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Next generation biomaterials

Scion

Statement of Corporate Intent
1 July 2009 – 30 June 2012

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

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Preamble

New Zealand Forest Research Institute Limited trading as Scion is a company registered under the Companies Act 1993, established pursuant to the Crown Research Institute Act 1992, and also subject to the Crown Entities Act 2004.

It is a science and technology company that undertakes research for the public good through contracts with the Foundation for Research, Science, and Technology (FRST) and other government agencies, and delivers commercial outputs and solutions to clients.

It benefits New Zealand through the transfer of its knowledge and technological innovation to industry and others, thus contributing to meeting government outcomes. Scion aims to deliver economic benefits to the nation and to contribute to social, cultural and environmental outcomes for New Zealand.

In 2002, Scion implemented a bold, new strategic direction to broaden its coverage and embrace research and development in the broad field of biomaterials, of which forestry is an important part. By 2005, this strategic direction led to Scion being repositioned and rebranded as Scion.

Scion continues to work within the Operating Framework as laid down by the Minister of Crown Research Institutes, and focuses its efforts on activities that will underpin New Zealand's sustainable economic growth through greater use of its natural resources.

Scion's Vision, Mission and Values

Vision

Biomaterial Futures: Advancing the widespread utilisation of renewable materials and products derived from plants for economic, environmental, cultural and social returns.

Mission

To improve the international competitiveness of the New Zealand forest industry and build a stronger biobased economy for New Zealand

Values

Scion's organisational values reflect its people. We are known for being Vital, Innovative, and Collaborative. By this we mean:

Vital: We lead with vitality and positive attitude and thrive on professional and personal challenge. We are defined by our passion for our science and the drive to make a difference.

Innovative: We listen and debate with vigour and rigour to uncover new thinking to identify solutions that matter. We harness our diversity to deliver prosperity for New Zealand.

Collaborative: At the heart of Scion culture is trust. We value and thrive on high trust respectful partnerships with our colleagues, clients and communities.

Scion's Strategy

Scion's strategy been developed in response to its operating environment and aligns science and commercial focus with the opportunities being presented locally, nationally and globally.

The global and national drivers for Scion's recent strategic repositioning remain in place - sustainable economic growth through greater utilisation of renewable resources and lower environmental impact production systems. These are driven by citizens and governments responding to global concerns on climate change, water resources, sustainable land use, and waste reduction, which are catalysing the development of a new economic regime, "the Bioeconomy". This covers a broad range of economic activities, all benefiting from bioscience discoveries and related products and services.

At the heart of this economic repositioning towards the Bioeconomy is the sustainable production of biomass that does not compete with food and feed production. New Zealand is well positioned to develop its economy because it can sustainably grow biomass and leverage international technology developments in this area. New Zealand is fortunate that land not otherwise suited to arable production can support economically viable forest production systems. These forests will underpin New Zealand's Bioeconomy growth while also improving water quality, providing erosion control, enhancing biodiversity, and creating recreational and tourism benefits.

For these opportunities to be realised, the international competitiveness of New Zealand's existing forest industries must be improved. Solutions must be developed to effectively utilise New Zealand's substantial area of low productivity marginal land. Technologies must also be developed to create new bioproducts from New Zealand-grown resources.

Scion has built scientific capability, sector and science partnerships, and strong links with policy agencies. Through these relationships Scion will connect to leading international science hubs to enhance technology development and uptake by its sector partners. Scion will continue to provide strong support for policy agencies in the areas of economic development, sustainable land use, energy, waste, and climate change. Scion's strategic goals will enable this.

Goal 1: **Increase profitability of New Zealand's forest industries**

Goal 2: **Optimise the value of marginal land**

Goal 3: **Accelerate growth of the Bioeconomy**

Goal 4: **Maximise the quality and impact of Scion's science**

Through the delivery of Scion's strategy, its science will continue to support economic growth from New Zealand's natural resources.

Crown Research Institute Capability Fund

The Crown Research Institute (CRI) Capability Fund is an important instrument which enables Scion to put its strategic plan into effect and to deliver on shareholder expectations. The application of the Scion Capability Fund is driven by the strategy, which is informed by its stakeholders including:

1. Central and Local Government such as the Ministry of Agriculture and Forestry (MAF), the Ministry for the Environment (MfE), the Ministry of Economic Development (MED), district and regional councils.

