basis of accounting has been applied.

The accrual basis of accounting has been applied in preparing these financial statements, whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

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.

In preparing these consolidated financial statements, judgements, estimates and assumptions are required to be made about financial information presented. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of Australian Accounting Standards (AAS) that have significant effects on the financial statements and estimates are disclosed in the notes under the heading: 'Significant judgement or estimates'.

The Group financial statements consolidate those of the parent company and its subsidiary as of 30 June 2017. Phytogene Pty Ltd, a wholly owned subsidiary of the Company, is the only entity which has been consolidated into the reporting entity. The subsidiary has a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation.

Where the Group's entities have adopted dissimilar accounting policies and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

### 1.2 Compliance information

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, AAS and other pronouncements of the Australian Accounting Standards Board. Where applicable, these consolidated general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* (FMA).

Accounting policies selected and applied in these financial statements ensure 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.

## Notes to the financial statements continued

## 2. Funding delivery of our services

### Introduction

The Company is a specialist, professional entity responsible for the protection and commercialisation of novel technologies created by the leading biosciences and agriculture research undertaken by the Department of Economic Development, Jobs, Transport and Resources (the Department).

The Company holds a significant IP portfolio on behalf of the Government of Victoria and other IP equity holders. The portfolio benefits the agricultural industry and the state's economy through the commercial application of the R&D outcomes.

Through the provision of expert intellectual property management and technology commercialisation services, AVS helps maximise the adoption and impact of the Department's scientific research discoveries, technologies and capabilities.

In doing so the Company plays a critical role in enabling the Victorian Government to meet its economic development and social objectives.

**2.1 Summary of income that funds the delivery of our services**

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| **Revenue from services and royalties** | | | | |
| Income from supply of services | 8,534,284 | 10,374,131 | 8,549,583 | 10,374,431 |
| Royalty income | 8,244,704 | 8,711,813 | 8,244,704 | 8,711,813 |
| **Total revenue from services and royalties** | **16,778,988** | **19,085,944** | **16,794,287** | **19,086,244** |
| **Interest revenue** | | | | |
| Interest on bank deposits | 471,372 | 580,493 | 466,610 | 572,992 |
| **Total interest revenue** | **471,372** | **580,493** | **466,610** | **572,992** |
| **Total income from transactions** | **17,250,360** | **19,666,437** | **17,260,897** | **19,659,236** |

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be reliably measured at fair value. Where applicable, amounts disclosed as income are net of returns, allowances and duties and taxes.

Revenue comprises revenue from the provision of intellectual property management and commercialisation services, interest income and royalty income from the intellectual property portfolio of the Company, the State of Victoria and other IP equity holders.

Income from the supply of services is recognised by reference to the stage of completion of the services being performed. The income is recognised when:

- the amount of the income, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the Company.

Under this method, income is recognised by reference to labour hours supplied or to labour hours supplied as a percentage of total services to be performed in each annual reporting period.

Royalty income is recognised after the agricultural season and upon completion by licensees of annual licence reports as required under all license agreements.

Interest income includes interest received on bank term deposits and other investments and the unwinding over time of the discount on financial assets. Interest income is recognised using the effective interest method, which allocates the interest over the relevant period.

Net realised and unrealised gains and losses on the revaluation of investments do not form part of income from transactions, but are reported either as part of income from other economic flows in the net result or as unrealised gains or losses taken directly to equity, forming part of the total change in net worth in the comprehensive result.

## 3. The cost of delivering services

### Introduction

This section provides an account of the expenses incurred by the Company in delivering services and outputs.

In Section 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded.

### Structure



### 3.1 Expenses incurred in delivery of services

Expenses are recognised as they are incurred and reported in the financial year to which they relate. Expenses are recognised for each of the Company's major activities as follows:

| | Notes | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|---|
| Employee benefit expenses | 3.2 | 1,734,764 | 1,685,088 | 1,734,764 | 1,685,088 |
| Research and development, royalty and patent expenses | 3.3 | 11,278,422 | 13,416,186 | 11,227,326 | 13,354,613 |
| Operating expenses | 3.4 | 1,324,271 | 981,187 | 1,317,038 | 974,322 |
| **Total expenses incurred in delivery of services** | | **14,337,457** | **16,082,461** | **14,279,128** | **16,014,023** |

### 3.2 Employee benefit expenses

#### 3.2.1 Employee benefits in the comprehensive operating statement

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| Salaries and wages, annual leave and long service leave | 1,589,298 | 1,529,294 | 1,589,298 | 1,529,294 |
| Defined contribution superannuation expense | 132,352 | 131,262 | 132,352 | 131,262 |
| Defined benefit superannuation expense | 13,114 | 24,532 | 13,114 | 24,532 |
| **Total employee benefit expenses** | **1,734,764** | **1,685,088** | **1,734,764** | **1,685,088** |

Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements and WorkCover premiums.

The amount recognised in the comprehensive operating statement for superannuation is the employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period. The Company does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. Instead, the Department of Treasury and Finance (DTF) discloses in its annual financial statements the net defined benefit cost related to the members of these plans as an administered liability (on behalf of the State as the sponsoring employer).

## **Notes to the financial statements** continued

**3.2.2 Employee benefits in the comprehensive operating statement**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave (LSL) for services rendered to the reporting date and recorded as an expense during the period the services are delivered.

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Current provisions:** | | | | |
| ***Annual leave*** | | | | |
| Unconditional and expected to settle within 12 months | 91,143 | 105,291 | 91,143 | 105,291 |
| Long service leave | | | | |
| Unconditional and expected to settle within 12 months | 27,110 | 29,218 | 27,110 | 29,218 |
| Unconditional and expected to settle after 12 months | 91,901 | 107,731 | 91,901 | 107,731 |
| ***Provisions for on-costs*** | | | | |
| Unconditional and expected to settle within 12 months | 18,781 | 19,403 | 18,781 | 19,403 |
| Unconditional and expected to settle after 12 months | 14,519 | 17,020 | 14,519 | 17,020 |
| **Total current provisions for employee benefits** | **243,454** | **278,663** | **243,454** | **278,663** |
| **Non-current provisions:** | | | | |
| Employee benefits | 50,959 | 46,238 | 50,959 | 46,238 |
| On-costs | 8,051 | 7,305 | 8,051 | 7,305 |
| **Total non-current provisions for employee benefits** | **59,010** | **53,543** | **59,010** | **53,543** |
| **Total provisions for employee benefits** | **302,464** | **332,206** | **302,464** | **332,206** |

Reconciliation of movement in provision

| | Consolidated 2017 $ | The Company 2017 $ |
|---|---|---|
| **Opening balance** | **332,206** | **332,206** |
| Additional provisions recognised | 87,634 | 87,634 |
| Reductions arising from payments/other sacrifices of future economic benefits | (136,877) | (136,877) |
| Unwind of discount and effect of changes in the discount rate | 19,501 | 19,501 |
| **Closing balance** | **302,464** | **302,464** |
| Current | 243,454 | 243,454 |
| Non-current | 59,010 | 59,010 |

**Wages and salaries, annual leave and sick leave:**
Liabilities for wages and salaries (including non-monetary benefits, annual leave and on-costs) are recognised as part of the employee benefit provision as current liabilities, because the Company does not have an unconditional right to defer settlements of these liabilities.

The liability for salaries and wages are recognised in the balance sheet at remuneration rates which are current at the reporting date. As the Company expects the liabilities to be wholly settled within 12 months of reporting date, they are measured at undiscounted amounts.

## **Notes to the financial statements** continued

The annual leave liability is classified as a current liability and measured at the undiscounted amount expected to be paid, as the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

No provision has been made for sick leave as all sick leave is non-vesting and it is not considered probable that the average sick leave taken in the future will be greater than the benefits accrued in the future. As sick leave is non-vesting, an expense is recognised in the statement of comprehensive income as it is taken.

Employment on-costs such as payroll tax, workers compensation and superannuation are not employee benefits. They are disclosed separately as a component of the provision for employee benefits when the employment to which they relate has occurred.

**Unconditional LSL** is disclosed as a current liability, even where the Company does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- undiscounted value – if the Company expects to wholly settle within 12 months; or
- present value – if the Company does not expect to wholly settle within 12 months.

**Conditional LSL** is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL is measured at present value.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as an 'other economic flow' in the net result.

### 3.2.3 Superannuation contributions

Employees of the Company are entitled to receive superannuation benefits and the Company contributes to both defined benefit and defined contribution plans. The defined benefit plan(s) provides benefits based on years of service and final average salary.

As noted before, the defined benefit liability is recognised in DTF as an administered liability. However, superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of the Company.

| | Consolidated Paid contribution for the year | | The Company Paid contribution for the year | | Consolidated Contribution outstanding at year end | | The Company Contribution outstanding at year end | |
|---|---|---|---|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Defined benefit plans[a] | | | | | | | | |
| State Superannuation Fund | 11,773 | 22,229 | 11,773 | 22,229 | 1,341 | 2,303 | 1,341 | 2,303 |
| Defined contribution plans | | | | | | | | |
| VicSuper | 62,135 | 62,654 | 62,135 | 62,654 | 4,985 | 3,168 | 4,985 | 3,168 |
| Other | 58,474 | 59,410 | 58,474 | 59,410 | 6,758 | 6,030 | 6,758 | 6,030 |
| **Total** | **132,382** | **144,293** | **132,382** | **144,293** | **13,084** | **11,501** | **13,084** | **11,501** |

Note:
(a) The basis for determining the level of contributions is determined by the various actuaries of the defined benefit superannuation plans.

