Prosperity from trees - Mai i te ngahere oranga

Reports and Financial Statements

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Annual Report 2020

Scion Annual Report 2020

Reports and Financial Statements

Presented to the House of Representatives pursuant to section 44 of the Public Finance Act 1989.

Our Annual Report is presented in two parts - Highlights (Part A) and Reports and Financial Statements (Part B). Together both documents fulfil our annual reporting responsibilities under the Crown Research Institutes Act 1992 for the year ended 30 June 2020.

Highlights is an illustrated document containing the Chair and Chief Executive report, descriptions of our research performance, collaborations, partnering with Māori and outreach summary.

Our Annual Report is also available in digital format at www.scionresearch.com/annual-reports

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Good employer and equal opportunities

Scion is committed to be a good employer and promoter of equal employment opportunities.

Our people and performance practices and Scion values help the good employer principles to thrive by building a culture and working environment that supports empowerment, diversity, equity, inclusion, innovation and accountability.

We deliver on the good employer obligations through our Board Good Employer Policy and our Equal Employment Policy, along with our management policies, programmes and practices.

Scion's progress against key good employer elements over the 2019/20 financial year are summarised below.

Recruitment, selection and induction

Scion's recruitment and selection practices ensure that we recruit the best person for the job. We reject the use of terms that could be discriminatory in our advertising, and our recruitment panels are informed on the principles of the Human Rights Act 1993. We also ensure that candidates have an opportunity to share any specific needs that may have to be met in the recruitment process.

We continued to diversify how we recruit and keep up with market trends. Our internal people and culture business partners continued to support all hiring managers through the recruitment process alongside ongoing review of our recruitment processes and toolkit.

Employee development, promotion and exit

In May, we successfully launched Scion's learning experience platform to enable a self-directed and continuous learning culture. Inhouse training material can be developed by subject matter experts, and 'off the shelf' formal training is available, as well as access to the full LinkedIn learning suite of 8000+ courses.

Changes to our performance management tool, known as ACE, continued with an intent to simplify the process and refocus the performance conversation toward supported development. Several workshops were held with various employees to understand their experience with the current approach and to identify what improvement would look like.

Scion-wide training utilising DiSC, a behavioural preference assessment tool, continued. Forty four employees attended workshops that contribute to our drive for collaboration, well-being and engagement.

Turnover of permanent appointed employees was 12.3% (including redundancies). Exit survey results were overall positive, with 60% of those exiting recommending Scion as an employer.

Flexibility and work design

Our employees have a high degree of autonomy and self-determination over their working time. We offer highly flexible work-times plus the chance to work reduced hours. We continuously explore ways to improve work/life balance using equal opportunities and equity design principles to offer a supportive workplace culture for our diverse workforce, which ranges from working parents to those much older. This culture includes wellness programmes, with events throughout the year such as mindfulness, nutrition, physical exercises and forest walks.

Remuneration, recognition and conditions

Remuneration is based on job bands and remuneration ranges sourced from external market surveys produced by Korn Ferry Hay Group. Also, benchmarking of our internal position and salary data was done against five surveys and relevant international markets to accurately allow us to set a competitive 'pay position' for Scion. Annually we work with our Board of Directors to set the remuneration budget. With the PSA Union we negotiate how this budget will be applied across staff in the annual remuneration round.

Our annual Scion Staff Recognition Awards were designed to formally recognise and celebrate the outstanding contributions Scion employees make to the organisation. The programme for 2019/20 comprised 15 awards, including values based and light-hearted awards. All staff were invited to the event, which took place in our newly refurbished atrium space in Rotorua. Live video link connected our Christchurch office where executives attended and presented awards to winners based there.

Harassment and bullying prevention

Scion believes in providing employees with the necessary skills to address relationship issues ensuring a proactive, efficient and effective workplace. Policies are in place to deal with problem resolution and challenging behaviour. In addition, employees at Scion can access EAP for support with workplace and personal matters.

A Culture Committee was established to promote and broaden understanding of the diverse cultural backgrounds of our staff.

COVID-19

Scion successfully managed the lockdown period where most employees worked from home. A small number of staff operated on-site at Alert Level 4; 20-30% of staff returned to site at Level 3; and most staff returned on site at Level 2. A significant and coordinated effort kept the site safe for operation at Levels 4, 3, 2 and finally 1. Staff wellness and mental health was a big focus during the lockdown period.

Work place profile

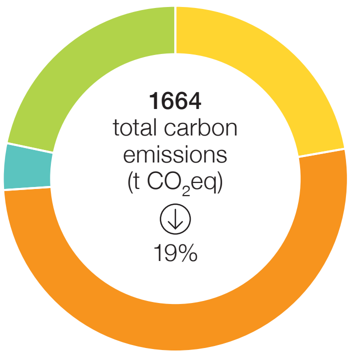
Total staff	Total permanent employees 311 – 52.7% male and 47.3% female
FTEs	Full time equivalent employees total 295.24 (excludes fixed-term staff, students and post-docs – 24.89 (35 employees))
Disability	4% of employees are recorded as disclosing a disability
Age	29% of employees are in the under 40 years age group, 30% are in the 40 to 49 years age group and 41% in the 50 years and over age group
Māori	Māori represent 11% of permanent employees
Pacific Islander	1 employee is recorded as disclosing a Pacific Island nationality
Nationality	31% of employees are recorded as originating from countries other than New Zealand, and represent 40 nationalities

Environmental performance

TOITŪ ENVIROMARK GOLD

Annual carbon emissions for the year were 378 t CO_2eq lower than in 2018/19, mainly due to a reduction of 289 t CO_2eq related to air travel. Forty three per cent of that reduction occurred in the first three quarters of the year, with the remaining 57% reduction in Q4 owing to the impact of COVID-19. Gas usage remained the highest source of our emissions at 892 t CO_2eq. This was reduced by 45 t CO_2eq from 2018/19.

Relative CO_2 emissions from Scion activities for 2019/20



		Change from 2018-2019
Electricity	**370**	↓ 5%
Gas	**862**	↓ 5%
Fuel	**73**	↓ 24%
Flights	**359**	↓ 45%

Reducing our gas use remained an important focus following an energy audit by EnergyNZ in December 2017. We completed two projects in the year: one to reduce gas usage in the steam boiler, which services our wood kilns, and the other project removed the paper test laboratory's reliance on gas for humidity control.

Three Toyota RAV auto-hybrids were introduced to our vehicle fleet, and the CEO moved to a fully electric vehicle. Two electric charging stations were installed at our Rotorua site. We will continue to replace our petrol fleet vehicles with auto-hybrids over the coming year.

Our target of reducing volume of waste to landfill by 30% was almost met with a reduction by 26% in the volume of waste bins picked up. On the flip side, our activities relating to diversion of waste from landfill resulted in 5.9 t of metal recycled and 2.3 t of organic waste diverted. The organic waste included 1.3 t of food waste to our vermicompost system on site and 1.0 t of used coffee grounds taken home by staff for composting.

Our recycling programme at our Rotorua site continued with 32 m^3 of milk bottles and aluminium cans delivered to the Rotorua Recycling Centre over the past year. Glass from staff events, such as the Christmas Party, was also taken to the recycling centre. Cardboard and paper recycling went directly to OjiFS for fibre recovery at the Kinleith and Penrose mills. E-waste was returned to HP through the HP recycling scheme or delivered directly to the Rotorua E-Waste Centre where possible. A small amount of e-waste went to landfill owing to the halting of e-waste collection during COVID-19 restrictions, but all our plastics, can and glass recycling was stored until the recycling system restarted. This resulted in 312 milk bottles (No 2 HDPE) and 223 aluminium cans returned for resource recovery.

Staff actions to reduce impact on the environment included reducing plastic waste from laboratories by changing to refillable pipette boxes and participating in seven clean-up sessions along the Puarenga Stream, which bounds our Rotorua site. Staff at our Christchurch site took part in street clean-ups with NIWA staff and did some tree planting.

Corporate governance

Scion's Board of Directors is appointed by its Shareholding Ministers, the Minister of Science and Innovation and the Minister of Finance. All members of the Board are independent. The responsibility of the Board is to guide and monitor the business of Scion and its subsidiaries including:

- reviewing and approving Scion's strategy and Statement of Corporate Intent;
- adopting policies of corporate conduct (including risk management and delegations of authority) and ensuring that systems and procedures are in place to carry out those policies;
- adopting annual operating and capital plans, and budgets;
- monitoring performance against key objectives and budgets on a monthly basis;
- ensuring Scion proactively meets all health and safety requirements;
- evaluating the performance of the Chief Executive; and
- reviewing and improving the effectiveness of the Board.

The Board operates in accordance with Scion's Constitution. It has up to seven directors who meet up to 11 times over the year either in person or by video conference. The Chief Executive and General Manager Finance and Corporate Services (who is also the Company Secretary) attend all meetings. The Board may retain independent advisers, including independent legal counsel or other experts, as it deems appropriate.

The Board has two standing committees, the Audit and Risk Committee and the People and Culture Committee. These meet twice yearly but may meet more regularly if the need arises. In addition, the Board has a special purpose committee to provide governance and guidance for the development of Scion's Rotorua campus.

The function of the Audit and Risk Committee is to assist the Board in discharging its responsibilities regarding financial reporting, regulatory conformance and matters of risk management. The committee is the liaison point for internal and external auditors, assesses the performance of financial management (the investment cases for major items of capital expenditure), reviews audit findings, the annual financial statements and interim financial information, and has oversight of the development and review of policies to ensure compliance with statutory responsibilities.