2. Sector representation through organisations such as Wood Co., the Forest Owners Association (FOA), the Wood Processors Association (WPA), Future Forests Research Ltd (FFR), and the Radiata Pine Breeding Company Ltd (RPBC).

3. Key influencers for building the Bioeconomy in New Zealand, including energy users, specialty chemicals companies and key participants in industrial biotechnology both within New Zealand and Internationally.

All research programmes in Scion are informed by, or include active involvement with, end users. Collectively this engagement both directly and indirectly informs Scion's capability development programme to support its skills relevant to its stakeholders and to meet New Zealand's existing and future needs. The Scion Capability Fund is allocated by the Scion Investment Committee, which is chaired by the Chief Executive Officer and includes an independent advisor.

In 2009 – 2011 the Scion Capability Fund will support Scion's four Goals by:

- Growing Scion's capability in polymers and lignin-derived chemicals production and exploitation. These two products are identified as important outcomes from lignocellulosic biorefining;
- Building new skills in tree harvesting to support industry initiatives to increase harvesting productivity and address critical problems in steep country harvesting;
- Strengthening capability in Environmental Services, specifically quantification and capture of value from such services;
- Enhancing capability in molecular biology, genetics and tree breeding to support Scion's capability in tree propagation and design of biomass for new products; and
- Strengthening Scion's capability in bioenergy options analysis, and lignocellulosic conversion to second-generation energy products such as transport fuels.

Business Policies

Scion aims to remain a high-quality, financially viable research organisation with an exemplary international reputation, earning an appropriate rate of return on Shareholder funds whilst providing relevant outputs to the highest standards of professionalism and maintaining prudent business practices.

Statutory Requirements Policy

Scion will operate in accordance with relevant legislative requirements, including the Crown Research Institutes Act 1992, Companies Act 1993, and the Crown Entities Act 2004. In doing so, Scion will undertake business according to the following:

- ***Commitment to New Zealand***
  Scion adheres firmly to its primary role as contributing to the social, economic and environmental wealth of the nation and will ensure that resources are used efficiently and effectively, and are targeted to areas of greatest benefit to New Zealand.

- ***Commitment to its Staff***
  Scion will implement employment policies consistent with generally accepted fair and reasonable employment principles. Such principles will recognise the need for adequate and safe working conditions, equal employment opportunities, impartial selection procedures and opportunities for the development of individuals.

- ***Commitment to Excellence and Innovation***
  Scion will strive to achieve excellence in the conduct of its research and business activities and will develop and maintain a vibrant working environment which fosters creative thinking, innovative research and technical leadership.

- ***Commitment to Maori***
  Scion recognises the Treaty of Waitangi. It seeks to discern the needs of Maori stakeholders, placing emphasis on developments that may benefit Maori and ensuring the organisation understands Maori values and principles.

- ***Commitment to Growth and Development***
  Scion will actively seek opportunities to lead and champion growth in the industrial crop and renewable biomaterials market whilst maintaining strong commitment to the New Zealand forestry sector.

- ***Commitment to Corporate Social Responsibility***
  Scion is committed to behaving in an ethical manner, adhering to the philosophies and practices of corporate social responsibility. Scion will implement these philosophies in the workplace, marketplace, community and natural environment, contributing to the sustainable economic development of all arenas in which it operates.

- ***Commitment to Technology Transfer***
  Scion will ensure rapid and effective transfer of new knowledge to its stakeholders and clients in a manner consistent with its business strategy.

- ***Commitment to the Community***
  Scion will strive to act in the best interests of any community in which it operates.

- ***Commitment to its Shareholders***
  Scion is committed to be dynamic and progressive in operating a successful business. In fulfilling these objectives Scion shall operate in a financially responsible manner so that it maintains its financial viability.

- ***Commitment to Ethical Standards***
  Scion undertakes to comply with any applicable ethical standards in the conduct of its research and business activities.

Policy on Acquisitions, Mergers and Divestments

Scion will strive to continuously add value to its activities and improve the net worth of the company and its shareholders. It will ensure that all new investments within core business, expansions of core business and diversification away from core business, will ordinarily provide shareholders with additional economic value commensurate with the risks involved.