## Notes to the financial statements continued

### 3.3 Research and development, royalty and patent expenses

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| Contract research and development project expenses | 5,606,644 | 7,701,351 | 5,606,644 | 7,661,351 |
| Royalty expenses | 4,073,382 | 4,454,603 | 4,073,382 | 4,454,603 |
| Patent expenses | 1,598,396 | 1,260,232 | 1,547,300 | 1,238,659 |
| **Total research and development, royalty and patent expenses** | **11,278,422** | **13,416,186** | **11,227,326** | **13,354,613** |

**Contract research and development project expense** include costs for research and development conducted by the Department. It is recognised as an expense in the period in which it is incurred.

**Royalty expenses** is the distribution of the royalties to IP equity holders and are recognised as an expense in the reporting period in which they are incurred.

**Patent expenses** include protection, prosecution and annual renewal of IP assets and are recognised as an expense in the reporting period in which they are incurred.

### 3.4 Operating expenses

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| Rent and utilities | 276,875 | 242,664 | 276,875 | 242,664 |
| Insurance | 102,095 | 106,838 | 102,095 | 106,838 |
| Legal | 166,855 | 137,512 | 166,855 | 137,512 |
| Consultants | 188,774 | 23,778 | 188,774 | 23,778 |
| Audit services | 78,800 | 56,840 | 72,200 | 50,440 |
| Other borrowing costs (other than interest) | 3,796 | 2,562 | 3,796 | 2,562 |
| Other operating expenses | 507,076 | 410,993 | 506,443 | 410,528 |
| **Total operating expenses** | **1,324,271** | **981,187** | **1,317,038** | **974,322** |

**Other operating expenses** generally represent the day-to-day running costs incurred in normal operations.

## **Notes to the financial statements** continued

## 4. Key assets available to support output delivery

### Introduction

The Company controls IP and technology investments and other investments and assets that are utilised in fulfilling its objectives and conducting its activities.

Significant judgement: *Classification of investments as 'key assets'*

The Company has made the judgement that investments (including investments in subsidiary) are key assets utilised to support the Company's objectives and outputs.

***Fair value measurement***

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 7.3 in connection with how those fair values were determined.

### Structure



#### 4.1 Plant, equipment and vehicles

| | Gross carrying amount | | Accumulated depreciation | | Net carrying amount | |
|---|---|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Plant and equipment at fair value | 2,659 | 2,659 | (2,540) | (2,506) | 119 | 153 |
| Motor vehicles at fair value | 114,622 | 128,922 | (32,142) | (23,301) | 82,480 | 105,621 |
| **Net carrying amount** | **117,281** | **131,581** | **(34,682)** | **(25,807)** | **82,599** | **105,774** |

**Initial recognition:** All non-financial physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and if applicable, impairment losses. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

The initial cost for non-financial physical assets under a finance lease is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

**Subsequent measurement:** Plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset) and is summarised below by asset category.

**Vehicles** are valued using the depreciated replacement cost method. The Company acquires new vehicles and at times disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by the fleet manager who sets relevant depreciation rates during use to reflect the utilisation of the vehicles.

Fair value for **plant and equipment** that are specialised in use (such that it is rarely sold other than as part of a going concern) is determined using the depreciated replacement cost method.

For all assets measured at fair value, the current use is considered the highest and best use.

There were no changes in valuation techniques throughout the period to 30 June 2017.

Refer to Note 7.3 for additional information on fair value determination of plant and equipment.

## Notes to the financial statements continued

### 4.1.1 Depreciation for the period

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| Plant and equipment | 34 | 538 | 34 | 538 |
| Motor vehicles | 23,670 | 36,218 | 23,670 | 36,218 |
| **Total depreciation** | **23,704** | **36,756** | **23,704** | **36,756** |

All plant and equipment, vehicles and other non-financial physical assets (excluding items under operating leases, assets held for sale, land and investment properties) that have finite useful lives are depreciated.

Depreciation is generally calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life.

Typical estimated useful lives for the different asset classes for current and prior years are included in the table below:

| Asset | Useful life (years) |
|---|---|
| Vehicle (including leased assets) | 3 to 5 |
| Plant and equipment | 3 to 10 |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate.

In the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced (unless a specific decision to the contrary has been made).

The assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an 'other economic flow', except to the extent that it can be debited to an asset revaluation surplus amount applicable to that class of asset.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

### 4.1.2 Reconciliation of movements in carrying amount of plant, equipment and vehicles

| | Plant equipment and vehicles at fair value 2017 $ | 2016 $ |
|---|---|---|
| **Opening balance** | **105,774** | **96,344** |
| Additions | 18,296 | 96,327 |
| Disposals | (17,767) | (50,141) |
| Depreciation | (23,704) | (36,756) |
| **Closing balance** | **82,599** | **105,774** |

Note:
This reconciliation is both for the company and the consolidated entity, as the subsidiary does not hold any assets.

## **Notes to the financial statements** continued

### 4.2 Intangible assets

Intangible produced assets with finite useful lives are amortised as an expense from transactions on a systematic (typically straight-line) basis over the asset's useful life. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

**Significant intangible assets**

The Company has capitalised the Primary Oilseeds and Holl Canola development program expenditure. The carrying amount of the capitalised development expenditure is as follows.

- The carrying amount of Primary Oilseeds is $1.507 million. Its useful life is 19 years and will be fully amortised in 2021
- The carrying amount of Holl Canola is $300,000. Its useful life is 19 years and will be fully amortised in 2026.

#### 4.2.1 Amortisation for the period

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2017<br>$ | 2016<br>$ | 2017<br>$ | 2016<br>$ |
| Intangible produced assets | 42,480 | 50,689 | 42,480 | 50,689 |
| **Total amortisation** | **42,480** | **50,689** | **42,480** | **50,689** |

Typical estimated useful lives for the intangible produced assets for current and prior years are included in the table below:

| Asset | Useful life (years) |
|---|---|
| Intangible produced assets | 4 to 20 |

## Notes to the financial statements continued

### 4.2.2 Reconciliation of movements in carrying amount of intangible asset

| | Primary Oilseeds Development Program (a) | | Juncea Oilseeds (a) | | HOLL Canola (a) | | Computer software | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ | 2017 $ | 2016 $ | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| **Gross carrying amount** | | | | | | | | | | |
| Opening balance | 1,506,677 | 1,506,677 | - | 560,000 | 300,000 | 300,000 | 15,796 | 15,796 | 1,822,473 | 2,382,473 |
| Additions | - | - | - | - | - | - | - | - | - | - |
| Disposals | - | - | - | (560,000) | - | - | - | - | - | (560,000) |
| Closing balance | 1,506,677 | 1,506,677 | - | - | 300,000 | 300,000 | 15,796 | 15,796 | 1,822,473 | 1,822,473 |
| **Accumulated depreciation, amortisation and impairment** | | | | | | | | | | |
| **Opening balance** | **(1,408,758)** | **(1,376,120)** | **-** | **(560,000)** | **(137,473)** | **(119,424)** | **(15,796)** | **(15,796)** | **(1,562,027)** | **(2,071,340)** |
| Amortisation | (24,480) | (32,638) | - | - | (18,000) | (18,049) | - | - | (42,480) | (50,687) |
| Reversals of impairment losses charged to net result (b) | 139,873 | - | - | | - | - | - | - | 139,873 | - |
| Written back on disposal | - | | - | 560,000 | - | - | - | - | - | 560,000 |
| **Closing balance** | **(1,293,365)** | **(1,408,758)** | **-** | **-** | **(155,473)** | **(137,473)** | **(15,796)** | **(15,796)** | **(1,464,634)** | **(1,562,027)** |
| **Net book value at end of financial year** | **213,312** | **97,919** | **-** | **-** | **144,527** | **162,527** | **-** | **-** | **357,839** | **260,446** |

Notes:

(a) The Primary Oilseeds and Holl Canola development programs represent internally generated intangible assets that have arisen from development expenditure.
(b) Reversal of impairment is included in the line item 'net gain/(loss) on non-financial assets' in the comprehensive operating statement.
(c) This reconciliation is both for the Company and the consolidated entity, as the subsidiary does not hold any assets.

#### Initial recognition

Purchased intangible assets are initially recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Company. When the recognition criteria in AASB 138 Intangible Assets is met, internally generated intangible assets are recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

#### Subsequent measurement

Intangible produced assets with finite useful lives are depreciated as an 'expense from transactions' on a straight-line basis over their useful lives.

#### Impairment of intangible assets

Intangible assets with indefinite useful lives (and intangible assets not yet available for use) are tested annually for impairment and whenever there is an indication that the asset may be impaired. Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However this reversal should not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

## **Notes to the financial statements** continued

### 4.3 Interests in subsidiary entity

| | 2017 $ | Ordinary share entity interest 2016 $ |
|---|---|---|
| **Controlled entities** | | |
| Phytogene Pty Ltd | 100 | 100 |

Phytogene Pty Ltd was incorporated on 30 November 2001 as a wholly owned subsidiary of the Company. Phytogene was established to further develop technologies related to delayed plant senescence that have been developed through research activities undertaken by the Department. The operating results of the entity have been included in the consolidated operating profit contained within these financial statements.