The function of the People and Culture Committee is to assist the Board in the establishment and regular review of remuneration and organisation policies and practices, and to assist the Board in discharging its responsibilities relating to the appointment, remuneration setting and review of Scion's Chief Executive. The committee also approves the appointment and remuneration of senior executives and inputs into and monitors achievement of the annual Health and Safety Plan.

Each standing committee comprises no less than three members of the Board, appointed by the Board from time to time; and meets at least twice annually and intersessionally as required. While the Chair of the Board is an ex-officio member of each committee and has full voting rights, s/he may not be Chair of the Audit and Risk Committee.

A further Board committee, the Master Plan Committee has been set up to provide governance and guidance for the development of Scion land and building facilities.

All Directors are entitled to attend all committee meetings. Each committee establishes annual work plans and undertakes an annual review of its objectives and responsibilities, and its terms of reference. Each committee also makes regular reports to the Board.

The Board's risk management policy and procedures involve formal reporting by management of the most significant risks Scion is exposed to, and the Board regularly monitors management of those risks. There is also regular monitoring and reporting on progress in meeting recommendations made by external auditors.

Directors' report

Principal activities

New Zealand Forest Research Institute Limited (trading as Scion) is a company registered under the Companies Act 1993. Our principal activity is to conduct research in accordance with the purpose and principles specified in Sections 4 and 5 of the Crown Research Institutes Act 1992 (the Act). Scion has met all the obligations under the Act for the year ended 30 June 2020.

Scion is a commercially focused science and technology company, delivering solutions to both commercial and Crown clients. While the principal research facility is in Rotorua there are also offices in Christchurch and Wellington.

Scion has two wholly-owned subsidiaries (Te Papa Tipu Properties Limited and Sala Street Holdings Limited), is a 50% shareholder in Terax 2013 Limited and is a 50% partner in Terax Limited Partnership, and has a 14.56% shareholding in Biopolymer Network Limited.

- Te Papa Tipu Properties Limited owns the Group's land assets.
- Sala Street Holdings Limited is a holding company, holding Scion's 50% share of Terax 2013 Limited and Terax Limited Partnership.
- Terax 2013 Limited is the general partner for Terax Limited Partnership.
- Terax Limited Partnership is a limited partnership jointly owned by Scion (through Sala Street Holdings Limited) and Rotorua District Council and has been set up to commercialise a waste minimisation process.
- Biopolymer Network Limited is an incorporated joint venture whose purpose is to create technologies for advancing the utilisation of renewable biobased materials in industrial applications.

Both Terax 2013 Limited and Terax Limited Partnership are not operating and are currently in voluntary liquidation and are expected to be wound up by 31 December 2020.

During the year Scion reduced its shareholdings in Biopolymer Network Limited and no longer has director representation or voting rights.

Summary of Group financial results to 30 June 2020

Owing to lower than normal revenue expectations and the uncertain impacts of COVID-19, costs were managed with extreme restraint during 2019/20. COVID-19 support provided at the end of the financial year therefore resulted in a one-off strong profit result.

	2020 $000	2019 $000
Operating revenue	57,880	55,935
Profit before tax	6,118	2,203
Taxation expense	(755)	(590)
Profit after tax	5,363	1,613
Other comprehensive income net of tax	181	78
Net comprehensive income attributable to shareholders	5,544	1,691
Equity		
Issued and paid up capital	17,516	17,516
Retained earnings	30,264	24,901
Reserve	397	216
Total equity	**48,177**	**42,633**

Scion's Statement of Corporate Intent 2020-2023 outlines a focus over that three-year period to:
- Prioritise and implement the research needed to achieve our 2030 strategy's goals.
- Support regional development where trees can create economic growth and employment that has national impact.
- Support New Zealand's recovery and rebuilding from the impacts of COVID-19.
- Strengthen and expand Scion's partnerships, particularly with Māori, with emphasis on co-innovation.
- Maintain and strengthen Scion's critical and core science capability.
- Continue to invest in upgrading and building new research facilities and infrastructure that strengthen our connections with the community and businesses.

Executive remuneration

Executive remuneration is managed within the terms and conditions of the Executive Remuneration Policy summarised below. This policy sets out remuneration elements and design principles informing the remuneration arrangements for executive management. Remuneration practice throughout Scion is transparent in the way in which it is determined and administered and will always conform to sound corporate governance principles.

Governance. The People and Culture Committee, a committee of the Scion Board, oversees the application and implementation of the executive remuneration policy.

Basic pay principles. Pay principles offer clarity and guide decisions around executive remuneration that ensure fair, competitive and appropriate pay for the markets in which Scion operates. Scion's executive pay principles aim:

- To pay executives at a level commensurate with their contribution to Scion and appropriately based on skill, experience and performance achieved.
- The level of remuneration paid is considered appropriate for motivation and retention of the calibre of executive required to ensure the successful formation and delivery of Scion's strategy and management of the environments in which it operates.
- Executive remuneration is set having regard to typical pay levels at companies of a similar size and role complexity.
- When reviewing remuneration, the committee considers all relevant factors, including:
  - Prevailing market and economic conditions;
  - Organisational performance and individual experience and contribution;
  - Internal equity and pay parity;
  - Accurate benchmark position and job size; and
  - Market benchmark survey results.

Executive pay position and structure

- Scion participates in industry and profession-based market salary surveys using external remuneration consultants to understand what the market is paying for roles like ours.
- Executive remuneration consists of base salary and benefits, which makes up total remuneration. In 2017/18 year and 2018/19 year remuneration included an At Risk component. For the 2019/20 year there is no At Risk component to the salary package.
- The Base Salary and Total Remuneration Position in Range of individual executives are reviewed against the All Organisations Base Salary Market Median Line and the All Organisations Total Remuneration Market Median Line.
- Scion aims to position executive remuneration at the appropriate Position in Range (PIR) of the relevant All Organisations Market Median Line. Experienced executives are positioned at a 96-109% PIR.
- Base salary increases are capped at 120% PIR of the All Organisations Base Salary Market Median Line and one-off performance payments may be considered in this regard.
- Total executive remuneration for the 2019/20 financial year excluding CEO remuneration was $1,561,616 (FY2018/19 $1,678,581).

FY2019/20 Chief Executive Officer's remuneration structure. The Board has elected, in the interests of transparency, to disclose the structure and package for the CEO in 2019/20 which is salary of $470,152 plus benefits of $32,577, bringing the total remuneration package to $502,729 (benefits include KiwiSaver and a vehicle including associated fringe benefit tax and withholding tax). For the 2019/20 year, the value of the CEO's package paid out was $503,719. The value paid out for the 2019/20 year in excess of the package represents a different rate of pay required to be utilised for annual leave under the Holidays Act 2003. The value of the potential package remains unchanged from the 2018/19 year.

For the 2018/19 year, the value of the CEO's package paid out totalled $507,075. The CEO's package for the 2018/19 year included an annual increment of 3.2% on the 2017/18 package.

A summary of total CEO remuneration for the past five years is summarised below:

Chief executive remuneration	FY15/16	$502,174
	FY16/17*	$561,551
	FY17/18	$480,384
	FY18/19	$507,075
	FY19/20	$503,719

*Financial year 2016/17 includes two months where both the departing CEO and the newly appointed CEO were in place.

Employee remuneration. Section 211(1)(g) of the Company's Act requires the disclosure of the number of people paid in excess of $100,000 in bands of $10,000.

Remuneration and compensation included performance awards, superannuation benefits, and KiwiSaver subsidy. Some other benefits were not quantified and are therefore excluded, including staff parking, home telephone and membership of relevant professional societies.

Bands	Number in each band
$540,000 – $549,999	1
$300,000 – $309,999	1
$290,000 – $299,999	2
$270,000 – $279,999	1
$260,000 – $269,999	1
$220,000 – $229,999	1
$180,000 – $189,999	1
$170,000 – $189,999	1
$150,000 – $159,999	3
$140,000 – $149,999	6
$130,000 – $139,999	5
$120,000 – $129,999	9
$110,000 – $119,999	14
$100,000 – $109,999	17
	Total 63

Note: remuneration in the above table includes where applicable At Risk payments paid in the 2019/20 relating to performance in the 2018/19 year. No At Risk entitlements exist for the 2019/20 year.

During the year ended 30 June 2020, $62,392 was paid to two employees in relation to cessation of employment with Scion (2019: $563,020 to nine employees). Cessation payments included $0 for retirement benefits (2019: $223,489 for six employees).

Dividend

No dividend was recommended for the year ended 30 June 2020 (2019: $0k).

Directors' profiles

Dr Helen Anderson (Chair) is an experienced director and is currently chair of BRANZ and Studio Pacific Architecture. She sits on a number of advisory committees for government including MPI and Stats NZ. Dr Anderson is a Chartered Fellow of the Institute of Directors, and until February 2020 she sat on the Institute of Directors National Council. She holds other directorships in the research, software and technology area including NIWA, DairyNZ, Antarctica NZ, and ClearPoint Ltd. She has a PhD in seismology from the University of Cambridge.

Mr Greg Mann (Director) has over 20 years' management experience in organisations that conduct research and develop and market valuable new products, services and technologies globally. Currently, he is the General Manager of ArborGen Australasia. ArborGen is the leading global supplier of conventional and advanced genetic tree seedlings to the forestry sector. Mr Mann has a BSc (Hons) from Victoria University and has completed executive training programmes at Darden Business School and the Massachusetts Institute of Technology.