Expansion and contraction through material acquisitions and mergers, acquisitions, or disposal, of shares or joint ventures will be undertaken in compliance with the Delegated Authority Manual (DAM). Scion will comply with the relevant shareholder guidelines when contemplating material acquisitions or divestments. The current guidelines require Scion to seek shareholder consent where the value of the proposed acquisition or divestment is greater than 30% of the total assets (taken as a whole) or $5m whichever is the lesser.

Human Resources Policies

Scion aims to be a good employer. It will recruit people whose competencies match the requirements to achieve its strategy and vision. The organisation’s policies and procedures aim to ensure equal opportunity for all, that people are developed to their full potential, achieve an appropriate “work-life” balance and that there is compliance with employment, health and safety and associated legislation.

Intellectual Property Policies

The primary goal of the Intellectual Property (IP) management policies is to ensure that the interests of both the Crown and Scion are protected, that knowledge and expertise are managed appropriately, the health of the IP portfolio is monitored continuously, and technological innovations are commercialised effectively.

Particular regard will be paid to the statutory requirement to promote and facilitate the application of research results and technological developments while remaining financially viable. Benefit to New Zealand is a key requirement for IP and technology commercialisation.

Scion has responded to these needs by implementing a comprehensive Strategic IP Management Policy and best-practice stage-gating of technological developments across the entire group. Policies have been implemented which allow inventors and science teams to benefit financially from the IP they develop and all staff to share benefit of Scion’s total success.

General principles and procedures have been developed relating to the access, use, maintenance, enhancement or disposal of any intellectual property, national databases, reference collections, research and the benefits of research held by Scion.

The Board of Directors reviews IP Policies and the IP Portfolio on an annual basis.

Databases and Collections Policies

Scion's important collections and databases are identified in Appendix Two. One of these, the National Forest Herbarium and Database, is currently supported through the Research Infrastructure (Backbone) Investment fund. In addition, Scion has stewardship over several other important national science assets. The New Zealand Forestry Heritage Library is the largest collection of scientific forestry information and literature in the Southern Hemisphere, which is supported solely through internal investment and/or through commercial activities. Access to any national database or reference collection is provided in line with the policy specified in Appendix Three.

Scion also has many other databases and reference collections that support its ongoing research and development.

Risk Policy

Scion has risk management and compliance processes in place and operating effectively across the organisation. The risk management framework identifies, classifies, reports on and mitigates business risk. Risk reporting is undertaken on a quarterly basis to the Scion Board or as a risk arises.

Treatment of Land Claims

Scion monitors the progress of, and will seek to provide input as appropriate into, land claims or other matters affecting the land occupied by Scion in Rotorua.

Two land claims affecting the Rotorua campus currently exist:

(i) Ngati Whakaue – covering the total site.

(ii) Ngati Wahiao – covering the southern end of the site.

Cash Management Policy

Scion will manage cash prudently and ensure that any surplus cash is invested within delegations approved by the Board. Short-term investments would normally include registered bank deposits, government or treasury bonds, or other financial instruments approved by the Board.

Accounting Policies

New Zealand equivalents to International Financial Reporting Standards approved by the New Zealand Institute of Chartered Accountants for the measurement and reporting of profit and financial position have been adopted by Scion.

Details of the accounting policies and their application are contained in Appendix One.

Dividend Policy

In determining the amount of ongoing dividend (if any) recommended to be distributed to the Shareholders, consideration will be given to:

- providing for capital investment requirements and consideration as to whether there is a need for capital injection from Shareholders;
- Scion's working capital requirements;
- the ongoing financial viability of Scion, including the ability to repay debt;
- the need to comply with Bank Covenants;

- the obligations of the directors under the Companies Act 1993 and other statutory requirements;
- resilience against fluctuations in the demand for Scion's services;
- the need to ensure the maintenance of scientific capability through the provision of scientific technology, equipment and science capability building, i.e., development of Strategic Science Platforms; and
- the Operating Framework for CRIs.

The Scion Board will detail in a submission to shareholding Ministers, within three months of the end of each financial year:

- the amount of dividend (if any) recommended to be distributed to the shareholders;
- the percentage of tax-paid profits that the dividend represents; and
- the rationale and analysis used to determine the amount of any dividend.

Based on the current forecast for the financial year 2009, the budget for 2010 and the plan for 2011 and 2012, and after considering the above points the board is budgeting for a dividend of $1m in 2010 and further dividends of $1m and $2m in 2011 and 2012.

