FORESTRY UNLEASHED

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Annual Report 2018

Reports and Financial Statements

SCION ANNUAL REPORT 2018

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.

Highlights is an illustrated document containing the Chair and Chief Executive report, descriptions of our research performance, collaborations, work 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 (EEO). This commitment is demonstrated through our day-to-day practice and history of compliance with and exceeding the requirements of the Human Rights Commission Annual Report Review.

Our people and performance practices and Scion values help build a culture and working environment that supports empowerment, diversity, equity, inclusion, innovation and accountability. We believe these attributes create an environment that allows the Good Employer principles to thrive.

With our company values, 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 the seven key good employer elements over the 2017-18 financial year are summarised below.

1. Leadership, accountability and culture

Scion recognises that excellent leadership, real accountability and a high-performance culture are vital in order to grow the quality and impact of our science and achieve our strategic goals.

Scion is a values-led organisation, and leadership is provided through establishing a common purpose, inspirational vision, providing clear direction, empowerment and accountability. Promotion of Scion values continued, and we recognised the demonstration of values-aligned behaviours through our reward and recognition programmes. From our annual employee nominated Scion Awards to our values-branded mugs for all new staff, we believe that recognition positively impacts the Scion culture.

Scion is committed to ensuring that everyone is fully supported and developed on their journey to be the very best they can be. Therefore, we are developing three different leadership models directly related to levels of operations and career pathways: Self Leadership, People Leadership and Organisational Leadership.

An executive team development and coaching programme is in scope to support several new executive leadership team members.

Our people processes and experiences significantly contribute to our overall organisational culture. We acknowledge the importance of incorporating Māori in Scion culture and continue to do so through building the appropriate knowledge, skills, behaviours and cultural awareness among our employees. Highlights in this area included our Te Rangihakahaka programme, tukutuku workshops and designs woven by our employees and incorporated into new office spaces, visits to Whakarewarewa, te reo Māori classes, roll out of a new Matariki programme, powhiri, waiata, Māori talent development support and our Māori employee advisory committee.

We continue to review progress and the effect of programmes implemented as a result of the annual climate survey and exit interview feedback.

Achievements

- Our Matariki Lecture Series generated a lot of excitement, and included the following topics presented by different guest speakers:
  - Water is life – world views from the Tarndale slip, Matawhero Lloyd (Pakeke o Whirikoka);
  - Ngā Kitenga o Te Māramataka – insights of the seasons, Rikki Solomon (Te Whare Wānanga o Awanuiarangi);
  - The value of Mātauranga Māori – the Māori economy, Selwyn Hayes (Ernst & Young);
  - Cultural capital – biodiversity in Te Urewera, Dr Rangi Matamua (University of Waikato);
  - Vision Mātauranga – Marariki traditions and forest science, Dr Te Ahukaramū Charles Royal (Te Papa Museum).
- Te Rangihakahaka professional development programme continued.
- Over 40 employees visited Whakarewarewa and participated in the design and weaving of Scion tukutuku panels, each with its own story. Over four days, our employees viewed each tukutuku panel and nominated three winners based on design, weaving and the story told.

- The executive team received training on the Treaty of Waitangi and what it means for Scion, plus te reo language training.
- We continued to have healthy participation in our Leadership and Management course.
- We continued to review and make progress on the effect of actions taken as a result of the 2017 climate survey, which included supporting career pathways, remuneration, helping staff transition through campus upgrades and improving communication.
- Our highly diversified workforce continued to have a good balance between male and female employees at every level of the organisation.

2. Recruitment, selection and induction

Scion's recruitment and selection practices are free from discrimination and support our Equal Employment Policy to ensure that we recruit the best person for the job. We reject the use of terms that may be seen as discriminatory in our advertising, and our recruitment panels are informed on the principles of the Human Rights Act 1993, particularly the 13 areas of discrimination. We also ensure that candidates are given an opportunity to share any specific needs that may need to be met in the recruitment process.

We continued to diversify the way in which we recruit, utilising print media, online job sites, social media, industry specific media and the Science New Zealand careers website to ensure a wide range of people have access to the opportunities at Scion. All Scion job advertisements, policies and careers site have been updated to reflect our commitment to diversity and inclusion and EEO.

We continued to deliver recruitment training to all hiring managers. We recently reviewed our recruitment processes and developed a recruitment toolkit to support hiring managers throughout the process.

Over the past 12 months, Scion experienced a surge in recruitment with a 10% increase in permanent staff (excluding casuals). Focusing on continuous improvement, a recruitment tracker was implemented to assess recruitment turnaround times, success of various recruitment channels and provide clarity about where our talent is coming from.