Please refer to Note 1.1 for the principles of consolidation and Note 5.3 for total investment in the subsidiary.

## Notes to the financial statements continued

# 5. Other assets and liabilities

### Introduction

This section sets out those assets and liabilities that arose from the Company and its controlled entity's operations.

### Structure



**5.1 Receivables**

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Current receivables** | | | | |
| **Contractual** | | | | |
| Sale of services and royalties | 1,030,494 | 313,002 | 1,030,494 | 313,002 |
| Accrued interest income | 118,150 | 149,107 | 118,116 | 148,544 |
| Other receivables | 109,745 | 147,183 | 109,745 | 147,183 |
| Amounts owed from DEDJTR (the Department) | 22,083 | 54,998 | 22,083 | 54,998 |
| Amounts owed from controlled entity | - | - | 14,818 | - |
| **Statutory** | | | | |
| GST input tax credit recoverable | 307,514 | 789,615 | 306,947 | 789,527 |
| **Total current receivables** | **1,587,986** | **1,453,905** | **1,602,203** | **1,453,254** |

**Contractual receivables**, which include mainly debtors in relation to goods and services and accrued income, are classified as financial instruments and categorised as 'loans and receivables'. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest method, less any impairment.

**Statutory receivables** do not arise from contracts and are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments.

## **Notes to the financial statements** continued

### Ageing analysis of contractual receivables for the consolidated entity

| | Carrying amount $ | Not past due and not impaired $ | Past due but not impaired<br>Less than 1 month $ | <br>1–3 months $ | <br>3 months – 1 year $ | <br>1–5 years $ |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Sale of services and royalties | 1,030,494 | 937,094 | 41,251 | 12,817 | 39,331 | - |
| Accrued interest income | 118,150 | 118,150 | - | - | - | - |
| Other receivables | 109,745 | 109,745 | - | - | - | - |
| Amounts owed from DEDJTR | 22,083 | 22,083 | - | - | - | - |
| **Total** | **1,280,472** | **1,187,072** | **41,251** | **12,817** | **39,331** | |
| **2016** | | | | | | |
| Sale of services and royalties | 313,002 | 171,429 | - | 141,573 | - | - |
| Accrued interest income | 149,107 | 149,107 | - | - | - | - |
| Other receivables | 147,183 | 147,183 | - | - | - | - |
| Amounts owed from DEDJTR | 54,998 | 54,998 | - | - | - | - |
| **Total** | **664,290** | **522,717** | **-** | **141,573** | **-** | **-** |

The average credit period for sales of services and for other receivables is 30 days. There are no material financial assets that are individually determined to be impaired. At present the Company does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated.

## **Notes to the financial statements** continued

### 5.2 Payables

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Current payables** | | | | |
| **Contractual** | | | | |
| Supplies and services | 1,522,317 | 21,386 | 1,513,921 | 21,386 |
| Amounts payable to DEDJTR | 5,990,369 | 5,679,029 | 5,990,369 | 5,639,029 |
| Other payables and accrued expenses | 969,483 | 742,743 | 962,883 | 736,343 |
| **Statutory** | | | | |
| FBT payable | 14,210 | 16,937 | 14,210 | 16,937 |
| GST payable | 80,268 | 93,319 | 80,268 | 93,319 |
| Other taxes payable | 41,218 | 36,074 | 41,218 | 36,074 |
| **Total current payables** | **8,617,865** | **6,589,488** | **8,602,869** | **6,543,088** |

Payables consist of:

- **contractual payables**, classified as financial instruments and measured at amortised cost. Accounts payable represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid; and
- **statutory payables**, that are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

Payables for supplies and services have an average credit period of 30 days.

The terms and conditions of amounts payable to the Department vary according to the particular agreements.

**Financial guarantees**: Payments that are contingent under financial guarantee contracts are recognised as a liability, at fair value, at the time the guarantee is issued. Subsequently, should there be a material increase in the likelihood that the guarantee may have to be exercised, the liability is recognised at the higher of the amount determined in accordance with AASB 137 or the amount initially recognised.

There are no contingent liabilities as at 30 June 2017 (2016: nil).

## **Notes to the financial statements** continued

### Maturity analysis of contractual payables for the consolidated entity [(a)]

| | Carrying amount $ | Nominal amount $ | Maturity dates: Less than 1 month $ | 1–3 months $ | 3 months – 1 year $ | 1+ years $ |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Supplies and services | 1,522,316 | 1,522,316 | 1,489,272 | 12,669 | 20,375 | - |
| Amounts payable to DEDJTR | 5,990,369 | 5,990,369 | 5,821,562 | 33,693 | 135,114 | - |
| Other payables | 969,483 | 969,483 | 969,483 | - | - | - |
| **Total** | **8,482,168** | **8,482,168** | **8,280,317** | **46,362** | **155,489** | **-** |
| **2016** | | | | | | |
| Supplies and services | 21,386 | 21,386 | 21,386 | - | - | - |
| Amounts payable to DEDJTR | 5,679,029 | 5,679,029 | 5,663,354 | 15,675 | - | - |
| Other payables | 742,743 | 742,743 | 742,743 | - | - | - |
| **Total** | **6,443,158** | **6,443,158** | **6,427,483** | **15,675** | **-** | **-** |

Note:
(a) Maturity analysis is presented using the contractual undiscounted cash flows.

### 5.3 Other financial assets

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Non-current available-for-sale** | | | | |
| Investment in unlisted controlled entity at cost | - | - | 855,002 | 855,002 |
| **Total** | **-** | **-** | **855,002** | **855,002** |

Note:
Please refer to Note 4.3 for the interests in subsidiary entity.

## Notes to the financial statements continued

## 6. Financing our operations

### Introduction

This section provides information on the sources of finance utilised by the Company and its consolidated entity during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the Company.

This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Notes 7.1 and 7.3 provide additional, specific financial instrument disclosures.

### Structure



### 6.1 Borrowings

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Current borrowings** | | | | |
| Finance lease liabilities[(a)] | 9,745 | 6,416 | 9,745 | 6,416 |
| **Total current borrowings** | **9,745** | **6,416** | **9,745** | **6,416** |
| **Non-current borrowings** | | | | |
| Finance lease liabilities | 30,910 | 24,383 | 30,910 | 24,383 |
| Total non-current borrowings | 30,910 | 24,383 | 30,910 | 24,383 |
| **Total borrowings** | **40,655** | **30,799** | **40,655** | **30,799** |

Note:
(a) Secured by the assets leased. Finance leases are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Borrowings are classified as financial instruments. All interest-bearing borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether the Company has categorised its interest-bearing liabilities as either 'financial liabilities designated at fair value through profit or loss', or financial liabilities at 'amortised cost'. The classification depends on the nature and purpose of the interest-bearing liabilities. The Company determines the classification of its interest-bearing liabilities at initial recognition.

**Defaults and breaches:** During the current and prior year, there were no defaults and breaches of any of the loans.

## Notes to the financial statements continued

### 6.2 Interest expense

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Interest expense** | | | | |
| Interest on finance lease | 1,283 | 323 | 1,283 | 323 |
| **Total interest expense** | **1,283** | **323** | **1,283** | **323** |

Interest expense incurred in connection with the borrowing of funds includes interest on bank overdrafts and short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

The Company's interest expense represents costs incurred in connection with borrowings. It includes interest on interest components of finance lease repayments. The expense (excluding swap interest that is classified as another economic flow) is recognised in the period in which it is incurred.

### 6.3 Finance lease

| | Minimum future lease payments [a] 2017 $ | Minimum future lease payments [a] 2016 $ | Present value of minimum future payments 2017 $ | Present value of minimum future payments 2016 $ |
|---|---|---|---|---|
| **Finance lease liabilities payable[b]** | | | | |
| Not longer than one year | 10,923 | 7,322 | 10,923 | 7,322 |
| Longer than one year but not longer than two years | 21,622 | 7,322 | 21,622 | 7,322 |
| Longer than two years | 10,036 | 18,021 | 10,036 | 18,021 |
| **Minimum future lease payments** | | | | |
| Less future finance charges | (1,926) | (1,866) | (1,926) | (1,866) |
| **Present value of minimum lease payments** | **40,655** | **30,799** | **40,655** | **30,799** |
| **Included in the financial statements as:** | | | | |
| Current borrowings lease liabilities (Note 6.1) | - | - | 9,745 | 6,416 |
| Non-current borrowings lease liabilities (Note 6.1) | - | - | 30,910 | 24,383 |
| **Total** | **-** | **-** | **40,655** | **30,799** |

Notes:
(a) Minimum future lease payments include the aggregate of all base payments and any guaranteed residual.
(b) Finance leases relate to motor vehicles with a lease term of two years. The lessees have the option to purchase the vehicles for a nominal amount at the conclusion of the lease agreement.

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense which is calculated using the interest rate implicit in the lease and charged directly to the consolidated comprehensive operating statement.

## Notes to the financial statements continued

### 6.4 Cash flow information and balances

Cash and deposits, including cash equivalents, comprise cash on hand and cash at bank, deposits at call and those highly liquid investments with an original maturity of three months or less, which are held for the purpose of meeting short-term cash commitments rather than for investment purposes, and which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

For cash flow statement presentation purposes, cash and cash equivalents are indicated in the reconciliation below.