Maori Relationships

Scion will ensure that the special relationship between Tangata Whenua and the Crown is acknowledged. Scion recognises that a strong relationship with Maori is beneficial to the future development of both. Scion will actively demonstrate this within its strategy, structure and outcomes. Scion will:

- Establish credibility with Maori as a preferred research provider and/or business partner and jointly engage in mutually beneficial projects;
- Develop internal policies, procedures and training programmes which support the Maori engagement framework to ensure Scion staff work effectively with iwi;
- Expand its understanding of the impacts of biomaterials science on traditional Maori practices;
- Be well informed of the contemporary socio-cultural, economic, environmental and spiritual context of Maori through relevant internal programmes for staff;
- Develop joint working relationships with Vote Education at both a Crown agency level and at an operational level through universities, institutes of technology and polytechnics, Wananga and schools;
- Provide opportunities for research training and education for Maori, including at least five internships;
- Collaborate with a university to mentor and encourage Maori secondary school students to pursue a career in science; and
- Work with Maori organisations to enable them to receive funding from the Foundation for Research, Science and Technology (FRST) and assist them if required in scientific research.

Other Matters

Agency to Agency International Science and Technology Cooperation Agreements

Scion will inform Shareholding Ministers in writing, well in advance, should it plan to dissolve any formal international science and technology agreement for which it has been assigned responsibility.

The International Union of Forestry Research Organisations (IUFRO) provides a forum where forestry-sector scientists discuss research initiatives and projects. Scion is actively involved in IUFRO, with several staff currently designated either section leader or deputy leader.

The International Energy Agency (IEA) provides a forum for participating countries to discuss energy issues, policies and deployment options. Scion represents New Zealand on the IEA Bioenergy Executive Committee, which allows New Zealand organisations to become members of Tasks operated by the IEA.

Statutory Functions to be Undertaken

Scion recognises its statutory obligations under the Crown Research Institutes Act 1992, Companies Act 1993, Employment Relations Act 2000, the Crown Entities Act 2004 and other legislative acts applying to the activities of the group. Scion has policies and procedures in place to ensure that compliance with statutory obligations is maintained.

Information to be Reported

Strategic Business Plan

A strategic business plan will be produced annually and prior to each upcoming financial year, outlining the strategic direction for Scion and providing a three-year forecast of performance.

Quarterly Report

Quarterly reports will detail financial performance for the quarter and year-to-date against budgets and provide a commentary on overall performance for the period. The commentary will focus on any material variances and how these will be addressed and will include a description of scientific, technological and business highlights.

Half-yearly Report

The half-yearly report will include:

- A commentary on performance, including a description of highlights for the period and a commentary on progress towards achieving the full year financial performance targets; and
- An unaudited financial performance statement, financial position statement, cashflow statement and notes to accounts (including accounting policies).

Annual Report

The annual report will be delivered to Shareholders within three months of the end of each financial year. It will report on the operations of the group and its subsidiaries (if any) during that financial year. It will comply with the reporting provisions of the Public Finance Act 1989 and its subsequent amendments (including the Public Finance Amendment Act 1993), the Financial Reporting Act 1993, the Crown Research Institutes Act 1992, the Companies Act 1993 and the Crown Entities Act 2004.

The report will include:

- stated performance against financial targets, as presented in the Statement of Corporate Intent (SCI) for the annual period, and comparative performance figures for the previous year;
- commentary on non-financial performance measures for the period against the SCI;
- a report of the operations of Scion and those of its subsidiaries (if any) during the financial year, including a description of business highlights for the period;
- an audited financial performance statement, financial position statement, cash-flow statement, and notes to accounts (including accounting policies);
- the auditors' opinion on those financial statements; and
- a management statement to accompany the annual financial statements.

Other Information

Any other information required by the Shareholding Ministers pursuant to Section 20 of the Crown Research Institutes Act 1992 shall be supplied.