We are proud to say that 50% of appointments were candidates referred by Scion employees.

Scion's induction programme remained an essential element in successfully 'settling in' employees. This programme is particularly important when welcoming international employees or those new to the Rotorua area. Our process is guided by a self-directed "Induction Passport" that engages the employee with all key personnel, processes and policies.

The induction booklet was updated and all new starter documentation is sent to candidates electronically. Contracts went digital - including sign-off and delivery. Changes to the welcome pack for new starters were initiated to facilitate networking opportunities. Two morning teas were held in the Scion café to welcome new starters and raise their profiles among existing staff. Waiata practice was re-established, and it was mooted that practices take place at all-staff meetings in addition to taking place at the whakatau. The P & P Team is promoting the development of a Scion appropriate waiata or chant.

Attendance at a whakatau, hosted by the Executive Management Team, is an important element demonstrating respect of Te Arawa, and for some of our employees offers their first experience of tikanga Māori.

Achievements

- Participated in the Rotorua Careers Expo.
- Facilitated science career awareness among gifted children.
- Used diverse media to attract candidates and created an excellent candidate database to achieve our time-to-fill goal.
- Simplified recruitment processes and developed a recruitment toolbox to assist and guide hiring managers through the process.
- Implemented a recruitment tracker to assess the effectiveness of recruitment programmes and approaches.
- Transitioned to electronic delivery of employment agreements and new employee hiring packs.
- Implemented social networking opportunities for new hires.
- 50% of new hires were referred to Scion by Scion employees.

3. Employee development, promotion and exit

Our employee development strategy is based on clear goals, fair assessment and access to continued learning and development opportunities. Our performance management tool, known as ACE, is used by all staff to plan their annual work, development and safety goals.

All employees have access to development opportunities through their ACE and our organisational learning and development programmes.

This year, we prioritised training to support Māori cultural awareness.

We also prioritised training required to lead our employees through change and to explore our own as well as the working styles of those we work close with. This is to support our drive for collaboration, wellbeing and engagement.

In regards to promotion, we continued to use our ACE performance management system. Annual goals on a strategic and developmental stance are planned and measured throughout the year, with final ratings completed at year end. The objective going forward, however, will be to build on this process to include leadership development plans and practical mini change processes. We also offer employees the opportunity to apply for career progression, into a higher job band, four times a year, with all applications reviewed by peers. Out of 25 applications, 19 employees were promoted via the progression process.

Employee turnover was 12.3% (including redundancies). Exit interviews were carried out both online and face-to-face to ensure feedback was collected on potential issues and how we may be able to do better or improve our practices. Exit survey results reflected a positive experience at Scion, and recorded 95% => satisfaction with Scion's commitment to company values, 92% => satisfaction in Scion's commitment to Health and Safety, 86% => satisfaction with fairness and equity across Scion and 86% => satisfaction with Scion's vision and strategy.

Reasons for leaving varied between fixed term agreements coming to an end, employees returning to their home countries, retirement and the lowest percentages in "time for a change". Involuntary exits (including redundancies) reduced to less than 7%.

Scion's Education Assistance Policy supported two staff members with their PhD studies.

Scion offered unique individual coaching opportunities to employees with three different coaches. On the job coaching and mentoring is embedded in the way we are working and part of our continuous feedback approach.

Achievements

- We continued to have healthy participation in our Leadership and Management course, Crucial Conversations and refresher courses, Productivity and Self-Management, Resilience and Mindfulness training.
- 18 employees attended Prosci ADKAR change leadership. We will continue to strengthen this competence to ensure positive employee experiences and to ensure that the changes we make are actually realised.
- 60 employees (3 teams) complete DiSC profiles and attended a team dynamics workshop to explore their own and each other's preferred working styles. DiSC is also an effective tool to assess and understand team cultures.
- 3 teams (45 employees) attended a workshop on how to build a cohesive team.
- ACE manager training was provided to all ACE managers.
- 19 employees were promoted via Scion's progression panel process.
- 338 employees attended at least one of 44 different corporate learning opportunities.
- New courses introduced this year included pitch training and advanced reading to assist with presenting and speed reading.
- Staff turnover was 12.3%.

4. Flexibility and work design

Through organisational and work design we offer our employees a high degree of autonomy and self-determination over their working time. We offer highly flexible work-times as well as the opportunity to work reduced hours.

Over the past 12 months, 22 employees took up the opportunity to work reduced hours. One in four employees' works less than the conventional 40-hour work week.