Ms Colleen Neville (Waikato-Tainui) (Director) is the Rotorua-based Chief Executive Officer of Te Arawa Group Holdings Limited. She is a chartered accountant and has 20 years' experience in a range of financial roles for national and international companies. Ms Neville has governance experience as a Director of Te Arawa Group Holdings Limited subsidiaries, Te Kakano Whakatipu Limited, Matai Pacific Iwi Collective Ltd and Tourism New Zealand.

Dr Barry O'Neil (Director) is the principal Director of Keronlea Limited, a company specialising in biosecurity consultancy. He is the current Chair of Horticulture NZ, and of Tomatoes NZ. He also sits on the board of the Primary Sector Councils establishment group, and the Food and Fibre Leadership forum chairs group, and recently concluded his time as Chair of the kauri dieback independent review panel. He has had a long career involving biosecurity, including being the head of MAF's Biosecurity New Zealand, and more recently as Chief Executive of Kiwifruit Vine Health, the kiwifruit biosecurity organisation that led the response to the vine disease Psa-V. Dr O'Neil also owns and manages a kiwifruit orchard in Katikati.

Ms Stana Pezic (Director) has over 25 years' experience in financial management, general management, business planning and strategy, process change and information systems spanning a broad range of industries including forestry and wood processing. Her previous governance roles include six years as a Director and Chair of the Audit & Risk Committee of Plant and Food Research Ltd. She is currently the Independent Chair of the Audit Finance and Risk Committee of Kaipara District Council. Ms Pezic is a chartered accountant and has a BCom and DipBus from Auckland University.

Dr Jon Ryder (Director) is currently the Chief Executive Officer of Oji Fibre Solutions OjiFS - Pulp, Paper and Packaging and is directly responsible for all activities of these businesses: health, safety and environment, EBIT, manufacturing, engineering, sales and marketing and strategic development. Dr Ryder has gained over 30 years' experience in the forestry, pulp and paper business. Dr Ryder's interest in the industry started from his biochemistry degree from Manchester University and then a PhD from UMIST in Pulp and Paper Manufacturing. His career has spanned international boundaries starting in the United Kingdom in technical and production management of fine coated papers mills, in New Zealand with packaging paper manufacturing at Kinleith and then pulp mill management experience at Tasman. He also managed the Pulp and Paper Mills in Australia as well as sales and marketing functions for Australian Papers. Dr Ryder returned to New Zealand in 2012 to take up the challenge as CEO of the business formerly known as Carter Holt Harvey Pulp, Paper and Packaging. The name changed to Oji Fibre Solutions OjiFS in November 2015 following the sale of the business on 1 December 2014 to a joint venture between Oji Holdings and Innovation Network Corporation of Japan (INCJ).

Mr Steve Wilson (Director) was awarded the New Zealand Order of Merit (MNZM) for services to industry, is a Fellow of the New Zealand Institute of Management Leadership and a Life Member of Plastics New Zealand. Mr Wilson is Managing Director and owner of Talbot Technologies Ltd, a technical plastics manufacturer based in Christchurch. His other current roles include Director, Holmes Solutions LP, and Chairman of the Advisory Board for the Product Accelerator. Mr Wilson is a graduate mechanical engineer (BE 1st Class, Canterbury). He has had 38 years' experience as a CEO of companies primarily in the engineering, garment and plastics industries. He has had a diverse range of governance roles on boards of technology companies, venture capital companies and of manufacturing exporters.

Changes in Directors

There were no changes to Directors during the 2019/20 period.

Directors' interests

Any business the company has transacted with organisations in which a Director has an association has been carried out on a commercial 'arms-length' basis.

Directors’ remuneration

	Scion 30 June 2020	
Helen Anderson	$58,000	
Greg Mann	$28,500	
Colleen Neville	$28,500	
Barry O’Neil	$30,500	Chair – People and Culture Committee
Stana Pezic	$30,500	Chair – Audit and Risk Committee
Jon Ryder	$28,500	
Steve Wilson	$28,500	Chair – Master Plan Committee
Total	**$233,000**	

Use of company information

During the year no notices were received from members of the Board requesting to use Scion information received in their capacity as Directors which would not otherwise have been available to them. Additions to the Interests Register are noted in the profiles above.

The state of the company’s affairs

A commentary on the year’s performance is outlined in the Chair’s and Chief Executive’s Report (in Highlights, Part A), and in the opinion of the Directors, the state of the company’s affairs continues to be satisfactory.

Auditor

In accordance with Section 21 of the Crown Research Institutes Act 1992, the Office of the Auditor General is Auditor for the Company and, pursuant to Section 29 of the Public Finance Act 1977, has appointed Ernst & Young to undertake the audit on its behalf.

Directors’ indemnity and insurance

Scion has insured all Directors and the Directors of its subsidiaries against liabilities to other parties (except to Scion or a related party of Scion) that may arise from their position as Directors. The insurance does not cover liabilities that may arise from criminal actions.

Helen Anderson

For and on behalf of the Board
Dr Helen Anderson
Chair
8 October 2020

Statement of responsibility

The following statement from the Board is made in accordance with Section 155 of the Crown Entities Act 2004:

1. The Board is responsible for the preparation of the annual financial statements and the judgements used in these.
2. The Board is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the financial reporting.
3. In the opinion of the Board, the annual financial statements for the year ended 30 June 2020 fairly reflect the financial position and operations of the New Zealand Forest Research Institute Limited.

Dr Helen Anderson Chair	Ms Stana Pezic Director

8 October 2020

Performance targets

		Actual 2020	Budget 2020	Actual 2019
Efficiency: Operating margin	Earnings Before Interest, Tax, Depreciation, Amortisation and Fair-value (EBITDAF)/Revenue	**19.4%**	1.9%	10.9%
Operating margin per FTE	EBITDAF/FTE	**$35,113**	$2,902	$18,293
Quick ratio	Current assets less inventory less prepayments/ Current liabilities less revenue received in advance	**1.85:1**	0.82:1	1.79:1
Interest coverage	EBITDAF/Interest paid	**N/A**	N/A	N/A
Operating margin volatility	Standard deviation of EBITDAF for past five years/ Average EBITDAF for the past five years	**30.0%**	46.9%	8.8%
Forecasting risk	Five-year average of return on equity less forecast return on equity	**4.3%**	0.7%	0.9%
Adjusted return on equity	NPAT excluding fair value movements (net of tax)/ Average of share capital plus retained earnings	**11.8%**	-7.0%	3.4%
Revenue growth	% change in revenue	**3.5%**	-12.0%	-1.4%
Capital renewal	Capital expenditure/Depreciation expense plus amortisation expense	**2.4x**	2.3x	2.1x

Non-financial indicators

Indicator name	Measure	Frequency	2020 Target	2020 Actual
End user collaboration	Revenue per FTE ($) from commercial sources	Quarterly	$69,479	$63,197
Research collaboration	Publications with collaborators	Quarterly	≥90	75
Technology and knowledge transfer excellence	Commercial reports per scientist FTE	Annually	>2.0	2.03
Science quality	Mean citation score	Annually	2.6	3.7
Financial indicator	Revenue per FTE	Quarterly	$151,275	$180,796
Stakeholder engagement	Relevant funding partners and other end users (number and %) that have a high level of confidence that Scion sets research priorities relative to the forest industry and biomaterials sector	Biennial	>85%	No survey undertaken due to COVID-19
	National and international research providers (%) who are confident that Scion considers their organisation's research priorities when setting its own	Biennial	>85%	
	Relevant end-users (%) who are satisfied with their experience of accessing knowledge or technology from Scion	Biennial	>90%	
Māori economic development	Partnerships (number (n) and value ($)) established with Māori entities to support economic development through the forest industry	Quarterly	n>10; >$1.5m	n = 15 $1.5m
Accelerated commercialisation	Technologies in Scion's pipeline (number and co-investment ($)); projects that progress to the business case stage (case studies)	Quarterly	25 and $400,000; Cases ≥4	17 $327,438 2
People and culture	Staff engagement	Annual	>75%	88%
	Staff retention – staff turnover	Annual	12%	12.3%
	Health and safety – serious harm events	Annual	0	1[1]
	Staff diversity – percentage of permanent staff of Māori descent	Annual	8.0%	11%

[1] Notifiable incident – back injury to US Dept of Forestry worker during rural fire work. Reported to Worksafe NZ.

Audit report

Building a better working world

Independent auditor's report to the readers of New Zealand Forest Research Institute Limited's Group financial statements for the year ended 30 June 2020

The Auditor-General is the auditor of New Zealand Forest Research Institute Limited group (the Group). The Auditor-General has appointed me, Simon Brotherton, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the Group on his behalf.

Opinion

We have audited the financial statements of the Group on pages 18 to 46, that comprise the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date and the notes to the consolidated financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated financial statements of the Group:

- present fairly, in all material respects:
  - its consolidated financial position as at 30 June 2020; and
  - its consolidated financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 8 October 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the consolidated financial statements, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of matter – Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Group as set out in note 25 of the financial statements.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible on behalf of the Group for preparing consolidated financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

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

Building a better
working world

In preparing the consolidated financial statements, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors has to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these consolidated financial statements.

For the budget information reported in the consolidated financial statements, our procedures were limited to checking that the information agreed to the Group's statement of corporate intent.