Financial and Non–financial Performance Targets

Scion Group (New Zealand Forest Research Institute Limited) Performance Targets for the three years ended 30 June 2012

Financial Performance Targets	Forecast 2009	Target 2010	Target 2011	Target 2012
Group Revenue ($000)	43,900	47,106	49,378	52,640
EBIT Margin	5.3%	5.7%	6.6%	7.5%
Return on average equity [1]	6.9%	6.4%	7.7%	9.3%
Return on average total assets	4.4%	4.6%	5.6%	6.7%
Equity ratio	73.6%	74.3%	73.5%	71.7%
Quick ratio:1	1.21	0.93	0.92	0.95
Gearing	0.0%	0.0%	2.9%	6.0%
Interest cover	N/A	N/A	N/A	275.61
Free cashflow to average total assets	13.7%	12.3%	13.4%	15.0%

Non-financial Performance Targets	Target 2010
Staff Composition (FTEs)	
Science	236
Science Support	41
Other	63
Total FTEs	**340**
Revenue per FTE ($)	**138,547**
Research Application Metrics	
Commissioned reports to users	360
Presentations on technical information and research results	320
Publications on technical information and research results	250
Peer reviewed articles	130
New or improved processes, products, or services	12
Key note and plenary presentations	15
Requests for information from databases and collections:	
– National Forestry Library	10,500
– National Wood Performance Archive	175
– National Forest Health Database	130
– National Forest Herbarium and Database	350
– Permanent Sample Plot Database	500
Patents Granted [2]	
– In New Zealand	3
– Overseas	2
Number of licensing arrangements	4
Joint Ventures or formal associations [3]	14
Corporate Social Responsibility	Report
– DSS for ecosystem benefits	
– Professional development plans for all staff	
Environment Responsibility	
Maori Partnerships	
Consultation with Maori	Report
Maori Internships	5
R&D proposals involving Maori	7
Benefit to NZ	Report
Good Employer	Report

[1] The RoE targets for 2009/10 and 2010/11 are below the 9% target for CRIs. The targets for these years have been agreed with shareholding Ministers to allow investment in areas important for Scion's growth.

[2] These do not include patents granted to entities which have contracted Scion to carry out specific research on their behalf.

[3] Target reflects joint ventures, shareholding entities, and significant formal associations relating to the creation of IP and dissemination of results.

Commercial Value and Valuation Methodology, Including Value of Shareholder Funds and Ratio of Shareholder Funds to Total Assets

Shareholder funds include shares issued, reserves and retained earnings. Total assets include all assets. The estimated values of Shareholder investment, as represented by the following budget and forecast levels of Shareholder funds, are:

Funds	Budget June 2010 $000s	Target June 2011 $000s	June 2012 $000s
Share Capital	16,016	16,016	16,016
Retained Earnings	8,443	9,097	9,151
Net Profit After Tax	1,654	2,054	2,566
Revaluation Reserve	50	50	50
Projected Closing Shareholder Funds	26,163	27,218	27,783
Crown Debt	0	0	0
Book Value of Crown's Investment	**26,163**	**27,218**	**27,783**

Based on the opening Balance Sheet approved by Shareholding Ministers, the commercial value of the Crown's investment was $18,366k as at 30 June 1992.

Forecasted 30 June 2009 Total Shareholder Funds, including retained earnings, are $25,509k and Total Assets $34,329k.

Procedures for Significant Transactions, Share Subscriptions or Purchases of Capital Investment Policy

Scion will continuously add value to its activities, its net worth and its shareholders. It will ensure that all new investments provide shareholders with additional strategic and economic value commensurate with the risks involved. Acquisitions and mergers will occur where scientific, technological, or economic value is deemed by the Board to be added to Scion.

The Board will obtain prior written consent for any transaction or series of transactions involving full or partial acquisition, disposal or modification of property (buildings, land and capital equipment) and other assets with a value equivalent to or greater than $10 million or 20% of the company's total assets (prior to the transaction), whichever is the lesser.

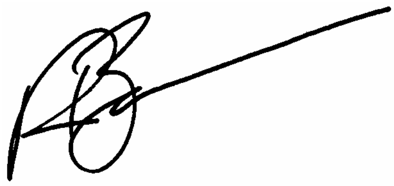
The Board will obtain prior written consent of shareholding Ministers for any transaction or series of transactions with a value equivalent to or greater than $5 million or 30% of a company's total assets (prior to the transaction) involving:

- acquisition, disposal or modification of an interest in a joint venture or partnership, or similar association.
- acquisition or disposal, in full or in part, of shares or interests in a subsidiary, external company or business unit.
- transactions that affect a company's ownership of a subsidiary or a subsidiary's ownership of another entity.
- other transactions that fall outside the scope of the definition of the company's core business or that may have a material effect on the company's science capabilities.