Given our vastly diverse workforce, signs of an aging workforce, working mothers, equal opportunities and equity design principles, we continuously explore opportunities to improve work/life balance and to offer a supportive workplace culture.

Our returning mothers enjoy a-return-to-work incentive, flexible work design, breast-feeding room onsite and a wellness room providing a quiet place. We support our ageing workforce with reduced working hours and workplans.

Scion offers a supportive workplace culture aiming to meet our employees' diverse needs, through our wellness programmes, which include various events throughout the year, such as, mindfulness, nutritionists, yoga, meditation, forest walks and so on.

Walking meetings are encouraged, and onsite kennels are provided for staff dogs to encourage outdoor breaks. We are in a very unique position with the forest on our doorstep, and staff are encouraged to enjoy this space, which is evident by the number of staff who run, walk and mountain bike either on their breaks or after work.

Scion follows the Hay job evaluation methodology to align all roles, provide clarity in accountabilities and to improve learning and development opportunities, succession and mobility within the organisation.

Achievements

- 4 employees returned from maternity leave.
- 1 in 4 employees worked part time.
- 150 employees participated in wellbeing initiatives.
- 30 employees reduced their hours of work.
- 9 employees were supported through changing their roles.

5. Remuneration, recognition and conditions

Remuneration is based on job bands and remuneration ranges sourced from external market surveys produced by Korn Ferry Hay Group. Annually we work with the PSA Union and the Scion Board of Directors to set our remuneration budget. We then determine in negotiation with the PSA Union how this budget will be applied across all staff in the annual remuneration round. This year, as in the past, we applied a performance-based increase. We believe that our remuneration process is free from discrimination, and we monitor for potential gender equity issues through an annual review of our remuneration, promotion and performance assessments conducted by an independent consultant.

Scion provides generous levels of paid sick leave to all employees. Ninety nine employees' accessed sick and bereavement leave beyond the legislative allowance. Scion also has an income protection and life insurance policy available to all permanent staff. One employee accessed income protection this year. Well over two-thirds (71%) of Scion employees are in KiwiSaver, and Scion contributes 3% towards this for each employee. Seven Scion employees remain in the original Government Superannuation Fund where Scion contributes 15.4% per employee.

The Scion Annual Awards continued to recognise individuals for their contribution and success. Two of the seven awards went to project teams: the Customer Engagement award went to The Zespri Biospife Team for the strategic importance of customer engagement for Scion's success; and the Manaakitanga award went to the IT Operations Team for increasing their customer satisfaction across the business. Monthly and quarterly all-staff meetings were held to share team and individual success stories, recognise long service contribution to Scion and to update the organisation on current projects.

Continuous recognition for employees also occurred through both Scion and team communication channels such as team meetings, Treehouse (our staff intranet) and external *Scion Connections* newsletter plus online channels. Our team managers were also supported with a budget allowing them to celebrate success within their teams.

Achievements

- Maintained regular Partnership for Quality meetings with PSA Union.
- Recognised employee achievement and contribution by awarding four Scion core values awards plus a Customer Engagement, Science Excellence and CEO awards.
- 99 employees' accessed sick and bereavement leave beyond the legislative allowance.
- 1 employee accessed income protection.
- Market remuneration comparison audit was completed by an external remuneration specialist.
- 33 employees received one week long service recognition for reaching between 5 and 30 years' service.
- 71% of employees were in KiwiSaver (3% contribution from Scion).
- 7 employees were in the Government Superannuation Fund (15.4% contribution from Scion).
- Hay job grading methodology ensured any potential unconscious bias was removed from our remuneration processes.

6. Harassment and bullying prevention

Scion believes in providing our employees with the necessary skills to address relationship issues ensuring a pro-active, efficient and effective workplace. Competency in these areas was improved through staff training in Mindfulness, Crucial Conversations, Essentials of Collaboration and Coaching for Managers. Guidelines around what constitutes bullying and the types of bullying were promoted with support for National Pink Shirt Day. The coaching focus for our leaders was on developing emotionally intelligent skills and attitudes to enable our leaders to grow as facilitators and coaches.

Employees at Scion are able to access EAP for support for workplace and personal matters. A total of 31 employees accessed EAP along with one family member, reflecting a usage rate of 8.9%. This is down on last year's usage. Our Christchurch staff continued to utilise an onsite presence through the local provider Workplace Support. More than 80% of clients were self-referred, and 62% were personal rather than work related, which is a positive result and may be linked to the drop-in usage.