We did not evaluate the security and controls over the electronic publication of the consolidated financial statements.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the consolidated financial statements, 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.
- We 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 Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of 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 we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in Parts A and B of the Annual Report, but does not include the financial statements or our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

Simon Brotherton
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020

	Note	ACTUAL 2020 $000	BUDGET (unaudited) 2020 $000	ACTUAL (restated) 2019 $000
Revenue	2 (a)	**57,880**	51,231	55,935
Other Income/(Expenditure)	2 (b)	**(16)**	0	267
Expenditure	3 (a)	**(51,679)**	(55,221)	(53,718)
Finance Costs	3 (b)	**(27)**	0	(28)
Share of Profit/(Loss) of Associates	15 (b)	**(40)**	0	(253)
Profit Before Tax		**6,118**	(3,990)	2,203
Tax Expense	9	**(755)**	1,115	(590)
Profit for the year after tax		**5,363**	(2,875)	1,613
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods, net of tax				
Revaluation of Heritage Assets		**0**	0	12
Revaluation of Carbon Units		**181**	0	25
Remeasurement of gain/(loss) on defined benefit plan		**0**	0	41
Total other comprehensive income, net of tax		**181**	0	78
Total comprehensive income for the period attributable to the shareholders of the parent company		**5,544**	(2,875)	1,691

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020

	Note	Ordinary Shares 2020 $000	Asset Revaluation & Pension Reserve 2020 $000	Retained Earnings 2020 $000	Total 2020 $000	Ordinary Shares 2019 $000	Asset Revaluation & Pension Reserve 2019 $000	Retained Earnings (restated) 2019 $000	Total (restated) 2019 $000
GROUP									
Balance as at 1 July		**17,516**	**216**	**24,901**	**42,633**	17,516	138	23,288	40,942
Profit for the period		0	0	5,363	5,363	0	0	1,613	1,613
Other comprehensive income		0	181	0	181	0	78	0	78
Total comprehensive income		**0**	**181**	**5,363**	**5,544**	0	78	1,613	1,691
Balance as at 30 June	**5**	**17,516**	**397**	**30,264**	**48,177**	17,516	216	24,901	42,633

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	Note	ACTUAL 2020 $000	BUDGET (unaudited) 2020 $000	ACTUAL (restated) 2019 $000	ACTUAL (restated) 2018* $000
Equity					
Share capital	5	17,516	17,516	17,516	17,516
Retained earnings	5	30,264	22,209	24,901	23,288
Revaluation & Pension reserve	5	397	61	216	138
		48,177	39,786	42,633	40,942
Non-Current Liabilities					
Provisions	6	514	490	490	475
Defined benefit plan	7(a)	690	572	705	682
Deferred tax liability	9(d)	0	828	919	828
Lease Liability	10	446	0	602	604
Loans - Bank		0	2,000	0	0
		1,650	3,890	2,716	2,589
Current Liabilities					
Trade and other payables	8	13,202	11,739	10,265	13,158
Provisions	6	49	46	46	397
Defined benefit plan	7(a)	129	133	133	259
Lease Liability	10	156	0	129	105
Tax payable		1,702	0	0	339
		15,238	11,918	10,573	14,258
Total Equity and Liabilities		65,065	55,594	55,922	57,789
Non-Current Assets					
Property, plant and equipment	11	42,796	44,029	38,314	32,398
Biological assets	12	1,069	828	1,095	828
Intangible assets	13	695	500	564	682
Investments in associates	15	61	494	241	494
Investments at fair value through P&L		140	0	0	0
Right-of-use assets	10	543	0	677	664
Deferred tax asset	9(d)	234	0	0	0
Other investments		0	0	0	0
		45,538	45,851	40,891	35,066
Current Assets					
Cash and cash equivalents	16	12,802	261	5,789	13,934
Trade and other receivables	17	6,487	7,794	8,826	8,398
Inventories	18	238	573	337	391
Tax receivable		0	1,115	79	0
		19,527	9,743	15,031	22,723
Total Assets		65,065	55,594	55,922	57,789

*The actual (restated) 2018 balance sheet has been included to fully explain the impact of IFRS 16 – Leases. Refer Note 1.5 of the accounts.

The accompanying notes form part of these consolidated financial statements.

For and on behalf of the Board, who authorised the issue of these accounts on 8 October 2020.

Helen Anderson

Chair

Director

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020

	Note	ACTUAL 2020 $000	BUDGET (unaudited) 2020 $000	ACTUAL (restated) 2019 $000
Cash Flows from Operating Activities				
Cash was provided from:				
Receipts from customers (excluding government grants)		33,914	34,851	35,701
Receipts from government grants		28,523	17,733	17,733
Interest received		170	100	293
		62,607	52,684	53,727
Cash was applied to:				
Payments to employees		28,925	30,718	29,668
Payments to suppliers		16,963	20,355	21,724
Lease interest		27	0	28
Income tax paid		123	50	938
		46,038	51,123	52,358
Net cash flows from operating activities	20	16,569	1,561	1,369
Cash Flows from Investing Activities				
Cash was provided from:				
Proceeds from sale of fixed assets		693	0	23
Receipts from grants		2,500	0	0
		3,193	0	23
Cash was applied to:				
Purchase of property, plant and equipment		12,556	11,754	9,400
Purchase of intangibles		37	50	0
Additional investment in associate		0	0	0
		12,593	11,804	9,400
Net cash flows used in investing activities		(9,400)	(11,804)	(9,377)
Cash Flows from Financing Activities				
Cash was provided from:				
Term debt		0	2,000	0
		0	2,000	0
Cash was applied to				
Repayment of Lease Liability		156	0	137
		156	0	137
Net cash flows used in financing activities		(156)	2,000	(137)
Net Increase/(Decrease) in Cash Held		7,013	(8,243)	(8,145)
Add opening cash brought forward		5,789	8,504	13,934
Ending Cash Carried Forward	16	12,802	261	5,789

The accompanying notes form part of these consolidated financial statements.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

1. 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 consolidated financial statements consist of New Zealand Forest Research Institute Limited and its subsidiaries (the Group). The Consolidated Financial Statements of New Zealand Forest Research Institute Limited for the year were authorised for issue in accordance with a resolution of the directors on the date as set out on the Consolidated Statement of Financial Position.

New Zealand Forest Research Institute Limited (the Company) is domiciled and incorporated in New Zealand and is wholly owned by the Crown.

The activities of New Zealand Forest Research Institute Limited include a range of research and development programmes aimed at using 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.

1.1 Summary of Significant Accounting Policies

a) Basis of Preparation
The consolidated financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993, the Financial Reporting Act 2013, the Public Finance Act 1989, the Crown Entities Act 2004 and the Crown Research Institutes Act 1992. The consolidated financial statements have also been prepared on a historical cost basis, except for forestry assets, carbon credits and certain heritage assets that have been measured at fair value.

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

b) Statement of Compliance
The consolidated financial statements have been prepared in accordance with NZ GAAP. For the purpose of complying with NZ GAAP, the Group is a for profit entity. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The consolidated financial statements comply with International Financial Reporting Standards (IFRS).

c) Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

c) Basis of Consolidation (cont.)

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the Group's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

d) Associate Companies

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group deems it has significant influence if it has over 20% of the voting rights.

The reporting dates of the associates and subsidiaries, and the Company, are identical, and the associates' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

Associate companies have been reflected in the consolidated financial statements on an equity accounting basis which shows the Group's share of profit in the Consolidated Statement of Comprehensive Income 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 those acquired 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 recognised in profit and loss.

Intangible assets created within the business are not capitalised and expenditure is charged to profit and loss 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 capitalised intangible assets is as follows:

	Software
Useful lives	Finite
Method used	4 years – Straight line
Type	Acquired
Impairment test/Recoverable amount testing	Amortisation method reviewed at each financial year-end Reviewed annually for indicators of impairment

Gains or losses arising from de-recognition 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 profit and loss when derecognised.

Carbon Credits

New Zealand emission reduction units (NZU's) are recognised when the Group controls the units, provided that it is probable that economic benefits will flow to the Group and the fair value of the units can be measured reliably. Control of the NZU's arises when the Group is entitled to claim the NZU's from the government.

NZU's are initially measured at fair value on entitlement as an intangible asset unless the Board have determined they are held for sale, in which case they would be recorded at fair value as inventory.

e) **Intangible Assets (cont.)**

Following initial recognition, the intangible asset is measured at fair value when the Board of Directors consider there is an active market for the sale of NZU's. NZU's determined as held for sale at recognition and recorded as inventory, are subsequently measured at the lower of cost and net realisable value.

The liability arising from the deforestation of eligible land is measured using the market value approach. A liability exists and is recognised on pre-1990 forests if the land use changes from forestry.

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 initially recorded at cost, where relevant on purchase from the Crown as at 1 July 1992, adjusted for subsequent additions at cost, disposals, depreciation and impairment. Plant and equipment are recorded at cost less accumulated depreciation less accumulated impairment losses (if any). Land and capital work in progress are recorded at cost. Some library books have been identified as heritage assets and are recorded at fair value as determined by an independent valuer. Valuations are obtained every five years or more often where circumstances indicate that a significant change in fair value has occurred.

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 profit and loss.

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 have been calculated as follows:

Buildings and Land Improvements	20-60 years
Plant and Equipment	3-20 years
Furniture and Fittings	10-20 years
Motor Vehicles	3-7 years
Library Books and Periodicals	20 years or longer

h) **Recoverable Amount of Non-current Assets**

At each reporting date, the Group assesses whether there is any indication a non-financial asset (except for biological assets and inventory) 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, however, if 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, it 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 classified as financial assets at amortised costs. Trade receivables are initially recognised at fair value and subsequently valued at amortised cost less impairment allowance.