The Board will advise the Shareholding Ministers of all Intellectual Property transactions including licensing agreements, through inclusion in Scion's Quarterly Reports. Where possible this will be done in advance.

Compensation Sought

Where the Government wishes Scion to undertake activities or assume obligations which will result in a reduction of Scion's profit or net worth in terms of its investment in research, the Board will seek compensation sufficient to allow Scion's position to be restored.



Chairman
Signed for and on behalf of the
Board of Directors

Director
Signed for and on behalf of the
Board of Directors

Date: 30 June 2009

Appendix One: Statement of Accounting Policies

Reporting Entity

New Zealand Forest Research Institute Limited is a Crown Research Institute registered under the Companies Act 1993. The registered office is Te Papa Tipu Innovation Park, 49 Sala Street, Rotorua. The group consists of New Zealand Forest Research Institute Limited and its subsidiaries.

New Zealand Forest Research Institute Limited is a reporting entity for the purposes of the Financial Reporting Act 1993. It is domiciled and incorporated in New Zealand and is wholly owned by the Crown.

The activities of the New Zealand Forest Research Institute Limited include a range of research and development programmes aimed at utilising plant-based renewable resources and waste streams to create new materials, energy sources and environmentally sustainable products and processes.

New Zealand Forest Research Institute Limited trades as Scion and these names have identical meaning in this report.

Summary of Significant Accounting Policies

a) **Basis of Preparation**
The financial statements are been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The financial statements are also prepared on an historical cost basis, except for forestry assets and certain heritage assets that are measured at fair value.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

b) **Statement of Compliance**
The financial statements are prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards (IFRS).

c) **Basis of Consolidation**
The consolidated financial statements include the parent company and its subsidiaries. All inter-company transactions and unrealised profits and losses between the group of companies are eliminated from the financial statements on consolidation. In the parent company financial statements, investments in subsidiaries are stated at cost.

d) **Associate Companies**
These are companies in which the group holds substantial shareholdings and in whose commercial and financial policy decisions it participates.

Associate companies are reflected in the consolidated financial statements on an equity accounting basis which shows the Group's share of surpluses in the Consolidated Statement of Financial Performance and its share of post-acquisition increases, or decreases, in net assets in the Consolidated Statement of Financial Position.

e) **Intangible Assets**
Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets created within the business are not capitalised and expenditure is charged to the income statement in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists and, in the case of indefinite life intangibles, annually, either individually or at the cash-generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

	Patents and Licenses	**Software**
Useful lives	Indefinite	Finite
Method used	Not depreciated or revalued	3 years – Straight line
Internally generated/ Acquired	Acquired	Acquired
Impairment test/ Recoverable amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when derecognised.

f) Biological Assets

Biological assets consist entirely of tree plantations which are measured at fair value less any point-of-sale costs. Gains and losses arising on initial recognition or change in fair value, less estimated point of sale costs, are included in profit and loss in the period in which they arise.

The fair value of tree plantations is determined by an independent valuer.

The valuation method for immature trees is the net present value of future net harvest revenue less estimated costs of owning, protecting, tending and managing trees. For mature trees, fair value is deemed to be the net harvest revenue value.

g) Property, Plant and Equipment

All items of property, plant and equipment are valued at the cost of purchase from the Crown as at 1 July 1992 adjusted for subsequent additions at cost, disposals and depreciation. Plant and equipment are recorded at cost less accumulated depreciation. Land and capital work in progress are recorded at cost.

Expenditure incurred on property, plant and equipment is capitalised where such expenditure will increase or enhance the future benefits provided by the asset. Expenditure incurred to maintain future benefits is classified as repairs and maintenance.

When an item of property, plant and equipment is disposed of, the difference between the net disposal proceeds and the carrying amount is recognised as a gain, or loss, in the Statement of Financial Performance.

Depreciation is provided for using the straight-line method to allocate the historical cost, less an estimated residual value, over the estimated useful life of the asset.

The useful lives of the major classes of assets are calculated as follows:

• Buildings and Land Improvements	40–60 years
• Plant and Equipment	4–15 years
• Furniture and Fittings	10 years
• Motor Vehicles	3–7 years
• Library Books	20 years

Some library books have been identified as heritage assets, which are recorded at fair value, as determined by an independent valuer.

h) Recoverable amount of non-current assets

At each reporting date, the group assesses whether there is any indication an asset may be impaired. Where an indicator of impairment exists, the group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, however, if the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

i) Trade Receivables

Trade receivables are initially recognised at fair value and subsequently valued at amortised cost less impairment allowance.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that it is probable the group will not be able to collect the debt.

j) Inventories

Consumable stores are valued at the lower of cost, on a weighted average price of stock on hand, and net realisable value.