Achievements

- First line manager training was delivered on treating staff consistently and fairly.
- Team feedback sessions after climate survey reinforced bullying is unacceptable and staff were reminded of their support options.
- Positive 11.5% EAP usage compared to national average of 8.20%.
- Crucial conversations training was delivered to support staff with healthy dialogue.
- Scion facilitated a week-long anti-bullying awareness campaign and had strong participation in Pink-Shirt day.
- Coaching training programme was delivered for first line managers.
- Anti-bullying campaign was rolled out across the organisation.

7. Safe and healthy environment

Scion has continued to advocate for a culture that promotes employee wellbeing and contribution to the H&S environment. This commitment saw the appointment of an H&S Manager and Wellness Advisor. The formalisation of a High-Risk Safety Committee to address high risk areas and equipment supports our commitment to our staff.

Base line health assessment of new staff continued and biennial monitoring of staff exposed to hazards was completed. Additionally, a physiotherapist undertook an assessment of ergonomic practices in our laboratories and recommended practices to reduce manual handling issues. Emergency warden training was undertaken to ensure all wardens had received appropriate training.

The Wellness calendar continued with a greater focus on key initiatives throughout the year, for example, stress and anti-bullying. Monthly activities outlined in the calendar also were supported. The year was completed with two notifiable injuries. There were 51 incidents (including notifiable injuries) and 31 near misses reported. In comparison during the 2016-17 period, one notifiable, 28 incidents and 31 near misses were reported. Eighteen staff were medically treated and 31 non-medically treated. In 2016-17, there were 8 and 19 respectively. Two staff lost time due to injury. A total of 119 staff received a company-paid influenza vaccination, and 15 staff received paid tetanus vaccination in response to their risk exposure.

Achievements

- Biennial health monitoring was completed for 210 Rotorua and 23 Christchurch staff.
- Influenza vaccines were received by 119 staff.
- Wellness initiatives included:
  - Fortnightly seated massages onsite for staff;
  - Men's Health month with Movember;
  - Random acts of kindness;
  - Sponsorship of teams entering Ekiden relay race;
  - Pink Shirt Day supported with multiple activities leading up to the day (staff commitment, positive messages, anti-bullying article and participation in Pink Shirt day);
  - Socialisation of UN Sustainable Development Goals;
  - An InterSports sporting afternoon;
  - Healthy fruit drop to all staff;
  - Fatigue awareness through intranet communication.
- Mindfulness training was delivered.
- Solo Protect Lone Worker devices were purchased for at-risk teams.
- Strategy planning was undertaken with the Executive Management Team.
- H&S training for managers was delivered for all team managers and research leaders.
- We participated in external H&S audit for Timberlands.
- A physiotherapist was engaged to assess laboratory manual handling issues and seating issues.
- Emergency warden procedure training was provided for all emergency wardens.
- We engaged with an external provider for contractor prequalification.
- We scoped implementation of an H&S Management System.

Work Place Profile

Total staff	Total permanent employees 303 – 52% male and 48% female
FTEs	Full time equivalent permanent employees total 284 (excludes fixed-term staff, students & post doctorates – 37 (59 employees))
Disability	4.1% of employees are recorded as disclosing a disability
Age	29% of employees are in the under 40 years age group, 27% are in the 40 to 49 years age group and 44% in the 50 years and over age group
Māori	Māori represent 8% of permanent employees
Pacific Islander	No employees are recorded as disclosing a Pacific Island nationality
Nationality	28% of employees are recorded as disclosing a nationality other than New Zealander or Māori, and represent 34 nationalities

ENVIRONMENTAL PERFORMANCE

Scion obtained Enviro-Mark Gold accreditation in July 2017.

The riparian planting project adjacent to the Puarenga Stream, with our neighbour Whakarewarewa School, was established and is now used regularly by the school. We are investigating another area along the Puarenga Stream for a further community planting initiative.

Scion staff were active in reducing electricity and gas usage during 2017-18, resulting in a 3% reduction in carbon emissions related to energy usage. However, the carbon emissions from air travel increased by 15%, resulting in our overall carbon emissions increasing by 3%.

In line with our environmental policy to reduce water and chemical use, we successfully completed a five-month trial with the water chiller system to remove the need for chemical additives. The change in process reduced water consumption by 4.5m^3/day and will lead to a chemical cost saving of $16,000 per year.

Our campus redevelopment programme of works benefitted our environmental performance during the year, and will continue to do so.

The top floor of the main office block became fully occupied in February and has been running with passive ventilation installed to reduce the energy load. Centralised rubbish and recycling bins on the floor helped staff reduce the amount of rubbish going to landfill.