#### Reconciliation of cash and deposits

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| Cash at bank and on hand | 985,191 | 672,963 | 952,985 | 660,940 |
| Deposits at call | 347,088 | 1,247,672 | 320,018 | 1,220,018 |
| Deposits < 90 days | 25,551,745 | 20,185,398 | 25,336,745 | 19,865,398 |
| **Balance as per cash flow statement** | **26,884,024** | **22,106,033** | **26,609,748** | **21,746,356** |

#### 6.4.1 Reconciliation of net result for the period to cash flows from operating activities

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2017 $ | 2016 $ | 2017 $ | 2016 $ |
| **Net result for the period** | **2,977,798** | **3,511,575** | **3,046,664** | **3,572,812** |
| **Non-cash movements** | | | | |
| (Gain)/loss on sale or disposal of non-current assets | 2,039 | (18,678) | 2,039 | (18,678) |
| Depreciation and amortisation of non-current assets | 66,184 | 87,445 | 66,184 | 87,445 |
| Impairment loss / (reversal) of intangible assets | (139,873) | - | (139,873) | - |
| **Movements in assets and liabilities** | | | | |
| (Increase)/decrease in receivables | (134,080) | (385,089) | (148,949) | (384,539) |
| Increase/(decrease) in payables | 2,028,378 | (1,121,344) | 2,059,782 | (1,154,358) |
| Increase/(decrease) in provisions | (29,742) | (177,864) | (29,742) | (177,864) |
| **Net cash flows from/(used in) operating activities** | **4,770,704** | **1,896,045** | **4,856,105** | **1,924,819** |

## **Notes to the financial statements** continued

### 6.5 Commitments for expenditure

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are recorded below at their nominal value and inclusive of GST. Where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated.

These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

**(a) Research expenditure commitments**
Research expenditure commitments represent investment in research activities of the Department where AVS acquires an interest in future outcomes from new technology commercialisation.

| Nominal amounts 2017 | Less than 1 year | 1–5 years | 5+ years | Total |
|---|---|---|---|---|
| Research expenditure commitments payable | 603,130 | 381,150 | - | 2,029,280 |
| Total commitments (inclusive of GST) | 603,130 | 1,426,150 | - | 2,029,280 |
| Less GST recoverable | (54,830) | (129,650) | - | (184,480) |
| Total commitments (exclusive of GST) | 548,300 | 1,296,500 | - | 1,844,800 |

| Nominal amounts 2016 | Less than 1 year | 1–5 years | 5+ years | Total |
|---|---|---|---|---|
| Research expenditure commitments payable | 363,110 | 516,780 | - | 879,890 |
| Total commitments (inclusive of GST) | 363,110 | 516,780 | - | 879,890 |
| Less GST recoverable | (33,010) | (46,980) | - | (79,990) |
| Total commitments (exclusive of GST) | 330,100 | 469,800 | - | 799,900 |

**(b) Capital commitments**

There are no capital commitments as at 30 June 2017 (2016: nil).

Notes to the financial statements continued

# 7. Risks, contingencies and valuation judgements

## Introduction

The Company and its consolidated entity are exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information (including exposures to financial risks), as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the Company related mainly to fair value determination.

## Structure



### 7.1 Financial instruments specific disclosures

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The company's principal financial instruments comprise cash assets, term deposits, receivables (excluding statutory receivables), investments in equities, payables (excluding statutory payables), and finance lease liabilities payable.

**Categories of financial instruments**
Loans and receivables and cash are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method (and for assets, less any impairment).

The Company and its consolidated entity recognises the following assets in this category:

- cash and deposits
- receivables (excluding statutory receivables)
- term deposits.

**Available-for-sale financial instrument assets** are those designated as available-for-sale or not classified in any other category of financial instrument asset. Such assets are initially recognised at fair value. Subsequent to initial recognition, they are measured at fair value with gains and losses arising from changes in fair value, recognised in *Other economic flows – other comprehensive income* until the investment is disposed. Movements resulting from impairment and foreign currency changes are recognised in the net result as other economic flows. On disposal, the cumulative gain or loss previously recognised in *Other economic flows – other comprehensive income* is transferred to other economic flows in the net result. The Company recognises investments in equities and managed investment schemes in this category.

**Financial assets and liabilities** at fair value through net result are categorised as such at trade date, or if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit or loss on the basis that the financial assets form part of a group of financial assets that are managed based on their fair values and have their performance evaluated in accordance with documented risk management and investment strategies. Financial instruments at fair value through net result are initially measured at fair value; attributable transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other economic flows. The Company recognises equity investments and borrowings in this category.

Financial liabilities at amortised cost are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

## **Notes to the financial statements** continued

The Company recognises the following liabilities in this category:

- payables (excluding statutory payables)
- borrowings (finance lease liabilities).

**Impairment of financial assets:** At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

The allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

### 7.1.1 Financial instruments: categorisation

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | Contractual financial assets – loans and receivables cash | Contractual financial assets – available-for-sale | Contractual financial liabilities at amortised cost | Contractual financial assets – loans and receivables cash | Contractual financial assets – available-for-sale | Contractual financial liabilities at amortised cost |
| 2017 | $ | $ | $ | $ | $ | $ |
| **Contractual financial assets** | | | | | | |
| Cash and deposits | 26,884,024 | - | - | 26,609,748 | - | - |
| Receivables [(a)] | | | | | | |
| Sale of services and royalties | 1,030,494 | - | - | 1,030,494 | - | - |
| Accrued interest income | 118,150 | - | - | 118,117 | - | - |
| Other receivables | 109,745 | - | - | 109,745 | - | - |
| Amounts owed from DEDJTR | 22,083 | - | - | 22,083 | - | - |
| Amounts owed from Phytogene | - | - | - | 14,818 | | |
| Other financial assets | - | - | - | - | 855,002 | - |
| **Total contractual financial assets** | **28,164,496** | **-** | **-** | **27,905,005** | **855,002** | **-** |
| **Contractual financial liabilities** | | | | | | |
| Payables [(a)] | | | | | | |
| Supplies and services | - | - | 1,522,317 | - | - | 1,513,921 |
| Amounts payable to DEDJTR | - | - | 5,990,369 | - | - | 5,990,369 |
| Other payables | - | - | 969,483 | - | - | 962,883 |
| Borrowings | | | | | | |
| Finance lease liabilities | - | - | 40,655 | - | - | 40,655 |
| **Total contractual financial liabilities** | **-** | **-** | **8,522,824** | **-** | **-** | **8,507,828** |

Note:
(a) The carrying amounts disclosed here exclude statutory amounts (e.g. GST input tax credit recoverable and GST payables).

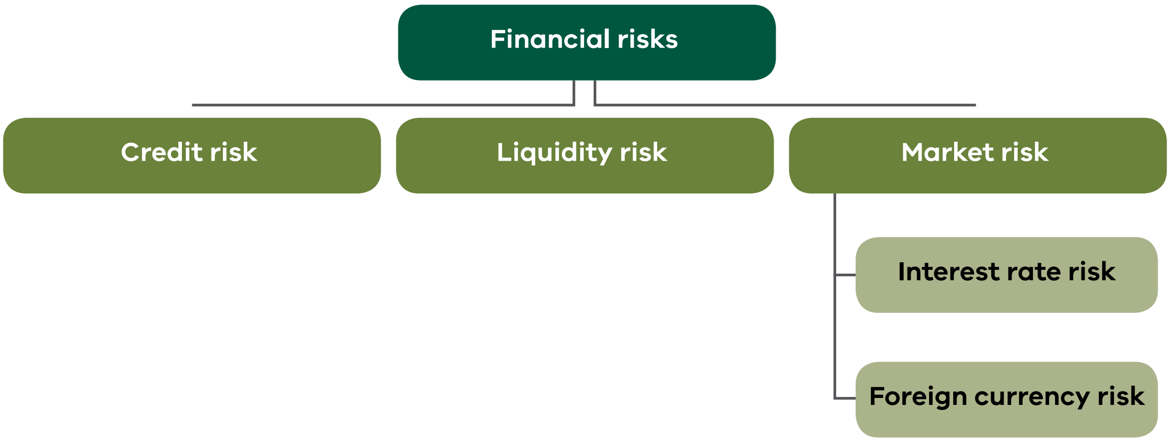
## **Notes to the financial statements** continued

| | Consolidated | | | The Company | | |
|---|---|---|---|---|---|---|
| | Contractual financial assets – loans and receivables cash | Contractual financial assets – available-for-sale | Contractual financial liabilities at amortised cost | Contractual financial assets – loans and receivables cash | Contractual financial assets – available-for-sale | Contractual financial liabilities at amortised cost |
| 2016 | $ | $ | $ | $ | $ | $ |
| **Contractual financial assets** | | | | | | |
| Cash and deposits | 22,106,033 | - | - | 21,746,356 | - | - |
| Receivables [a] | | | | | | |
| Sale of services and royalties | 313,002 | - | - | 313,002 | - | - |
| Accrued interest income | 149,107 | - | - | 148,544 | - | - |
| Other receivables | 147,183 | - | - | 147,183 | - | - |
| Amounts owed from DEDJTR | 54,998 | - | - | 54,998 | - | - |
| Other financial assets | - | - | - | - | 855,002 | - |
| **Total contractual financial assets** | **22,770,323** | **-** | **-** | **22,410,083** | **855,002** | **-** |
| **Contractual financial liabilities** | | | | | | |
| Payables [a] | | | | | | |
| Supplies and services | - | - | 21,386 | - | - | 21,386 |
| Amounts payable to DEDJTR | - | - | 5,679,029 | - | - | 5,639,029 |
| Other payables | - | - | 742,743 | - | - | 736,343 |
| Borrowings | | | | | | |
| Finance lease liabilities | - | - | 30,799 | - | - | 30,799 |
| **Total contractual financial liabilities** | **-** | **-** | **6,473,957** | **-** | **-** | **6,427,557** |

Note:
(a) The carrying amounts disclosed here exclude statutory amounts (e.g. GST input tax credit recoverable and GST payables).