Nursery stocks are valued at net realisable value. Changes in net realisable value are recognised in the profit and loss account in the period in which they occur.

k) Research Costs

Research costs are expensed in the period incurred.

l) Provisions and Employee Benefits

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settled the present obligation at the balance sheet using a discounted cash flow methodology.

(i) Wages, Salaries and Annual Leave

The liability for wages, salaries and annual leave recognised in the balance sheet is the amount expected to be paid at balance date. Provision is made for benefits accruing to employees for annual leave in accordance with the provisions of employment contracts in place at balance date.

(ii) Long Service Leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(iii) Defined Benefit Plan

The defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the profit and loss in the period in which they arise.

The defined benefit liability recognised in the balance sheet represents the present value of the defined benefit obligations.

Long service leave and retirement leave provisions are based on an actuarial valuation.

m) Leases

Group as a Lessee

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits associated with ownership of the leased items, are included as an expense in the Statement of Financial Performance in equal instalments over the lease term.

Group as a Lessor

Leases in which the group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are expensed as incurred.

n) Cash and Cash Equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

o) Goods and Services Tax (GST)

The financial statements are prepared on a GST exclusive basis.

p) Foreign Currencies

Functional and presentation currency

Both the functional and presentation currency of New Zealand Forest Research Institute Limited and its New Zealand subsidiaries is New Zealand dollars.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

q) Revenue Recognition

Research Revenue

Research revenue from both Government and commercial sources is recorded when earned based on the percentage of work completed. Percentage of work completed is based on management judgement, after considering such things as costs incurred and other contracted commitments. Work completed but not invoiced is recorded as accrued revenue while work invoiced but not completed is recorded as revenue in advance.

Sale of Goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Risk and reward are considered passed to the buyer at the time of delivery.

Interest Revenue
Interest revenue is recognised when earned based on applicable interest rates applied to the group's cash deposit balances.

r) Taxation
The income tax expense charged to the Income Statement includes both the current year's provision and the income tax effects of temporary differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all temporary differences. A debit balance in the deferred tax account, arising from temporary differences or income tax benefits from income tax losses, is only recognised if it is probable there will be taxable profits available in the future against which the deferred tax asset can be utilised.

Subsequent realisation of the tax benefit is subject to the requirements of income tax legislation being met.

s) Borrowing Costs
Borrowing costs are recognised as an expense when incurred.

t) Interest-bearing Loans and Borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

For the purpose of valuing bank borrowings, the bank interest rate is taken as the discount rate. As such the bank borrowings are carried at the value of the debt with the bank.

u) Trade and Other Payables
Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

Significant Accounting Judgements, Estimates and Assumptions

a) Revenue Recognition
Revenue is recognised based on the percentage of work completed on a project basis. Percentage of work completed is based on management judgement after considering such things as hours completed, costs incurred and actual results to date.

b) Heritage Assets
The group holds several heritage assets which have significant value due to both being rare, and having importance to the nation. Where a heritage cost can be measured reliably they are revalued at least every five years.

c) Biological Assets
The group's biological assets consist of tree plantations. These are valued at the net present value of future net harvest less estimated costs of owning, protecting, tending and managing trees. The valuation process includes several judgements and estimations around discount rates, future costs, and future prices. Management used the experience of a registered forestry valuer to reduce the risk of misstatement resulting from these judgements and estimates.

Appendix Two: Databases and Reference Collections

Database/Collection	Description
National Forest Herbarium and Database	This nationally significant database and collection specialises in plants significant to plantation and indigenous forestry in New Zealand and includes a wide range of native and amenity species. This is the only database and collection held by Scion that is currently supported through the Research Infrastructure (Backbone) Investment fund.
National Forestry Library	This collection represents New Zealand's written records relating to forestry and wood processing and research over the last 75 years.
Permanent Sample Plot Database	An internationally unique database of sites that are used to measure growth and development of plantation forest trees across New Zealand.
National Wood Performance Archive	Over 60 years of records of wood durability and performance across four sites in New Zealand.
National Forest Insect Collection	A collection of identified forest insects in New Zealand.