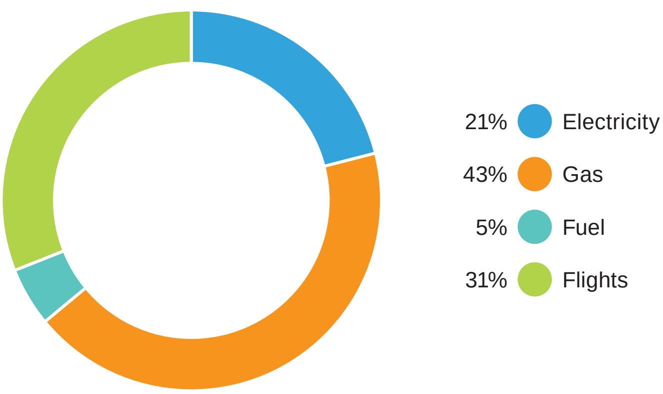
The ground floor of the same office block is currently undergoing a refit. It will have a heat recovery air conditioning system installed that will provide a big energy saving over its life time when compared with a normal air conditioning system.

The campus redevelopment programme included refitting of two office areas. Old, surplus office furniture from those areas was either repurposed on site or reused offsite by staff in exchange for a small donation. Donated cash was given to two local charities.

Installation of two coffee machines in different buildings reduced the use of disposable coffee cups by supplying reusable cups and dishwashers in these areas.

An energy audit was completed by EnergyNZ in December 2017. We will continue to work on initiatives to reduce energy consumption, such as optimising steam usage for the timber kilns. The audit was subsidised by EECA through our Plastics NZ membership.

Comparison of relative CO_2 loads from Scion activities for 2017 - 2018



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 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's Strategic Advisory Māori Panel (Ngā Rangatira Rōpu) provides input to Scion's Te Papa Tipu (Māori) plan and its effective implementation.

The Board has two standing committees, the Audit and Risk Committee and the Remuneration and Organisation 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 Remuneration and Organisation 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.

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 2018.

Scion is a commercially focused science and technology company, delivering solutions to both commercial and Crown clients. While the principal research facility is located 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 33% shareholding in an associate company Biopolymer Network Limited. Scion is a member of the research consortium WQI Limited with a 5.05% shareholding.

- 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 bio-based materials in industrial applications.
- WQI Limited is a consortium that carries out research focused on wood quality, appearance and stability that can affect the performance of the wood, and to develop effective segregation methods and technologies that allow the industry to gain maximum value from their timber resource. WQI Limited ceased trading on 30 June 2016 and has moved into solvent liquidation process from 1 July 2016.

Summary of Group Financial Results to 30 June 2018

	2018 $000	2017 $000
Operating revenue	56,737	51,897
Surplus before taxation	3,157	3,312
Taxation expense	(887)	(980)
Net surplus attributable to the shareholders	**2,270**	2,332
Equity		
Issued and paid up capital	17,516	17,516
Retained earnings	23,410	21,140
Reserve	61	61
Total equity	**40,987**	38,717

Scion's strategy focuses on delivering science and technologies in the following key areas:

- Commercial forestry
- Wood products and processing
- Wood fibre, biopolymer and biochemical industries
- Risk and adaptation
- Licence to operate
- Bioenergy and energy security through forest biomass.

Our 2017-2022 Statement of Corporate Intent mapped out the strategic framework for Scion to achieve outcomes aligned to its Statement of Core Purpose, and the New Zealand Government's overarching objective for Crown Research Institutes to lead the country's economic growth with improved environmental, social and cultural outcomes; in particular increase export earnings to the equivalent of 40% of GDP by 2025.

Scion's science and commercial focus is strongly aligned with the opportunities being presented locally, nationally and globally, and when brought together, will continue to enable Scion to provide leadership on issues of local, national and global significance.

Remuneration and Compensation

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
$410,000 - $419,999	1
$260,000 - $299,999	1
$240,000 - $249,999	1
$230,000 - $239,999	1
$210,000 - $219,999	1
$170,000 - $179,999	1
$150,000 - $159,999	2
$140,000 - $149,999	6
$130,000 - $139,999	7
$120,000 - $129,999	8
$110,000 - $119,999	11
$100,000 - $109,999	7

During the year ended 30 June 2018, $148,574.15 was paid to 5 employees in relation to cessation of employment with Scion (2017: $334,082 to 7 employees). Cessation payments included $36,446 of retirement benefits (2017: $28,956).