## **Notes to the financial statements** continued

### 7.1.2 Financial risk management objectives and policies




As a whole, the Company's financial risk management program seeks to manage these risks and the associated volatility of its financial performance.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument above are disclosed in Note 7.3 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage the Company's financial risks within the company policy parameters.

The Company's main financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Company manages these financial risks in accordance with its financial risk management policy.

The Company uses different methods to measure and manage the different risks to which it is exposed. Primary responsibility for the identification and management of financial risks rests with the Audit and Risk Management Committee of the Company.

**Financial instruments: Credit risk**
Credit risk refers to the possibility that a borrower will default on its financial obligations as and when they fall due. The consolidated entity's exposure to credit risk arises from the potential default of counter party on their contractual obligations resulting in financial loss to the consolidated entity. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the consolidated entity's contractual financial assets is minimal because it is the consolidated entity's policy to only deal with entities with high credit ratings and or to obtain sufficient collateral or credit enhancements where appropriate. The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors.

In addition, the consolidated entity does not engage in hedging for its contractual financial assets and mainly obtains contractual financial assets that are on fixed interest, except for cash and deposits, which are mainly cash at bank. As with the policy for debtors, the Company's policy is to only deal with banks with high credit ratings.

Provision of impairment for contractual financial assets is recognised when there is objective evidence that the consolidated entity will not be able to collect a receivable. Objective evidence includes financial difficulties of the debtor, default payments and changes in debtor credit ratings.

The entity's maximum exposure to credit risk without taking into account the value of any collateral obtained is the carrying amount of financial assets as detailed in Table 7.1.1.

There has been no material change to the consolidated entity's credit risk profile in 2016–17.

**Financial instruments: Liquidity risk**
Liquidity risk arises from being unable to meet financial obligations as they fall due. The consolidated entity operates under the government fair payments policy of settling financial obligations within 30 days and in the event of a dispute,

## **Notes to the financial statements** continued

make payments within 30 days from the date of resolution. It also continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets and dealing in highly liquid markets.

The consolidated entity is exposed to liquidity risk mainly through the financial liabilities as disclosed in the face of the balance sheet. The consolidated entity's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Cash for unexpected events is generally sourced from cash and cash equivalents.

The consolidated entity's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Cash for unexpected events is generally sourced from cash and cash equivalents.

### Financial instruments: Market risk

The consolidated entity's exposures to market risk are primarily through interest rate risk and foreign currency risk. Objectives, policies and processes used to manage each of these risks are disclosed below.

*Sensitivity disclosure analysis and assumptions*

The consolidated entity's sensitivity to market risk is determined based on the observed range of actual historical data for the preceding five-year period, with all variables other than the primary risk variable held constant. Sensitivity analyses shown are for illustrative purposes only. The following movements are 'reasonably possible' over the next 12 months:

- a movement of 0.5 per cent up and down 2016 (0.5 per cent up and down) in market interest rates (AUD)
- proportional exchange rate movement of 15 per cent down (2016: 15 per cent, depreciation of AUD) and 15 per cent up (2016: 15 per cent, appreciation of AUD) against the USD, from the year end rate of 0.90 (2016: 0.90).

### Interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The consolidated entity does not hold any interest-bearing financial instruments that are measured at fair value, and therefore has no exposure to fair value interest rate risk.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The consolidated entity has minimal exposure to cash flow interest rate risks through cash and deposits, term deposits and bank overdrafts that are at floating rate.

The consolidated entity manages this risk by mainly undertaking fixed rate or non-interest-bearing financial instruments with relatively even maturity profiles, with only insignificant amounts of financial instruments at floating rate. Management has concluded for cash at bank, as financial assets that can be left at floating rate without necessarily exposing the consolidated entity to significant bad risk, management monitors movement in interest rates on a daily basis.

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates and the consolidated entity's sensitivity to interest rate risk are set out in the table that follows.

## **Notes to the financial statements** continued

### Interest rate exposure of financial instruments for the consolidated entity

| 2017 | Weighted average interest rate % | Carrying amount $ | Fixed interest $ | Variable interest $ | Non-interest bearing $ |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| **Cash and deposits** | | | | | |
| Cash at bank | 0.05 | 985,191 | - | 985,191 | - |
| Deposits at call | 1.47 | 347,088 | - | 347,088 | - |
| Deposits < 90 days | 1.79 | 25,551,745 | 215,000 | 25,336,745 | - |
| **Receivables** [(a)] | | | | | |
| Sale of services and royalties | - | 1,030,494 | - | - | 1,030,494 |
| Accrued interest income | - | 118,150 | - | - | 118,150 |
| Other receivables | - | 109,745 | - | - | 109,745 |
| Amounts owed from DEDJTR | - | 22,083 | - | - | 22,083 |
| **Total financial assets** | **-** | **28,164,496** | **215,000** | **26,669,024** | **1,280,472** |
| **Financial liabilities** | | | | | |
| **Payables** [(a)] | | | | | |
| Supplies and services | - | 1,522,317 | - | - | 1,522,317 |
| Amounts payable to DEDJTR | - | 5,990,369 | - | - | 5,990,369 |
| Other payables | - | 969,483 | - | - | 969,483 |
| **Borrowings** | | | | | |
| Finance lease liabilities | 3.25 | 40,655 | 40,655 | - | - |
| **Total financial liabilities** | | **8,522,824** | **40,655** | **-** | **8,482,169** |

Note:
(a) The carrying amounts disclosed here exclude statutory amounts (e.g. GST input tax credit recoverable and GST payables).

## **Notes to the financial statements** continued

Interest rate exposure of financial instruments for the consolidated entity

| 2016 | Weighted average interest rate $ | Carrying amount $ | Fixed interest $ | Variable interest $ | Non-interest bearing $ |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| **Cash and deposits** | | | | | |
| Cash at bank | 0.05 | 672,963 | - | 672,963 | - |
| Deposits at call | 1.90 | 1,247,672 | - | 1,247,672 | - |
| Deposits < 90 days | 2.22 | 20,185,398 | 320,000 | 19,865,398 | - |
| **Receivables** [(a)] | | | | | |
| Sale of services and royalties | - | 313,002 | - | - | 313,002 |
| Accrued interest income | - | 149,107 | - | - | 149,107 |
| Other receivables | - | 147,183 | - | - | 147,183 |
| Amounts owed from DEDJTR | - | 54,998 | - | - | 54,998 |
| **Total financial assets** | | **22,770,323** | **320,000** | **21,786,033** | **664,290** |
| **Financial liabilities** | | | | | |
| **Payables** [(a)] | | | | | |
| Supplies and services | - | 21,386 | - | - | 21,386 |
| Amounts payable to DEDJTR | - | 5,679,029 | - | - | 5,679,029 |
| Other payables | - | 742,743 | - | - | 742,743 |
| **Borrowings** | | | | | |
| Finance lease liabilities | 3.25 | 30,799 | 30,799 | - | - |
| **Total financial liabilities** | | **6,473,957** | **30,799** | **-** | **6,443,158** |

Note:
(a) The carrying amounts disclosed here exclude statutory amounts (e.g. GST input tax credit recoverable and GST payables).

## **Notes to the financial statements** continued

### Interest rate risk sensitivity for the consolidated entity

| | Carrying amount | -0.5% Net result | +0.5% Net result |
|---|---|---|---|
| **2017** | | | |
| **Financial assets** | | | |
| **Cash and deposits** | | | |
| Cash at bank | 985,191 | (4,926) | 4,926 |
| Deposits at call | 347,088 | (1,735) | 1,735 |
| Deposits < 90 days | 25,551,745 | (127,759) | 127,759 |
| **Total impact** | **26,884,024** | **(134,420)** | **134,420** |
| **2016** | | | |
| **Financial assets** | | | |
| **Cash and deposits** | | | |
| Cash at bank | 672,963 | (3,365) | 3,365 |
| Deposits at call | 1,247,672 | (6,238) | 6,238 |
| Deposits < 90 days | 20,185,398 | (100,927) | 110,927 |
| **Total impact** | **22,106,033** | **(110,530)** | **110,530** |

Note:
(a) The carrying amounts disclosed here exclude statutory amounts (e.g. GST input tax credit recoverable and GST payables).

#### Foreign currency risk

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction.

The consolidated entity is exposed to foreign currency risk mainly through its receivables relating to the royalties from overseas licensees, and payables relating to purchases of services from overseas. The consolidated entity has a limited amount of transactions denominated in foreign currencies and there is a relatively short timeframe between commitment and settlement, therefore risk is minimal.