The group applies a simplified approach in calculating expected credit losses (ECLs) for trade receivables, i.e. a loss allowance for trade receivables is based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The provision rates are based on days due for grouping of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

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 lower of cost or 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

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 settle the present obligation at the Consolidated Statement of Financial Position date using a discounted cash flow methodology.

m) Employee Benefits

(i) Wages, Salaries and Annual Leave

The liability for wages, salaries and annual leave recognised in the Consolidated Statement of Financial Position is the amount expected to be paid at balance date. Provision has been 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 of 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 through other comprehensive income in the period in which they arise.

The defined benefit liability recognised in the Consolidated Statement of Financial Position represents the present value of the defined benefit obligations.

Long service leave and defined benefit plan provisions are based on an actuarial valuation.

n) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a Lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) *Right-of-use assets*
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Building	3 to 6 years
Forestry Rights	70 years

(ii) *Lease liabilities*
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) *Short-term leases and leases of low-value assets*
The Group applies the short-term lease recognition exemption to its short-term leases of temporary buildings (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value asses are recognised as an expense on a straight-line basis 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

o) **Cash and Cash Equivalents**
Cash and short-term deposits in the Consolidated Statement of Financial Position 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 Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

p) **Goods and Services Tax (GST)**
All items in the financial statements are stated net of GST, with the exception of trade receivables and payables, which are inclusive of GST invoiced.

q) **Foreign Currencies**
Functional and presentation currency
Both the functional and presentation currency of New Zealand Forest Research Institute Limited and its 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 Consolidated Statement of Financial Position 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.

r) Revenue Recognition
Revenue from contracts with customers

Research revenue
Research revenue from both Government and commercial sources (except for government grants) is recognised over time using an input method to measure progress toward complete satisfaction of the service, because the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date. Revenue is recognised by reference to costs incurred to date 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.

Government revenue under research revenue includes non-devolved revenue received from the Ministry of Business Innovation and Employment in the form of Endeavour Funding, and Preseed Accelerator Fund programmes.

Sale of goods and rendering services (Fee for services)
Revenue from work programmes under Commercial Testing Services and Nursery crops is recognised at the point of time when control is transferred to the customer, generally on dispatch of crops to the customer or when service is completed.

Other revenue

Government grants
Government Grants includes devolved revenue from the Ministry of Business Innovation and Employment in the form of Strategic Science Investment Funding and Covid-19 Recovery Funding. Government Grant revenue has only been recognised after all appropriate conditions have been met.

Rent revenue
Rent revenue is recognised on a straight line basis over the lease term.

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

s) Taxation
The income tax expense charged to the profit and loss includes both the current year's provision and the income tax effects of temporary differences calculated using the liability method. Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

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.

t) Borrowing Costs
Borrowing costs are recognised as an expense when incurred except for those borrowing costs determined as directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale).

u) Interest-bearing Loans and Borrowings
All loans and borrowings are classified as financial liabilities at amortised costs. They 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.

v) **Trade and Other Payables**
Trade and other payables are classified as financial liabilities at amortised costs. They 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.

1.2 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that effect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures.

a) **Revenue Recognition from contracts with customers**
Revenue is predominately recognised based on the percentage of work completed on a project basis over time. Percentage of work completed is based on costs incurred from inception of the project as a percentage of total forecasted project costs. Management judgement is required in estimating total forecasted costs which impacts the revenue recognised (Note 2), the revenue in advance (Note 8) and accrued revenue (Note 17).

In determining if a customer contract can be recognised over time, management have considered their right to receive payment for work done up to the point of any termination of contract. In the absence of a termination clause management has assessed that the Group has a clear right to be paid for work completed up to the point of termination.

b) **Heritage Assets**
The Group holds several heritage assets which have significant value due to being both rare, and having importance to the nat ion. Where a heritage cost can be measured reliably they are revalued at least every five years and included as part of property plant and equipment.

The increase/decrease in value is recognised in the Consolidated Statement of Financial Position through other comprehensive income.

Due to the nature of some heritage assets, management does not believe they can be valued reliably. These assets have been identified and disclosed. Details of heritage assets can be found in Note 11 and 22.

c) **Biological Assets**
The Group's biological assets consist of tree plantations. These are valued at the net present value of future net harvest reve nue 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.

d) **Defined Benefit Scheme**
The Group operates an unfunded defined benefit plan. Significant assumptions used to value the plan liability include the discount rate and future salary increases as set out in the notes to the financial statements. Management used the experience of a registered actuary to reduce the risk of misstatement resulting from these judgements and estimates.

1.3 Accounting Standards issued but not yet Effective

The following standards that have been issued but not yet effective and have not been earlier adopted by the Group and may have an impact on the Group's financial statements:

	Date Applicable for Scion
• NZ IFRS 10 Consolidated Financial Statements	1 July 2025
• NZ IAS 28 Investments in Associates and Joint Ventures	1 July 2025
• NZ IAS 1 Classification of Liabilities as Current or Non-current	1 July 2022

There are no amendments to standards that affect Scion's Consolidated Financial Statements.

1.4 New Accounting Standards and Amendments

The Group applied NZ IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

NZ IFRS 16 supersedes NZ IAS 17 *Leases*, NZ IFRIC 4 *Determining whether an Arrangement contains a Lease*, NZ SIC-15 *Operating Leases-Incentives* and NZ SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

1.4 New Accounting Standards and Amendments (cont.)

Lessor accounting under NZ IFS 16 is substantially unchanged from NZ IAS 17. Lessors will continue to classify leases as eith er operating or finance leases using similar principles as in NZ IAS 17. Therefore, NZ IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted NZ IFRS 16 using the full retrospective method of adoption, with the date of initial application of 1 July 2018.

1.5 Prior Period Restatement

In accounting for the Lease liability and Right-of-use asset the 1 July 2018 opening retained earnings was reduced by$45k to account for the difference between the assessed lease liability and right-of-use asset balances at that date. The 2018/19 year was also restated to account for the movement on the lease liability and right-of-use asset resulting in the net profit after tax figure for the year being reduced by $9k. The consolidated statement of financial position has been restated at 30 June 2018 and 30 June 2019 to includ e right-of-use assets and lease liabilities as disclosed in those statements.

The effect of adopting NZ IFRS 16 is as follows:

Impact on the consolidated statement of financial position (increase/(decrease)):

	30 June 2020 $000	30 June 2019 $000	1 July 2018 $000
Assets			
Right-of-use assets	543	677	664
Total Assets	543	677	664
Equity			
Retained earnings	(59)	(54)	(45)
Total Equity	(59)	(54)	(45)
Liabilities			
Lease liability	602	731	709
Total liability	602	731	709

Impact on the consolidated statement of comprehensive income (increase/(decrease)):

	2020 $000	2019 $000
Expenditure	6	9
Profit before tax	(6)	(9)
Profit for the year after tax	(6)	(9)
Total comprehensive income	(6)	(9)

Impact on the consolidated statement of cash flow (increase/(decrease)):

	2020 $000	2019 $000
Payment to suppliers	(183)	(165)
Lease interest	27	28
Net cash flows from operating activities	(156)	(137)
Repayment of lease liability	156	137
Net cash flows from financing activities	156	137

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020

		ACTUAL 2020 $000	ACTUAL 2019 $000
2.	**Revenue and Other Income**		
	(a) Revenue		
	Revenue from research contracts		
	Ministry of Business Innovation and Employment Revenue	9,062	13,421
	Other Government and Crown Research Institute Revenue	7,587	10,215
	Commercial research revenue	11,661	13,214
		28,310	36,850
	Government grants	28,523	17,733
	Other Income		
	Commercial lease revenue	920	788
	Interest revenue	99	314
	Other revenue	28	250
		1,047	1,352
	Total Revenue and Other Income	57,880	55,935
	(b) Other Income/(Expenditure)		
	Change in fair value of plantation trees	(16)	267
		(16)	267
3.	**Expenditure and Finance Costs**		
	(a) Expenditure		
	Personnel remuneration and expenses	29,589	29,192
	Other personnel related costs	415	569
	Contractors and subcontractors	7,847	9,321
	Consumables	1,394	1,628
	External services	3,412	3,306
	Travel and accommodation	1,237	2,032
	Rental and Equipment hire costs	154	141
	Depreciation on leases	134	118
	Depreciation	4,960	4,199
	Amortisation	85	143
	Loss on disposal of fixed assets	(693)	(20)
	Impairment of assets	75	0
	Reversal of impairment	0	0
	Premises	2,287	2,379
	Directors' fees	222	240
	Restructuring costs	0	(18)
	Doubtful debt provision	0	0
	Bad debts expense	26	3
	Realised exchange fluctuations	4	(8)
	Other	531	493
		51,679	53,718
	(b) Finance Costs		
	Lease interest	27	28
		27	28
4.	**Auditor's Remuneration**		
	Amounts paid or due and payable to the auditors for:		
	Auditing financial statements		
	Parent entity auditor	157	152
		157	152

5. Equity

New Zealand Forest Research Institute Limited has authorised, issued and paid up capital of 17,516,000 (2019: 17,516,000) ordinary shares. Shares do not have a par value.

All shares have equal rights with respect to voting, dividends and distribution on winding up. There are no restrictions on the distribution of dividends or repayment of capital.

No dividends were declared or paid to shareholders during the year (2019: $0).

The asset revaluation and pension reserve is used to record increments and decrements in the fair value of heritage book assets, fair value movement in revaluation of carbon units and remeasurement of defined benefit plan liabilities. Movements in the asset revaluation and pension reserve are not reclassified to the profit and loss in subsequent periods.

Capital Management

Scion is 100% Crown owned. Scion completes a five-year plan on an annual basis and as part of that five year plan, any capital requirements for the future. When managing capital, management's objective is to ensure the entity continues as a going concern while balancing its financial goals of delivering returns in line with market cost of capital, with its public good goals of reinvesting in science that will benefit New Zealand. Management uses total equity as capital. The Group has no externally imposed capital requirements.