Dividend

No dividend was recommended for the year ended 30 June 2018 (2017: $0k).

Director Profiles

Mr Anthony (Tony) Nowell CNZM (Chair) is a professional company Director and in addition to his chairmanship of Scion he is currently Chair of Wellington Drive Technologies, The Omega Lamb Primary Growth Partnership and Douglas Nutrition, he is a board member of New Zealand Food Innovation Auckland Limited and in June 2017 completed an 8-year term as a board member of Food Standards Australia New Zealand (FSANZ). Mr Nowell is Founding Director of Valadenz Limited, a trade and export development company and was previously the CEO of Zespri International, the Managing Director of Griffin's Food Limited and Regional Vice President of Sara Lee Asia. Mr Nowell brings extensive experience in corporate management, governance and international trade and development to the Board and for the past 10 years he represented New Zealand on the APEC Business Advisory Council (ABAC), the APEC Policy Partnership for Food Security (PPFS) and was Chair of the Asia Pacific Food Industry Forum. He has previously chaired the New Zealand Food and Grocery Council, the New Zealand Food and Beverage Taskforce and the New Zealand Packaging Accord Governing Board, was Deputy Chair of Leadership New Zealand and a member of the Export Advisory Board of Business New Zealand. Mr Nowell is also independent Chair of the Professional Golfers' Association of New Zealand. Mr Nowell retired from the Scion Board on 5 August 2018.

Mr Greg Mann (Director) has over 20 years of 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. Greg has a BSc (Hons) from Victoria University and has completed executive training programmes at Darden Business School and the Massachusetts Institute of Technology. Mr Mann commenced as a Director on 14 August 2017.

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 18 years' experience in a range of financial roles for national and international companies. Colleen has governance experience as a Director of Te Arawa Group Holdings Limited subsidiaries, Te Kakano Whakatipu Limited and Te Ohu Kaimoana Portfolio Management Services Limited, and a trustee for Poutama Trust.

Mr Barry O'Neil (Director) has just concluded six years as Chief Executive of Kiwifruit Vine Health, the kiwifruit biosecurity organisation that led the response to the vine disease Psa-V. Barry is the principal Director of Keronlea Ltd, a company specialising in biosecurity consultancy, and is the Chair of Tomatoes NZ, and an independent Director on Horticulture NZ. He also sits on the governance board of New Zealand's Biological Heritage National Science Challenge. Barry's experience includes policy and international standard setting; trade negotiations; operational biosecurity and food safety risk-management activities; and organisational change management. Barry also owns a kiwifruit orchard in Katikati.

Ms Stana Pezic (Director) is currently Chief Financial Officer of CHT Healthcare Trust. She has over 20 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 and Risk Committee of Plant and Food Research Ltd. Stana is a Chartered Accountant and has a BCom and DipBus from Auckland University. Ms Pezic commenced as a Director on 14 August 2017.

Mr Jon Ryder (Director) is currently the Chief Executive Officer of Oji Fibre Solutions (Oji FS) - 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. Jon has gained over 25 years' experience in the forestry, pulp and paper business. Jon'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. Jon 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 (Oji FS) 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. Steve 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. Steve is a graduate mechanical engineer (B.E. 1st Class, Canterbury). Steve has had 36 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

Ms Stana Pezic and Mr Greg Mann commenced on 14 August 2017. Mr Tony Nowell retired on 5 August 2018, and Dr Helen Anderson was appointed Chair at 6 August 2018.

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 2018	Te Papa Tipu Properties Ltd 30 June 2018	Terax 2013 Ltd 30 June 2018	Total 30 June 2018
Tony Nowell	58,000			58,000
Judith Stanway	0	2,000	8,000	10,000
Greg Mann	25,285			25,285
Colleen Neville	28,500			28,500
Barry O'Neil[2]	30,500			30,500
Stana Pezic[1]	27,059			27,059
Jon Ryder	28,500			28,500
Steve Wilson	28,500			28,500
Total	**$226,344**	**$2,000**	**$8,000**	**$236,344**

[1] Chair Audit and Risk Committee

[2] Chair Remuneration and Organisation Committee

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 and in the opinion of the Directors, the state of the company's affairs continues to be satisfactory and the outlook bright.

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.

For and on behalf of the Board
Dr Helen Anderson
Chair

27 August 2018

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 2018 fairly reflect the financial position and operations of the New Zealand Forest Research Institute Limited.