The consolidated entity exposures are mainly against the US dollar (USD) and are managed through continuous monitoring of movements in exchange rates against the USD, and by ensuring availability of funds through rigorous cash flow planning and monitoring. Based on past and current assessment of economic outlook, it is deemed unnecessary for the consolidated entity to enter into any hedging arrangements to manage the risk.

There are no foreign currency denominated assets/ liabilities as at 30 June 2017 (2016: nil).

### 7.2 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet but are disclosed and, if quantifiable, are measured at nominal value.

Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

There are no contingent assets and liabilities as at 30 June 2017. (2016: nil)

### 7.3 Fair value determination

*Significant judgement: Fair value measurements of assets and liabilities*

Fair value determination requires judgement and the use of assumptions. This section discloses the most significant assumptions used in determining fair values. Changes to assumptions could have a material impact on the results and financial position of the Company.

This section sets out information on how the Company determined fair value for financial reporting purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

## **Notes to the financial statements** continued

The following assets and liabilities are carried at fair value:

- financial assets and liabilities at fair value through operating result
- available-for-sale financial assets
- plant, equipment and vehicles.

In addition, the fair values of other assets and liabilities that are carried at amortised cost, also need to be determined for disclosure purposes.

The Company determines the policies and procedures for determining fair values for both financial and non-financial assets and liabilities as required.

**Fair value hierarchy**
In determining fair values a number of inputs are used. To increase consistency and comparability in the financial statements, these inputs are categorised into three levels, also known as the fair value hierarchy. The levels are as follows:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

The Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**How this section is structured**
For those assets and liabilities for which fair values are determined, the following disclosures are provided:

- carrying amount and the fair value (which would be the same for those assets measured at fair value)
- which level of the fair value hierarchy was used to determine the fair value
- in respect of those assets and liabilities subject to fair value determination using Level 3 inputs:
  - a reconciliation of the movements in fair values from the beginning of the year to the end
  - details of significant unobservable inputs used in the fair value determination.

This section is divided between disclosures in connection with fair value determination for financial instruments (refer to Note 7.3.1) and non-financial physical assets (refer to Note 7.3.2).

**7.3.1 Fair value determination of financial assets and liabilities**

The Company currently holds a range of financial instruments that are recorded in the financial statements where the carrying amounts are a reasonable approximation of fair value, either due to their short-term nature or with the expectation that they will be paid in full by the end of the 2016–17 reporting period.

These financial instruments include:

| Financial assets | Financial liabilities |
|---|---|
| Cash and deposits | Payables: |
| Receivables: | • Supplies and services |
| • Sale of services and royalties | • Amounts payable to the Department |
| • Accrued interest income | • Other payables |
| • Other receivables | Borrowings: |
| • Other financial assets | • Finance lease liabilities |
| Investments and other contractual financial assets: | |
| • Term deposits | |

## **Notes to the financial statements** continued

**7.3.2 Fair value determination of non-financial assets**

The fair values and net fair values of non-financial assets and liabilities are determined as follows:

- Level 1 – the fair value of financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices
- Level 2 – the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly
- Level 3 – the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

**Fair value measurement hierarchy**

| | Carrying amount as at June 2017 | Fair value measurement at the end of reporting period using: | | |
|---|---|---|---|---|
| | | Level 1 [(a)] | Level 2 [(a)] | Level [(a)] |
| **2017** | | | | |
| **Plant, equipment and vehicles at fair value** | | | | |
| Vehicles | 82,480 | n.a. | .. | 82,480 |
| Plant and equipment | 119 | n.a. | .. | 119 |
| Intangible assets | 357,839 | | | 357,839 |
| **Total non-financial assets at fair value** | **440,438** | **n.a.** | **..** | **440,438** |
| **2016** | | | | |
| **Plant, equipment and vehicles at fair value** | | | | |
| Vehicles | 105,621 | n.a. | .. | 105,621 |
| Plant and equipment | 153 | n.a. | .. | 153 |
| Intangible assets | 260,446 | | | 260,446 |
| **Total non-financial assets at fair value** | **366,220** | **n.a.** | **..** | **366,220** |

Note:
(a) Classified in accordance with the fair value hierarchy.

**Vehicles** are valued using the depreciated replacement cost method. The company acquires new vehicles and at times disposes of them before the end of their economic life. The process of acquisition, use and disposal in the market is managed by the fleet manager who sets relevant depreciation rates during use to reflect the utilisation of the vehicles.

**Plant and equipment** is held at fair value. When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method.

**Intangible assets** are valued at the lower amortised value or NPV of future cash flows.

There were no changes in valuation techniques throughout the period to 30 June 2017.

For all assets measured at fair value, the current use is considered the highest and best use.

**Description of significant unobservable inputs to level 3 valuations**

| 2017 and 2016 | Valuation technique [(a)] | Significant unobservable inputs |
|---|---|---|
| **Vehicles** | Depreciated replacement cost | Cost per unit<br>Useful life of vehicles |
| **Plant and equipment** | Depreciated replacement cost | Cost per unit<br>Useful life of plant and equipment |

Significant unobservable inputs have remained unchanged since June 2016.

## Notes to the financial statements continued

# 8. Other disclosures

### Introduction

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.

### Structure



### 8.1 Other economic flows included in net result

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions. Other gains/(losses) from other economic flows include the gains or losses from:

- the revaluation of the present value of the long service leave liability due to changes in the bond interest rates
- the reversal of an asset impairment
- transfer of amounts from the reserves to accumulated surplus or net result due to a disposal or derecognition or reclassification.

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Net gain/(loss) on non-financial assets** | | | | |
| Reversal of impairment of intangible assets [(a)] | 139,873 | - | 139,873 | - |
| Net gain/(loss) on disposal of property plant and equipment | (2,039) | 18,678 | (2,039) | 18,678 |
| **Total net gain/(loss) on non-financial assets** | **137,834** | **18,678** | **137,834** | **18,678** |
| **Net gain/(loss) on financial instruments** | | | | |
| Net FX gain/(loss) arising from foreign cash and transactions | 152 | (130) | 152 | (130) |
| **Total net gain/(loss) on financial instruments** | **152** | **(130)** | **152** | **(130)** |
| **Other gains/(losses) from other economic flows** | | | | |
| Net gain/(loss) arising from revaluation of long service liability [(b)] | (5,624) | (3,181) | (5,624) | (3,181) |
| **Total other gains/(losses) from other economic flows** | **(5,624)** | **(3,181)** | **(5,624)** | **(3,181)** |

Notes:

(a) Reversal of impairment on Primary Oilseeds investment due to improved NPV of future cash flows.

(b) Revaluation gain/(loss) due to changes in bond rates.

## **Notes to the financial statements** continued

### 8.2 Responsible persons

The following disclosures are made regarding responsible persons for the reporting period.

**Names**

The persons who held the positions of directors and accountable officers in the Company during the financial year are as follows:

| | |
|---|---|
| Prof. G. Spangenberg (Phytogene Director) | 1 July 2016 to 30 June 2017 |
| Dr C. Noble (AVS Chairman and Phytogene Director) | 1 July 2016 to 30 June 2017 |
| Ms K. Adams (AVS Director) | 1 July 2016 to 30 June 2017 |
| Dr R. Aldous (AVS Director) | 1 November 2016 to 30 June 2017 |
| Ms S. Andersen (AVS Director) | 1 November 2016 to 30 June 2017 |
| Dr A. Caples (AVS Director) | 1 November 2016 to 30 June 2017 |
| Mr P. Turvey (AVS Director and Phytogene Chairman) | 1 July 2016 to 30 June 2017 |
| Mr A. Christianen (AVS Director) | 1 July 2016 to 31 October 2016 |
| Dr J. Slocombe (AVS Director) | 1 July 2016 to 31 October 2016 |
| Mr D. Liesegang (AVS CEO and Phytogene EO) | 1 July 2016 to 30 June 2017 |

**Remuneration**

Remuneration received or receivable by the board of directors in connection with the management of the Company during the reporting period was in the range: $16,000 to $26,000 ($16,000 to $26,000 in 2015–16).

No remuneration is paid by the company to directors employed by Victorian Public Service.

Remuneration received or receivable by the accountable officer in connection with management of company during reporting period was in the range: $190,000 to $200,000 ($190,000 to $200,000 in 2015–16).

No director of the company, since the end of the previous financial year, received or became entitled to receive a benefit other than benefits disclosed in the financial statements, or the fixed salary of a full-time employee of the Company or a related corporation by reason of a contract made by the Company or a related corporation with the director or with a firm of which that person is a member, or with a company in which that person has a substantial financial interest.

### 8.3 Remuneration of executives

The number of executive officers, other than directors, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full-time equivalent executive officers over the reporting period.

Remuneration of executives comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories.

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis and bonus.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long service benefits or deferred compensation.

## Notes to the financial statements continued

| Remuneration of executive officers (including key management personnel disclosed in Note 8.4) | Total remuneration 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | $502,306 | |
| Post-employment benefits | $47,799 | |
| Other long-term benefits | $23,261 | |
| **Total remuneration [(a)(b)]** | **$573,366** | |
| **Total number of executives** | **5** | **5** |
| **Total annualised employee equivalents [(c)]** | **3** | **2** |

Notes:

(a) No comparatives have been reported because remuneration in the prior year was determined in line with the basis and definition under FRD 21B. Remuneration previously excluded non-monetary benefits and comprised any money, consideration or benefit received or receivable, excluding reimbursement of out-of-pocket expenses, including any amount received or receivable from a related party transaction. Refer to the prior year's financial statements for executive remuneration for the 2015-16 reporting period.