Appendix Three: Policy for Access to Databases and Reference Collections

To comply with its statutory obligations Scion will provide access to those databases and reference collections listed in Appendix Two of this Statement of Corporate Intent where the creation of such has been wholly funded by public funds unless Scion can substantiate a contractual obligation of confidentiality with the providers of the data in the databases.

In providing this access:

- the costs of collection, archiving and maintenance will be recovered only to the extent that they have not been paid for from public-good funding;
- the costs of actual retrieval of information from databases and reference collections will be recovered;
- the information supplied will be subject to copyright in accordance with the Copyright Act 1994;
- in situations where a third party wishes to obtain large portions of information from a database or reference collection for direct commercial use, then Scion reserves the right to negotiate a copyright, royalty or licence fee; and
- Scion will accept no liability for the application of the information supplied.

Appendix Four: Key Financial Performance Indicators

Indicator	Reason for Indicator	How Measured
Group Revenue	Group Revenue is a measure of the ability of the business to support core operations. It is essential to separate income from PGST sources, other MoRST sources, Government Ministry or department sources, third party sources (including private sector, local Government and producer boards), and other sources such as trading activities (farm, orchard etc.) or leasing of assets.	Group Revenue is income generated by the day-to-day operations of the business. It includes science research, contract work for the Crown or third-party clients, royalties, licence fees etc, plus income from the sale of produce and the lease of assets. It excludes income from capital gains, dividends, foreign currency gains/losses and interest on investments.
EBIT Margin	EBIT margin measures the underlying profitability and management performance of the company.	EBIT is earnings before interest, financial lease charges and tax. It excludes restructuring costs and write-down of investments. EBIT Margin = EBIT ÷ Revenue, expressed as a percentage.
Return on Average Equity	Return on average equity measures how much the company has earned on the funds invested by the shareholder. It measures the performance of the Board and management in operating the business in the best interest of the shareholders.	NPAT is net profit after tax but before deduction for minority interest. Shareholder funds include share capital and retained earnings, including minority interest. Return on average equity = NPAT ÷ Average Shareholder funds, expressed as a percentage.
Return on Average Assets	Return on average assets measures the efficiency with which the company's assets are being utilised.	Return on Average Assets = NPAT plus net interest and minority interest ÷ Average Total Assets.
Equity Ratio	Equity ratio – measures the level of Shareholder Funds used to finance Assets.	Equity Ratio = Average shareholder funds ÷ Average total assets.
Quick (or Acid Test) Ratio	The quick (or acid test) ratio measures the degree to which the company can meet its immediate current debts from current assets. Liquidity is crucial to the survival of a business, especially during periods of adversity. It is a warning signal to the shareholder of potential liquidity problems.	Current Assets include bank balances, short-term deposits, debtors, and prepayments, but exclude inventory. Current Liabilities include bank overdraft, accounts payable, revenue in advance, current portion of term liabilities, and tax payable. Quick Ratio = Current Assets ÷ Current Liabilities.
Gearing	Gearing measures the capacity of the company to take on more debt in the event of a financial crisis or to fund new investments.	Financial debt is all interest-bearing liabilities, less cash balances. Shareholder funds are as defined above. Gearing = Financial Debt ÷ Financial Debt plus Shareholder Funds, expressed as a percentage.
Interest Cover	Interest cover measures the ability of the company to service its financial borrowings. Interest cover should only be reported if gearing exceeds 20%.	EBIT as defined above. Interest is the cost of debt and financial leases. Interest Cover = EBIT ÷ Interest
Free Cashflow to Average Total Assets	A measure of the efficiency of the company in generating cashflow from its asset base.	Cashflow from operation expressed as a percentage of average total assets.

Indicator	Reason for Indicator	How Measured
Staff Composition	Critical asset for ensuring the long-term success of CRIs. Key measure for calculating productivity/effectiveness; revenue producing staff ratio; public interest (i.e., growing or shrinking scientist resource).	Staff statistics expressed as FTEs, defined as Research, including Research Support and Management and Support.
Research Application Metrics	These are standard measures of output used internationally. Important in demonstrating that significant, measurable scientific and technological activity is occurring. These measures are open to public scrutiny, and it is important that CRIs report them accurately and consistently.	Individual measures designed to focus on output aspects of the company.