Dr Helen Anderson
Chair

Ms Stana Pezic
Director

27 August 2018

PERFORMANCE TARGETS

	Actual 2018	Budget 2018	Actual 2017
Efficiency:			
Operating margin	10.8%	11.3%	12.6%
Operating margin per FTE	$19,629	$19,702	$22,126
Risk:			
Quick ratio	2.26:1	1.65:1	2.78:1
Interest coverage	N/A	N/A	N/A
Operating margin volatility	8.4%	12.6%	12.3%
Forecasting risk	1.9%	1.7%	1.8%
Growth/Investment:			
Adjusted return on equity	5.1%	4.3%	6.2%
Revenue growth	9.3%	5.3%	4.6%
Capital renewal	2.3x	2.3x	1.1x

Formula for the above calculations can be found at:

https://www.mbie.govt.nz/info-services/science-innovation/agencies-policies-budget-initiatives/research-organisations/cri/toolkit/monitoring-and-indicators

NON-FINANCIAL INDICATORS

MBIE survey of CRI stakeholders

The CRIs' shareholding Ministers are interested in how the performance of a CRI changes over time, and in how a CRI can improve its performance. Engagement with stakeholders is vital, as that is how we develop and deliver maximum value from our science research. To measure the effectiveness of CRI engagement the Ministry of Business, Innovation and Employment (MBIE) commissioned Colmar Brunton to survey stakeholders on research priorities, overall experience, knowledge and technology transfer and research collaboration.

The CRI stakeholder survey, which was conducted online from 24 May to 15 June 2018, was completed by 229 stakeholders representing a 28% response rate. Within the total sample 59 stakeholders commented on Scion.

Scion results

Compared to the average across all CRIs, Scion respondents are more likely to be from the business sector and less likely to be from the public sector. Twelve per cent of Scion responders are Māori organisations compared with the average of 7% across all CRI stakeholders.

Setting research priorities

More than eight in 10 responders (83%) have confidence that Scion can anticipate and adapt to changes and meet future challenges. Four in five responders (79%) are confident that Scion considers their organisation's research priorities when setting its own research priorities. Four in five responders (80%) are confident that Scion considers the requirements of their sector when setting its research priorities. Seven in 10 responders (69%) are satisfied with the way Scion sets its research priorities. These findings are consistent with the average across all CRIs.

Overall experience of interacting with Scion

Four in 5 responders (80%) are satisfied with Scion, and overall likelihood to recommend Scion has not significantly changed since 2016. The three biggest drivers of satisfaction are: satisfaction with research collaboration with Scion, satisfaction with the way Scion sets its research priorities, and satisfaction with knowledge and technology transfer. Respondents most commonly cited Scion's excellent staff, and forestry expertise as strengths.

Knowledge and technology transfer

Almost all respondents have interacted with Scion about knowledge and technology in the past three years. Discussions with experts was the most common experience, along with consultancy and services. Nine in 10 responders have adapted knowledge or technology from Scion in the past three years. The proportion of responders agreeing there are barriers to accessing knowledge or technology transfer from Scion has increased from 2016. Those barriers are costs charged by Scion (66%) as well as the internal costs to their organisations (52%). Intellectual property protection is perceived as a barrier by 45% of responders, which is the same as the average across all CRIs.

Research collaboration

Four in five responders (81%) are satisfied with research collaboration at Scion. Four in five responders (80%) have confidence in Scion's ability to put together the most appropriate research teams.

Indicator	2017 Result %	2018 Result %
Overall stakeholder satisfaction	85	81
Confidence Scion considers sector's priorities	75	80
Confidence Scion can put together the most appropriate research teams	84	80
Stakeholder adopted knowledge or technology from Scion in past 3 years	94	88

The survey also was useful in identifying areas where we can improve. The most common suggestions for improving our relationship with stakeholders are: listening more to the needs of customers and the sector, and improving collaboration. A small percentage of comments are around improving management and strategic capabilities, increasing discussion and application of research, increasing innovation and sharing more.