(b) The total number of executive officers includes persons who meet the definition of key management personnel (KMP) of the entity under AASB 124 Related Party Disclosures and are also reported within the related parties note disclosure (Note 8.4).

(c) Annualised employee equivalent is based on the time fraction worked over the reporting period.

Several factors affected total remuneration payable to executives over the year. A number of executive officers resigned and a number of executive officers commenced.

### 8.4 Related parties

The Group's related parties include its key management personnel and related entities as described below.

All related party transactions have been entered into on an arm's length basis. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

**Subsidiary**

The Company's wholly owned subsidiary, Phytogene Pty Ltd, has been consolidated into the Company's financial statements.

**Key management personnel**

The Company is incorporated under the *Corporations Act 2001* and therefore key management personnel of the Group are limited to the directors and executives of the Company and its subsidiary, namely:

Dr C. Noble (AVS Chairman and Phytogene Director)
Ms K. Adams (AVS Director)
Dr R. Aldous (AVS Director)
Ms S. Andersen (AVS Director)
Dr A. Caples (Director)
Mr P. Turvey (AVS Director and Phytogene Chairman)
Prof. G. Spangenberg (Phytogene Director)
Mr D. Liesegang (Chief Executive Officer)

## **Notes to the financial statements** continued

| Compensation of KMPs | The Company | Subsidiary |
|---|---|---|
| Short-term employee benefits | $274,866 | - |
| Post-employment benefits | $26,112 | - |
| Other long-term benefits | $6,713 | - |
| **Total remuneration (a)(b)** | **$307,691** | **-** |

Notes:
(a) The remuneration paid to Directors is discussed in Note 8.2 and the remuneration paid to executives is discussed in Note 8.3.
(b) No remuneration paid to Directors of subsidiary.
(c ) No remuneration is paid by the company to directors employed by Victorian Public Service.

**Transactions and balances with key management personnel and other related parties**
The Group's employment of processes occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements.

There were no related party transactions that involved key management personnel, their close family members and their personal business interests. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

No director of the Company, since the end of the previous financial year, received or became entitled to receive a benefit other than benefits disclosed in the financial statements, or the fixed salary of a full-time employee of the Company or a related corporation by reason of a contract made by the Company or a related corporation with the director or with a firm of which that person is a member, or with a company in which that person has a substantial financial interest.

## Notes to the financial statements continued

### 8.5 Significant commercial transactions with the State of Victoria

While the Group is a *Corporations Act 2001* entity, the Group is beneficially owned by the State of Victoria and therefore significant commercial transactions with it are provided in this note for improved disclosure purposes.

For the year ended 30 June 2017, the Company provided a majority of its services to DEDJTR. These services were provided on a normal commercial basis. The value of transactions between the Company and related parties for the financial year were as follows:

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Revenues** | | | | |
| Received from DEDJTR | 3,461,079 | 2,691,863 | 3,461,079 | 2,691,863 |
| Received from controlled entity | - | - | 15,298 | 300 |
| **Expenses** | | | | |
| Paid to DEDJTR | 7,125,184 | 9,154,368 | 7,125,184 | 9,114,368 |
| Paid to controlled entity | - | - | - | - |

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Receivables** | | | | |
| Receivable from DEDJTR | 22,083 | 54,998 | 22,083 | 54,998 |
| Receivable from controlled entity | - | - | 14,818 | - |
| **Payables** | | | | |
| Payable to DEDJTR | 5,990,369 | 5,679,029 | 5,990,369 | 5,639,029 |
| Payable to controlled entity | - | - | - | - |

### 8.6 Remuneration of auditors

| | Consolidated 2017 $ | Consolidated 2016 $ | The Company 2017 $ | The Company 2016 $ |
|---|---|---|---|---|
| **Victorian Auditor-General's Office** | | | | |
| Audit or review of the financial statements | 40,500 | 39,300 | 33,900 | 32,900 |
| Internal Audit Services | | | | |
| HLB Mann Judd Pty Ltd | 38,300 | 17,540 | 38,300 | 17,540 |
| **Other non-audit services [(a)]** | **-** | **-** | **-** | **-** |
| **Total remuneration of auditors** | **78,800** | **56,840** | **72,200** | **50,440** |

Note:
(a) The Victorian Auditor-General's Office is not allowed to provide non-audit services.

**Notes to the financial statements** continued

## 8. Other disclosures

### 8.7 Subsequent events

No matters and/or circumstances have arisen since the end of the reporting period which significantly affect or may significantly affect the operations of the Company.

### 8.8 Other accounting policies and presentation of financial statements

#### Contributions by owners

Consistent with the requirements of AASB 1004 Contributions, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of the Department.

Additions to net assets that have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners have also been designated as contributions by owners.

Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners. Transfers of net liabilities arising from administrative restructurings are treated as distributions to owners.

#### Foreign currency balances/transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign monetary items existing at the end of the reporting period are translated at the closing rate at the date of the end of the reporting period. Non-monetary assets carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined.

Foreign currency translation differences are recognised in other economic flows in the consolidated comprehensive operating statement and accumulated in a separate component of equity, in the period in which they arise.

#### Comprehensive operating statement

The comprehensive operating statement comprises three components, being 'net result from transactions' (or termed as 'net operating balance'), 'other economic flows included in net result', as well as 'other economic flows – other comprehensive income'. The sum of the former two represents the net result. The net result is equivalent to profit or loss derived in accordance with AASs.

'Other economic flows' are changes arising from market re-measurements. They include gains and losses from disposals of non-financial assets; revaluations and impairments of non-financial physical and intangible assets and re-measurement arising from defined benefit superannuation plans.

This classification is consistent with the whole of government reporting format and is allowed under *AASB 101 Presentation of Financial Statements*.

#### Balance sheet

Items of assets and liabilities in the balance sheet are presented in liquidity order with assets aggregated into financial and non-financial assets.

Current versus non-current assets and liabilities – non-current being those assets or liabilities expected to be recovered or settled more than 12 months after the reporting period – are disclosed in the notes where relevant except for the provision of employee benefits, which are classified as current liabilities if the company does not have the unconditional right to defer the settlement of the liabilities 12 months after the end of the reporting period.

The net result is the equivalent to profit or loss defined in accordance with Australian Accounting Standards.

#### Cash flow statement

Cash flows are classified according to whether or not they arise from operating, investing, or financing activities. This classification is consistent with requirements under AASB 107 Statement of Cash Flows.

#### Statement of changes in equity

The statement of changes in equity presents reconciliations of each non-owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balance at the end of the reporting period. It also shows separately changes due to amounts recognised in the comprehensive result and amounts recognised in equity related to transactions with owner in their capacity as owner.

#### Accounting for goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

## **Notes to the financial statements** continued

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### Income tax

Agriculture Victoria Services Pty Ltd is a company wholly owned by the State Government of Victoria. The company and its controlled entities are exempt from income tax under Section 24AO Income Tax Assessment Act and as such does not adopt tax effect accounting.

### Compliance information

These general-purpose financial statements have been prepared in accordance with the *Corporations Act 2001* and applicable Australian Accounting Standards (AASs) which include Interpretations, issued by the Australian Accounting Standards Board (AASB). AASs include Australian equivalents to International Financial Reporting Standards.

### 8.9 Australian Accounting Standards issued that are not yet effective

The following AASs become effective for reporting periods commencing after the operative dates stated:

Certain new AASs have been published which are not mandatory for the 30 June 2017 reporting period. The Company assesses the impact of these new standards and their applicability and early adoption where applicable.

## **Notes to the financial statements** continued

SUMMARY OF NEW/REVISED ACCOUNTING STANDARDS EFFECTIVE FOR CURRENT AND FUTURE REPORTING PERIODS

**Current reporting period**

The following accounting pronouncements effective from the 2016–17 reporting period are considered to have insignificant impacts on public sector reporting:

- AASB 1057 *Application of Australian Accounting Standards*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, AASB 101, AASB 134 & AASB 1049]*
- AASB 2015-9 *Amendments to Australian Accounting Standards – Scope and Application Paragraphs [AASB 8, AASB 133 & AASB 1057]*
- AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

## Notes to the financial statements continued

**Future reporting periods**

The table below outlines the accounting pronouncements that have been issued but not effective for 2016-17, which may result in potential impacts on public sector reporting for future reporting periods.

| Topic | Key requirements | Effective date | Impact on consolidated entity financial statements |
|---|---|---|---|
| AASB 9 *Financial Instruments* | The key changes introduced by AASB 9 include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred. | 1 January 2018 | The assessment has identified that the amendments are likely to result in earlier recognition of impairment losses and at more regular intervals.<br>While there will be no significant impact arising from AASB 9, there will be a change to the way financial instruments are disclosed. |
| AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]* | The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:<br>the change in fair value attributable to changes in credit risk is presented in other comprehensive income (OCI); and<br>other fair value changes are presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. | 1 January 2018 | The assessment has identified that the financial impact of available for sale (AFS) assets will now be reported through other comprehensive income (OCI) and no longer recycled to the profit and loss.<br>Changes in own credit risk in respect of liabilities designated at fair value through profit and loss will now be presented within other comprehensive income (OCI). |
| AASB 2014-1 *Amendments to Australian Accounting Standards [Part E Financial Instruments]* | Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018; as a consequence of Chapter 6; and to amend reduced disclosure requirements. | 1 January 2018 | This amending standard will defer the application period of AASB 9 to the 2018-19 reporting period in accordance with the transition requirements. |
| AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9* | Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9. | 1 January 2018 | The assessment has indicated that there will be no significant impact for the consolidated entity. |