6. Provisions

The Group has provisions for long service leave and restructuring. The long service leave provision totals $563k at June 2020 (2019: $536k) and was actuarially valued by Aon Hewitt Consulting, an independent risk management and consulting organisation.

The Group has a restructuring provision of $0k at June 2020 (2019: $0k).

The provisions are made up as follows:

	ACTUAL 2020 $000	ACTUAL 2019 $000
Current Provision	49	46
Non-Current Provision	514	490
	563	536

Movement in each class of provision during the year is as follows:

	Long Service Leave 2020 $000	Restructuring 2020 $000	TOTAL 2020 $000	Long Service Leave 2019 $000	Restructuring 2019 $000	TOTAL 2019 $000
Balance 1 July	536	0	536	551	321	872
Provision reversed during the year	0	0	0	0	(18)	(18)
Amounts used during the year	(67)	0	(67)	(98)	(303)	(401)
Provisions made during the year	94	0	94	83	0	83
Balance 30 June	563	0	563	536	0	536

7. **Pension Plans**

a) Defined Benefit Plan

Scion operates an unfunded final salary defined benefit plan. The level of benefits provided depends on the member's length of service and salary at retirement age. The plan is closed to new members and will cease when the current six members have either retired or left the Group. There are no assets backing the unfunded liability.

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 account. Past service cost is recognised immediately in profit or loss.

The defined benefit liability recognised in the Consolidated Statement of Financial Position represents the present value of the defined benefit obligations.

	ACTUAL 2020 $000	ACTUAL 2019 $000
Net plan expense		
Current service cost	23	24
Interest cost on benefit obligation	20	35
Net actuarial gains recognised in the year	0	56
Net plan expense/(income)	43	115

The net plan expense is included in the Personnel remuneration and expense line in Note 3(a) Expenditure.

	Defined Benefit Plan				
	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000
Benefit liability included in the Consolidated Statement of Financial Position					
Present value of defined benefit obligation	819	838	941	934	996

	ACTUAL 2020 $000	ACTUAL 2019 $000
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	838	941
Current service cost	23	24
Interest cost	20	35
Actuarial gains recognised in the year	0	56
Benefits paid	(62)	(218)
Closing balance	819	838
Current provision	129	133
Non-current provision	690	705
	819	838

7. Pension Plans (cont.)

a) Defined Benefit Plan (cont.)

The history of experience adjustments is as follows:

	2020 $000	2019 $000	2018 $000	2017 $000	2016 $000
Experience adjustments on plan liabilities	(20)	(6)	(22)	(80)	(37)

The principal actuarial assumptions used in determining the defined benefit plan obligations are shown below:

	2020 $000	2019 $000
Discount rate	1.47%	2.42%
Future salary increases	2.60%	3.20%

At 30 June a change in the assumed rates of salary growth and resignation rates, all other assumptions remaining unchanged, would affect the balance of the liability as follows:

	ACTUAL 2020 $000	ACTUAL 2019 $000
Current obligation	819	838
Salary growth		
Reduction of 1% per annum	776	792
Increase of 1% per annum	866	886
Resignation rates		
150% of assumed rates	819	820
50% of assumed rates	819	856

Interest rate assumptions are based on Treasury's published risk-free discount rates.

b) Defined Contribution Plan

During the period defined contributions totalling $771k (2019: $702k) were made to the Government Superannuation Fund and KiwiSaver.

	ACTUAL 2020 $000	ACTUAL 2019 $000
8. Trade and Other Liabilities		
Trade payables	4,883	5,310
Employee payables and accruals	2,975	2,319
Revenue in advance	5,344	2,636
	13,202	10,265

The carrying amount disclosed above is a reasonable approximation of fair value. Trade creditors are non-interest bearing and are normally settled within 60 days.

Revenue in advance includes advances received to 30 June each year. The outstanding balances of these accounts increased during the year as a result of number of projects being delayed primarily due to Covid-19 lock down and its effects throughout the world. Total revenue recognised during the year that was in Revenue in Advance at the start of the year totals $2,636k (2019: $4,695k).

	ACTUAL 2020 $000	ACTUAL 2019 $000
9. Income Tax		
(a) Income Tax Expense		
The major components of income tax expense in the Consolidated Statement of Comprehensive Income are:		
Current income tax		
Current income tax charge	1,913	598
Adjustments to prior year current income tax charge	96	(79)
	2,009	519
Deferred income tax		
Deferred tax expenses/(income) related to prior year	(54)	16
Relating to origination and reversal of temporary differences	(392)	75
Impact of changes to building depreciation	(808)	0
Deferred tax on items recognised in OCI	0	(20)
	(1,254)	71
Income tax expense/(income) reported in the Consolidated Statement of Comprehensive Income	755	590
(b) Amounts charged or credited directly to other comprehensive income		
Deferred income tax related to items charged (credited) directly to other comprehensive income		
Net gain on revaluation of heritage assets	0	5
Remeasurement of gain/loss on defined benefit plan	0	15
Deferred tax charged to OCI	0	20
(c) Reconciliation between the aggregate tax expense recognised in the Consolidated Statement of Comprehensive Income to tax expense calculated at the statutory income tax rate		
Accounting profit before income tax	6,118	2,211
Heritage assets	0	17
Defined benefit plan	0	56
Adjusted accounting profit before tax	6,118	2,284
Tax at the statutory income tax rate of 28% (2019: 28%)	1,713	640
Adjusted by:		
Prior year income tax	(3)	(63)
Entertainment	8	16
Impact of changes to building depreciation	(808)	0
Other	(155)	(3)
Income tax expense	755	590
(d) Deferred income tax relates to the following:		
Deferred tax liabilities		
Property, plant and equipment	(533)	(1,579)
Nursery inventory	(60)	(88)
Standing timber	(299)	(307)
	(892)	(1,974)
Deferred tax assets		
Patents and trademarks	240	221
Payroll provisions	867	748
Allowance for impairment loss	15	7
Income in advance	0	66
Other	4	13
	1,126	1,055
Net Deferred Tax Asset/(Liability) per Consolidated Statement of Financial Position	234	(919)

The Group had no unused tax losses (2019: $0k)

10. **Leases**

Group as a Lessee

The Group has lease contracts for buildings in Christchurch and Wellington plus Forestry rights in Puruki. The building leases are for terms of 3 to 6 years with the Forestry rights being for a period of 70 years. The group obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets. The lease contracts include extension and termination options.

Set out below are the carrying amounts of right-of-use assets recognised and the movement during the period:

	Building $000	Forestry Rights $000	Total $000
As at 1 July 2018 (restated)	552	112	664
Additions	132	0	132
Depreciation expense	(116)	(2)	(118)
As at 30 June 2019 (restated)	568	110	678
Additions	0	0	0
Depreciation expense	(132)	(3)	(135)
As at 30 June 2020	**436**	**107**	**543**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	ACTUAL 2020 $000	ACTUAL 2019 $000
As at 1 July	**731**	709
Additions	**0**	132
Accretion of interest	**27**	28
Payments	**(156)**	(138)
As at 30 June	**602**	731
Current	**156**	129
Non-Current	**446**	602
The following are the amounts recognised in profit or loss:		
Depreciation expense of right-of-use assets	**135**	118
Interest expense on lease liabilities	**27**	28
Variable lease payments (included in Expenditure and Finance costs)	**40**	70
Total Amount recognised in profit or loss	**202**	216

The group had total cash outflow for leases of $197k in 2020 (2019: $208k). The Group also had non-cash additions to right-of-u se assets and lease liabilities of $0 in 2020 (2019: $132k).

11. Property, Plant and Equipment

GROUP	Land & Improvements $000	Buildings $000	Plant & Equipment $000	Furniture & Fittings $000	Motor Vehicles $000	Books & Periodicals $000	Capital Work in Progress $000	Total $000
At 1 July 2019								
Carrying amount net of accumulated depreciation and impairment at 1 July 2019	**1,675**	**12,263**	**12,032**	**4,246**	**302**	**104**	**7,692**	**38,314**
Additions	0	294	3,885	314	168	0	5,268	9,929
Transfers from CWIP	0	549	1,577	0	22	0	(2,148)	0
Disposals	(113)	(40)	(162)	(66)	(18)	0	(13)	(412)
Impairment provision	0	(75)	0	0	0	0	0	(75)
Depreciation expensed	(61)	(800)	(3,524)	(493)	(80)	(2)	0	(4,960)
Carrying amount net of accumulated depreciation and impairment at 30 June 2020	**1,501**	**12,191**	**13,808**	**4,001**	**394**	**102**	**10,799**	**42,796**
At 30 June 2020								
Cost or fair value	2,244	24,859	52,644	5,979	1,067	106	10,799	97,698
Accumulated depreciation and impairment	(743)	(12,668)	(38,836)	(1,978)	(673)	(4)	0	(54,902)
Net carrying amount	**1,501**	**12,191**	**13,808**	**4,001**	**394**	**102**	**10,799**	**42,796**

Books and periodicals include some library books classified as Heritage Assets. The Group engaged Rowan Gibbs, an antiquarian bookseller of 37 years' experience of Smith's Bookshop Limited to determine the fair value of the heritage library books as at 30 June 2019. Fair value is the amount for which the books could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms-length transaction as at valuation date. Fair value is determined by reference to recent prices realised at national and international auctions and prices being asked for by specialist dealers for comparable items. Refer to Note 22 regarding other heritage assets. The heritage asset library books have been valued at $102k (2019: $104k) .