## **Notes to the financial statements** continued

| Topic | Key requirements | Effective date | Impact on consolidated entity financial statements |
|---|---|---|---|
| AASB 15 *Revenue from Contracts with Customers* | The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. Note that amending standard AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* has deferred the effective date of AASB 15 to annual reporting periods beginning on or after 1 January 2018, instead of 1 January 2017. | 1 January 2018 | The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications. |
| AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* | Amends the measurement of trade receivables and the recognition of dividends. Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. Dividends are recognised in the profit and loss only when:<br>the entity's right to receive payment of the dividend is established;<br>it is probable that the economic benefits associated with the dividend will flow to the entity; and the amount can be measured reliably. | 1 January 2017, except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply 1 January 2018 | The assessment has indicated that there will be no significant impact for the consolidated entity. |
| AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* | This standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018. | 1 January 2018 | This amending standard will defer the application period of AASB 15 for for-profit entities to the 2018-19 reporting period in accordance with the transition requirements. |
| AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities* | The standard amends AASB 136 Impairment of Assets to remove references to using depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities. | 1 January 2017 | The assessment has indicated that there is minimal impact. Given the specialised nature and restrictions of the consolidated entity assets, the existing use is presumed to be the highest and best use (HBU), hence current replacement cost under AASB 13 Fair Value Measurement is the same as the depreciated replacement cost concept under AASB 136. |

## **Notes to the financial statements** continued

| Topic | Key requirements | Effective date | Impact on consolidated entity financial statements |
|---|---|---|---|
| AASB 16 *Leases* | The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet. | 1 January 2019 | The assessment has indicated that as most operating leases will come on balance sheet, recognition of the right-of-use assets and lease liabilities will cause net debt to increase.<br>Rather than expensing the lease payments, depreciation of right-of-use assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus.<br>No change for lessors. |
| AASB 1058 *Income of Not-for-Profit Entities* | This Standard will replace AASB 1004 Contributions and establishes principles for transactions that are not within the scope of AASB 15, where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives. | 1 January 2019 | The assessment has indicated that there will be no significant impact for the consolidated entity. |
| AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* | This Standard amends AASB 9 and AASB 15 to include requirements and implementation guidance to assist not-for-profit entities in applying the respective standards to particular transactions and events. | 1 January 2019 | The assessment has indicated that there will be no significant impact for the consolidated entity, other than the impacts identified for AASB 9 and AASB 15 above. |

The following accounting pronouncements are also issued but not effective for the 2016–17 reporting period. At this stage, the preliminary assessment suggests they may have insignificant impacts on public sector reporting.

AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*

AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments*

AASB 2017-2 *Amendments to Australian Accounting Standards*

Notes:
For the current year, given the number of consequential amendments to AASB 9 *Financial Instruments and AASB 15 Revenue from Contracts with Customers*, the standards/interpretations have been grouped together to provide a more relevant view of the upcoming changes.

## **Notes to the financial statements** continued

### 8.10 Glossary of technical terms

The following is a summary of the major technical terms used in this report.

**Amortisation** is the expense that results from the consumption, extraction or use over time of a non-produced physical or intangible asset. This expense is classified as an 'other economic flow'.

**Borrowings** refers to interest-bearing liabilities mainly raised from public borrowings raised through the Treasury Corporation of Victoria, finance leases and other interest bearing arrangements. Borrowings also include non-interest bearing advances from government that are acquired for policy purposes.

**Commitments** include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

**Comprehensive result** is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

**Controlled item** generally refers to the capacity of a department to benefit from that item in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit.

**Depreciation** is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a 'transaction' and so reduces the 'net result from transaction'.

**Employee benefits expenses** include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

**Financial asset** is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:
- to receive cash or another financial asset from another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:
- a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

**Financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial liability** is any liability that is:

(a) a contractual obligation:
- to deliver cash or another financial asset to another entity; or
- to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

(b) a contract that will or may be settled in the entity's own equity instruments and is:
- a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
- a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

**Financial statements** comprises:

(a) a balance sheet as at the end of the period;

(b) a comprehensive operating statement for the period;

(c) a statement of changes in equity for the period;

(d) a cash flow statement for the period;

(e) notes, comprising a summary of significant accounting policies and other explanatory information;

(f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements;*

**Interest expense** represents costs incurred in connection with borrowings. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings.

## Notes to the financial statements continued

**Interest income** includes unwinding over time of discounts on financial assets and interest received on bank term deposits and other investments.

**Leases** are rights to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of vehicles are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

**Net financial liabilities** is calculated as liabilities less financial assets.

**Net financial worth** is equal to financial assets minus liabilities. It is a broader measure than net debt as it incorporates provisions made (such as superannuation, but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

**Net result** is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those classified as 'other non-owner movements in equity'.

**Net worth** is calculated as assets less liabilities, which is an economic measure of wealth.

**Non-financial assets** are all assets that are not financial assets. It includes plant and equipment, intangibles assets.

**Operating result** is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'. Refer also 'net result'.

**Other economic flows included in net result** are changes in the volume or value of an asset or liability that do not result from transactions. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

**Other economic flows – other comprehensive income** comprises items (including reclassification adjustments) that are not recognised in net result as required or permitted by other Australian Accounting Standards. They include changes in physical asset revaluation surplus; share of net movement in revaluation surplus of associates and joint ventures; and gains and losses on remeasuring available-for-sale financial assets.

**Payables** includes short and long-term trade debt and accounts payable, taxes and interest payable.

**Prepayments** represents other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

**Produced assets** include plant and equipment and certain intangible assets. Intangible produced assets may include computer software and research and development costs (which does not include the start-up costs associated with capital projects).

**Receivables** include amounts owing through short and long-term trade credit and accounts receivable, accrued investment income and interest receivable.

**Sales of services** refers to income from the direct provision of goods and services and includes fees and charges for services rendered, sales of services and work done as an agent.

**Supplies and services** generally represent the day to day running costs, including maintenance costs, incurred in the normal operations of the Company.

### 8.11 Style conventions

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

| | |
|---|---|
| .. | zero, or rounded to zero |
| (xxx.x) | negative numbers |
| 200x | year period |
| 200x 0x | year period |

The financial statements and notes are presented based on the illustration for a government department/agencies in the 2016–17 Model Report for Victorian Government Departments/Agencies. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of the Company's annual reports.

# Appendix 1: Acronyms and Glossary of terms

| Term | Meaning |
|---|---|
| AVS | Agriculture Victoria Services Pty Ltd also referred to as 'the Company' |
| AVR | Agriculture Victoria Research division of the Department |
| ARMC | Audit & Risk Management Committee |
| BET | Biomass Enhancement Technology |
| BTI | Boyce Thomson Institute |
| CRC | Cooperative Research Centre |
| CSIRO | Commonwealth Scientific and Industrial Research Organisation |
| Department or DEDJTR | The State of Victoria's Department of Economic Development, Jobs, Transport and Resources |
| EMMA | Enhanced Metadata Management Application |
| Fungal endophyte | A fungus that lives within a plant, is naturally occurring and lives harmoniously with the host plant. |
| Genome editing (or 'gene editing') | Genome editing is a precision breeding method that involves targeting changes to an organism's own DNA sequence by guiding the organism's DNA repair mechanism to make targeted modifications to the genome. |
| Genome modification or GM | Genetic modification is a breeding method that involves the addition of a gene construct into an organism's own DNA sequence. |
| Genomic selection | A breeding method that provides a simple, accelerated and inexpensive approach to dissecting complex traits and estimating the breeding values of plants and animals. |
| HIAL | Horticulture Innovation Australia Limited |
| HOLL | High Oleic, Low Linolenic |
| HT | Herbicide Tolerant |
| ICT | Information and Communications Technology |
| IP | Intellectual property |
| LXR® | Delayed plant leaf senescence technology. Pronounced 'Elixir'. |
| NPV | Net Present Value |
| Mutagenesis | A process leading to genetic variation through the generation of mutations. It may occur spontaneously in nature, or as a result of induced exposure to mutagens. |
| OHV | Optimal Haploid Value. OHV technology enables prediction of a plant's potential to produce an elite doubled haploid based on genetic marker analysis. It is a transformational improvement of genomic selection allowing further enhancement in genetic gain and retaining genetic diversity. |
| PBR | Plant Breeder's Rights. PBRs are exclusive commercial rights for a registered variety of plant. The rights are a form of intellectual property, like patents and trademarks, and are administered under the *Plant Breeder's Rights Act 1994*. |
| Phytogene | Phytogene Pty Ltd (a wholly owned subsidiary of AVS) |
| R&D | Research and Development |
| Trait | A characteristic of an organism (such as disease resistance in crops or fertility in cows). |
| VGRMF | Victorian Government Risk Management Framework |

# Notes

# Notes

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