Scion recognised an impairment loss of $74k on Buildings which currently are vacant and not in a usable state (2019: $0). Scion also re-assessed the economic useful life of a number of buildings that were identified to be partly or wholly demolished as part of its campus development plans and accordingly accelerated depreciation on the buildings.

11. Property, Plant and Equipment (cont.)

GROUP	Land & Improvements $000	Buildings $000	Plant & Equipment $000	Furniture & Fittings $000	Motor Vehicles $000	Books & Periodicals $000	Capital Work in Progress $000	Total $000
At 1 July 2018								
Carrying amount net of accumulated depreciation and impairment at 1 July 2018	**1,736**	**11,733**	**11,796**	**2,997**	**330**	**88**	**3,718**	**32,398**
Additions	0	574	2,168	1,668	0	0	5,977	10,387
Transfers from CWIP	0	496	1,205	0	45	0	(1,746)	0
Disposals	0	(17)	(36)	21	0	0	(257)	(289)
Revaluations	0	0	0	0	0	17	0	17
Depreciation expensed	(61)	(523)	(3,101)	(440)	(73)	(1)	0	(4,199)
Carrying amount net of accumulated depreciation and impairment at 30 June 2019	**1,675**	**12,263**	**12,032**	**4,246**	**302**	**104**	**7,692**	**38,314**
At 30 June 2018								
Cost or fair value	2,357	23,147	47,074	5,093	997	89	3,718	82,475
Accumulated depreciation and impairment	(621)	(11,414)	(35,278)	(2,096)	(667)	(1)	0	(50,077)
Net carrying amount	**1,736**	**11,733**	**11,796**	**2,997**	**330**	**88**	**3,718**	**32,398**
At 30 June 2019								
Cost or fair value	2,357	24,072	48,266	5,750	1,039	107	7,692	89,281
Accumulated depreciation and impairment	(682)	(11,809)	(36,234)	(1,504)	(737)	(3)	0	(50,967)
Net carrying amount	**1,675**	**12,263**	**12,032**	**4,246**	**302**	**104**	**7,692**	**38,314**

12. Biological Assets

Biological assets consist of tree plantations. The Group has 65.5 hectares of trees planted initially for experimental purpos es. When experiments are completed, they are classified as biological assets. Trees will be harvested when they reach maturity.

	ACTUAL 2020 $000	ACTUAL 2019 $000
Carrying amount 1 July	1,095	828
Sale of Trees	(10)	0
(Loss)/Gain from changes in fair value less estimated point-of-sale costs	(16)	267
Carrying amount 30 June	1,069	1,095

The above biological assets are level 3 in the fair value hierarchy.

The Group has tree plantations at two locations:
(a) 31 hectares of immature Radiata Pine is located at Puruki. The trees were planted for experimental purposes. The Group has a forestry right which expires in 2067.
(b) 34.5 hectares of immature Radiata Pine is located at Mamaku plus 2.2 hectares of mature Sitka Spruce. The trees were planted for experimental purposes. The Group has a forestry right which terminates when the trees are harvested or in 2024, whichever is the earlier.

During the year the property at Tikokino which include 5.5 hectares of Mexican Cypress trees on the property were sold.

The tree plantations were valued as at 30 June 2020 by PF Olsen Limited, an independent forestry management and consultancy company.

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.

Fair value is sensitive primarily to log prices. Significant increase (decreases) in log prices would result in a significantly higher (lower) fair value.

13. Intangible Assets

	ACTUAL 2020 $000	ACTUAL 2019 $000
Software		
Opening balance 1 July		
At cost	2,454	2,984
Less accumulated amortisation	(2,335)	(2,722)
Opening net carrying amount 1 July	119	262
Opening carrying amount 1 July	119	262
Additions	39	4
Disposals	0	(1)
Current year amortisation	(89)	(146)
Amortisation write back	0	0
Closing carrying amount 30 June	69	119
Closing balance 30 June		
At cost	2,443	2,454
Less accumulated amortisation	(2,374)	(2,335)
Closing net carrying amount 30 June	69	119
Carbon Credits		
Carrying amount 1 July	445	420
Increase/(Decrease) in fair value	181	25
Carrying amount 30 June	626	445
Total intangible assets 30 June	695	564

14. Investments in Subsidiaries

	Shares	Percentage Held 2020	Percentage Held 2019	Balance Date
Subsidiaries				
Te Papa Tipu Properties Limited	100	100%	100%	30 June
Sala Street Holdings Limited	100	100%	100%	30 June

Te Papa Tipu Properties Limited was incorporated on 25 March 2004. The company owns the Group's land assets.

Sala Street Holdings Limited was incorporated on 9 November 2015. The company holds the Groups 50% investment in Scion Terax technologies.

All subsidiaries are incorporated in New Zealand.

15. Investments in Associates

	ACTUAL 2020 $000	ACTUAL 2019 $000
(a) Investment Details		
Biopolymer Network Limited *	0	180
Terax 2013 Limited	0	0
Terax Limited Partnership	61	61
	61	241

* During the year New Zealand Forest Research Institute Limited's shareholding in Biopolymer Network Limited decreased from 33.33% to 14.56%. As a result, New Zealand Forest Research Institute Limited's investment in Biopolymer Network Limited has been reclassified from Investment in Associates to Investment at Fair Value through P&L. This can be seen on the face of the Statement of Financial Position

New Zealand Forest Research Institute Limited Group has a 50% shareholding in Terax 2013 Limited. The company was incorporated in February 2012. Terax 2013 Limited manages Terax Limited Partnership in which Scion Group also has a 50% interest. Terax Limited Partnership was registered on 8 April 2013. Both Terax 2013 Limited and Terax Limited Partnership are in the process of voluntary liquidation and are expected to be closed by 31 December 2020.

The group's proportion of voting power held in each associate is the same as its ownership interest.

All of the companies are incorporated in New Zealand.

	ACTUAL 2020 $000	ACTUAL 2019 $000
(b) Movements in the carrying amount of the Group's investments in associates		
Opening carrying amount of investments	241	494
Prior period adjustment	0	(222)
Current year investment in associates	0	0
Change in nature of investment due to change in shareholding	(140)	0
Current year share of increase/(decrease) in net assets of associates	(40)	(31)
Closing carrying amount of investments	61	241

		ACTUAL 2019 $000
15.	**Investments in Associates (cont.)**	
	(c) Summarised financial information	
	The following table illustrates summarised financial information relating to the Group's associates:	
	Extract from the Associates' Statement of Financial Position:	
	Current assets	517
	Non-current assets	384
		901
	Current liabilities	250
		250
	Net assets	651
	Share of associates' net assets	241

Terax 2013 Limited and Terax Limited Partnership are insignificant associates and are in the process of being wound up. Current year figures excluded as insignificant and not available at the date of this report.

	ACTUAL 2020 $000	ACTUAL 2019 $000
Extract from the associates' Statement of Comprehensive Income:		
Revenue	531	1,961
Net Profit/(Loss)	(273)	(94)

There are no known contingent liabilities relating to Associates.

Amounts above are shown for Biopolymer Network Limited Prior to it being reclassified as an investment at fair value through P&L.

		ACTUAL 2020 $000	ACTUAL 2019 $000
16.	**Cash and Cash Equivalents**		
	Cash on hand	6	5
	Bank	1	1
	Call deposits	4,025	1,096
	Short-term deposits	8,770	4,687
		12,802	5,789

For the purposes of the Statement of Cash Flows, Cash and Cash equivalents are equivalent to Cash and Cash equivalents presented in the Consolidated Statement of Financial Position.

		ACTUAL 2020 $000	ACTUAL 2019 $000
17.	**Trade and Other Receivables and Accrued Revenue**		
	Trade receivables	4,839	6,341
	Allowance for impairment loss	(54)	(28)
	Other debtors	11	81
	Prepayments	979	1,064
	Accrued revenue	710	1,276
	Related party receivables:		
	Associates	2	92
	Carrying amount 30 June	6,487	8,826

(a) The carrying amount of trade and other receivables disclosed above is a reasonable approximation of fair value due to the short-term nature of the receivables.

(b) Accrued revenue is initially recognised for revenue earned from research projects as receipt of consideration is conditional on successful completion of projects. Upon completion of the project, the amounts recognised as accrued revenue are reclassified to trade receivables.

(c) Allowance for Expected Credit Loss
Trade receivables are non-interest bearing and are generally on 30–60-day terms. Expected credit loss allowance is provided based on a provision matrix derived from the Group's historical credit loss experience.

Movements in the allowance for expected credit loss for trade and other receivable and accrued revenue were as follows:

	ACTUAL 2020 $000	ACTUAL 2019 $000
Opening balance 1 July	27	24
Reversal of prior year provision	0	0
Charge for the year	27	3
Bad debts written off	0	0
Closing balance 30 June	54	27

At 30 June, the ageing analysis of trade receivables is as follows:

	Total $000s	0-30 Days CNI* $000s	0-30 Days CI* $000s	31-60 Days CNI* $000s	31-60 Days CI* $000s	61-90 Days PDNI* $000s	61-90 Days CI* $000s	+91 Days PDNI* $000s	+91 Days CI* $000s
2020	4,788	4,529	0	56	0	106	0	43	54
2019	6,341	5,960	0	269	0	25	0	59	28

* Current not impaired (CNI)
* Past due not impaired (PDNI)
* Considered impaired (CI)

(d) For related party terms and conditions refer to Note 24.

	ACTUAL 2020 $000	ACTUAL 2019 $000
18. Inventories		
Consumable stores (at cost)	22	23
Nursery stock	216	314
Closing carrying amount	238	337

Consumable stores recognised as an expense for the year are $91k (2019: $125k). The expense has been included in the "consumables" line item in Note 3 (a). Consumable inventory write-down in the period was $0k (2019: $0k).

19. Financial Instruments

Financial Instruments include:

Financial Assets at amortised costs
Cash and cash equivalents
Trade receivables
Other debtors
Related party receivables

Financial Liabilities at amortised costs
Trade payables
Other payables
Related party payables

All the above financial instruments are measured at amortised cost. Due to their short-term nature their carrying amount is a reasonable approximation of their fair value.

Management have not identified any concentrations of risk for any of the below risk categories.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of a bank debt facility and a bank overdraft. Management monitors, on a monthly basis, our free capacity within the debt facility and our forecasted ability to pay for that debt.

Trade payables ($1,477k) are non-interest bearing and are normally settled within 60 days. Other than lease liability which extends up to 50 years, the Group liabilities all have contractual maturities of less than 120 days.

Credit Risk

Financial instruments that potentially subject the Group to credit risk consist of bank balances and accounts receivable. The Group generally does not require any security.

Significant new non-Government customers are credit checked. Trade receivable ageing is reviewed monthly and all aged trade receivables are followed up. Credit stops are used for non-paying customers.

Maximum exposures to credit risk as at balance date are:

	ACTUAL 2020 $000	ACTUAL 2019 $000
Current account	1	1
Call and short-term deposits	12,795	5,783
Trade receivables	4,785	6,313
Other debtors	10	81
Related party receivables	2	92

The above maximum exposures are net of any provision for impairment on these financial instruments.

19. **Financial Instruments (cont.)**

Market Risk

Market risk on financial instruments comprise the following three types of risk:

Interest Rate Risk

The Group's exposure to market interest rates relates primarily to cash deposits. Cash and cash equivalents have decreased during the year to a year ended 30 June 2020 Group balance of $12,802k (2019: $5,789k).

	ACTUAL 2020 $000	ACTUAL 2019 $000
Cash in hand	6	5
Current account	1	1
Call deposits	4,025	1,096
Short-term deposits	8,770	4,687
	12,802	5,789

The current account is managed at low levels and interest returns on the current account are not material. Cash funds in excess of our current requirements are invested in short-term bank deposits to attract improved interest returns. At 30 June 2020 bank call and short-term deposits were earning interest at rates between 1.35% and 1.75% (2019: 1.25% and 3.53%).

At 30 June 2020, if interest rates moved as indicated in the table below, with all other variables being held constant, post- tax profit and equity would have been affected as follows:

Judgement of reasonably possible movements in interest rates	2020 Change in Interest Rate	2020 Effect on Post Tax Profit & Equity $000	2019 Change in Interest Rate	2019 Effect on Post Tax Profit & Equity $000
	+1%	92	+1%	42
	-1%	(92)	-1%	(42)

Management has taken account of Reserve Bank of New Zealand indications of future interest rate movements in the Official Cash Rate and various other market indicators and after considering these indicators, believe the interest rate changes are reasonable and possible.

Currency Risk

Only small balances are held in currencies other than New Zealand dollars, materially all in debtors. Collection on all these debtors is expected within 60 days resulting in minimal foreign exchange risk.

Other Price Risk

Other price risk primarily relates to the market price of financial instruments. As Scion does not trade in financial instruments there is no perceived risk in this category.

	ACTUAL 2020 $000	ACTUAL (restated) 2019 $000
20. Reconciliation of operating profit after taxation with cash flows from operating activities		
Reported profit/(loss) after taxation	5,363	1,613
Add/(less) non-cash items:		
Depreciation (Refer Note 3 and 11)	4,959	4,199
Amortisation	87	143
Compensation provision	0	(50)
Impairment provision	75	0
Provision for doubtful debts	26	3
Movement on Lease Liability	156	137
Movement in deferred tax (Refer Note 9)	(1,154)	87
	4,149	4,519
Add/(less) items classified as investing activity:		
Investment contribution included in payables	0	0
(Gain)/loss on disposal of property, plant and equipment	(693)	(20)
Share in associate company (profit)/loss	40	253
Capital related items in creditors	551	(630)
Fair value movement in in biological assets	0	(267)
Fair value movement in carbon credits	(181)	0
	(283)	(664)
Movements in working capital items:		
(Increase)/Decrease in debtors and prepayments	3,147	(399)
(Increase)/Decrease in inventories	98	53
Increase/(Decrease) in creditors and accruals	2,313	(3,336)
Increase/(Decrease) in taxation payable	1,782	(417)
	7,340	(4,099)
Net cash flows from operating activities	16,569	1,369

21. **Contingencies**

Treaty of Waitangi Issues

Two verified land claims affecting the Group currently exist:

(i) Ngati Whakaue – covering the whole Rotorua Campus
(ii) Ngati Wahiao – covering the southern end of the Rotorua Campus

No reliable estimates can be made of the impact of these contingencies.

22. **Heritage Assets**

The company has identified its library, herbarium and germplasm collections as heritage assets. For the herbarium and germplasm collections the Directors believe that there is no practical basis upon which to reliably value these collections. Fo r the books and periodic within the library refer to Note 11.

23. **Commitments**

Operating Lease – Group as Lessor:

The Group has entered into commercial property leases for buildings and land. These non-cancellable leases have remaining terms including rights to renew of up to 5 years on buildings and 13 years on land leases, with rights to renew for further 40 years. All leases include a clause to enable upward revision of the rental charge at a specified review date of between one and five years basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	ACTUAL 2020 $000	ACTUAL (restated) 2019 $000
Within one year	379	644
One to five years	668	755
Greater than five years	455	564
	1,502	1,963

Capital Commitments

Capital expenditure contracted for at balance date but not provided for	692	9,580

24. **Transactions with Related Parties**

(a) Group

New Zealand Forest Research Institute Limited is wholly owned by the New Zealand Government (the ultimate parent). All transactions with the Government, Government departments and agencies and Government entities are conducted on normal terms between government agencies. Government Endeavour Funding, Strategic Science Investment Funding and Preseed Accelerator funding from the Ministry of Business Innovation and Employment comprises of over 65% of research revenue earned by Scion and is disclosed in Note 2 (a).

	ACTUAL 2020 $000	ACTUAL 2019 $000
(b) Associates of Parent		
Biopolymer Network Ltd		
Supplied goods and services	296	990
Receivable at balance date	2	92
Terax 2013 Ltd		
Services provided	0	0
Cash contributions made	0	0

24. Transactions with Related Parties (cont.)

(c) Other

The group has transactions with other parties that are related by virtue of the relationship Scion directors have with that ot her party, but these relationships do not alter the nature and amount of those transactions. These relationships and transactions are summarised below where annual transactions with a given related party in either FY20 or FY19 are greater than $100k.

Dr Helen Anderson, the Chair of New Zealand Forest Research Institute Limited, is a director of NIWA.

Mr Jon Ryder, a director of New Zealand Forest Research Institute Limited, is CEO of Oji Fibre Solutions.

i) NIWA
Scion provided services during the period totalling $90k (2019: $63k) and received services totalling $698k (2019: $17k). The amount receivable at year end was $32k (2019: $66k).

ii) Oji Fibre Solutions
Scion provided services during the period totalling $315k (2019: $239k) and received series totalling $4k (2019: $2k). The amount receivable at year end was $44k (2019: $62k).

Terms and conditions of transactions with related parties

Outstanding balances at year end are unsecured and interest free. No guarantees are provided or received for any related part y receivables or payables.

No related party debts were written off during the year (2019: $0k) and no impairment allowance has been raised for any of these debts.

25. Current and Future Impact of Covid-19

Covid-19 has impacted Scion in many ways including:

- Scion's ability to deliver on some aspects of its research work during the various alert levels due to its inability to access New Zealand based facilities and the effect Covid-19 has had on our international collaborators.
- Scion's ability to secure new revenue due to Scion staff having restricted access to its facilities and the financial impact Covid-19 has had on some of our customers which resulted in them choosing to reduce their investment in research spend.

The impact of Covid-19 looking forward remains uncertain however Scion continues to recognise the importance of the research we do for New Zealand. In support of this the Ministry of Business Innovation and Employment provided Scion with additional Covid-19 response and recovery funding of $4.79m in the year ending 30 June 2020. A further $4.79m Covid-19 response and recovery funding has been confirmed for the year ending 30 June 2021.

	ACTUAL 2020 $000	ACTUAL 2019 $000
26. Key Management Personnel		
Short term employee benefits	2,367	2,414
KiwiSaver employee benefits	55	49
	2,422	2,463

Directory

DIRECTORS

Dr Helen Anderson (Chair)
Mr Greg Mann
Ms Colleen Neville
Dr Barry O'Neil
Ms Stana Pezic
Dr Jon Ryder
Mr Steve Wilson
Dr Jon Ryder
Mr Steve Wilson

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EXECUTIVE MANAGEMENT

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Dr Bart Challis	Chief Operating Officer
Dr Elspeth MacRae	Chief Science and Innovation Officer
Mr Arron Judson	General Manager, Marketing and Partnerships
Mrs Adriana Botha	General Manager, People, Culture and Safety
Mr Hēmi Rolleston	General Manager, Māori Forestry Futures
Mr Rob Trass	General Manager, Finance and Corporate Services

BANKERS:	ANZ Bank of New Zealand Limited
AUDITORS:	Ernst & Young, Auckland on behalf of the Auditor-General
SOLICITORS:	Bell Gully, Auckland

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