Non-financial targets

Indicator name	Measure	Frequency	2018 Target	2018 Actual
End user collaboration	Revenue per FTE ($) from commercial sources	Quarterly	$69,523	$79,441
Research collaboration	Publications with collaborators	Quarterly	>80	89
Technology and knowledge transfer excellence	Number of commercial reports per Scientist FTE	Annually	1.0	2.05
Science quality	Mean citation score	Annually	2.3	2.76
Financial indicator	Revenue per FTE ($)	Quarterly	$173,637	$183,971
Stakeholder engagement	Relevant funding partners and other end users (number and %) that have a high level of confidence that Scion sets research priorities relative to the forest industry and biomaterials sector	Biennial	MBIE survey n>30; 85%	n=44 80%
	National and international research providers (%) who are confident that Scion considers their organisation's research priorities when setting its own.	Biennial	MBIE survey >85%	n=43 79%
	Relevant end-users (%) who are satisfied with their experience of accessing knowledge or technology from Scion	Biennial	MBIE survey >90%	n=46 89%
Māori economic development	Partnerships (number (n) and value ($)) established with Māori entities to support economic development through the forest industry	Quarterly	n>5 >$1m	n=5 > $1m value
Accelerated commercialisation	Technologies in Scion's pipeline (number and co-investment ($)); projects that progress to the business case stage (case studies)	Quarterly	25 & $600k; Cases >4pa	27 $183,300 Cases = 4
Internationalisation	Joint research and technology development programmes and staff exchanges with Scion's international strategic partner organisations	Six monthly	>5 1	10 1
People and culture	Staff recruitment and retention (quality and days to fill); leadership development (assessment); good employer (EEO rating); health and safety; and internal staff satisfaction survey (biennial)	Annual and Biennial	Qualitative <50 days; EEO rating; Zero harm	65 days to fill; 12.3% turnover; EEO 100% compliance; 2 notifiable injuries

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF NEW ZEALAND FOREST RESEARCH INSTITUTE LIMITED'S GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

The Auditor-General is the auditor of New Zealand Forest Research Institute Limited Group (the Group). The Auditor-General has appointed me, Susan Jones, using the staff and resources of EY, 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 25 to 50, that comprise the consolidated statement of financial position as at 30 June 2018, 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 2018; 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.

Our audit was completed on 27 August 2018. 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.

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.

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

- 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 on pages 1 to 52, but does not include the financial statements, and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, 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.

Susan E Jones

Susan Jones
EY
On behalf of the Auditor-General
Auckland, New Zealand

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2018

	Note	ACTUAL 2018 $000	BUDGET (unaudited) 2018 $000	ACTUAL 2017 $000
Revenue	2 (a)	**56,737**	54,645	51,897
Other Income/(Expenditure)	2 (b)	**366**	0	(14)
Expenditure	3 (a)	**(53,851)**	(52,254)	(48,363)
Finance Costs	3 (b)	**(1)**	0	(9)
Share of Profit/(Loss) of Associates	14 (b)	**(94)**	0	(199)
Profit Before Tax		**3,157**	2,391	3,312
Tax Expense	9	**(887)**	(693)	(980)
Total comprehensive income for the period attributable to the shareholders of the parent company		**2,270**	1,698	2,332

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

	Note	Ordinary Shares 2018 $000	Asset Revaluation Reserve 2018 $000	Retained Earnings 2018 $000	Total 2018 $000	Ordinary Shares 2017 $000	Asset Revaluation Reserve 2017 $000	Retained Earnings 2017 $000	Total 2017 $000
GROUP									
Balance as at 1 July		**17,516**	**61**	**21,140**	**38,717**	17,516	61	18,808	36,385
Profit for the period		0	0	2,270	2,270	0	0	2,332	2,332
Total comprehensive income		**0**	**0**	**2,270**	**2,270**	0	0	2,332	2,332
Balance as at 30 June	**5**	**17,516**	**61**	**23,410**	**40,987**	17,516	61	21,140	38,717

The accompanying notes form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	ACTUAL 2018 $000	BUDGET (unaudited) 2018 $000	ACTUAL 2017 $000
Equity				
Share capital	5	**17,516**	17,516	17,516
Retained earnings	5	**23,410**	22,583	21,140
Revaluation reserve	5	**61**	61	61
		40,987	40,160	38,717
Non-Current Liabilities				
Provisions	6	**475**	472	481
Defined benefit plan	7(a)	**682**	916	696
Deferred tax liability	9(d)	**828**	1,132	980
		1,985	2,520	2,157
Current Liabilities				
Trade and other payables	8	**13,158**	9,167	12,516
Provisions	6	**397**	342	98
Defined benefit plan	7(a)	**259**	200	238
Tax payable		**339**	283	475
		14,153	9,992	13,327
Total Equity and Liabilities		**57,125**	52,672	54,201
Non-Current Assets				
Property, plant and equipment	10	**32,398**	35,687	27,801
Biological assets	11	**828**	550	548
Intangible assets	12	**682**	831	719
Investments in associates	14	**494**	532	433
Other investments		**0**	0	30
		34,402	37,600	29,531
Current Assets				
Cash and cash equivalents	15	**13,934**	7,340	15,517
Trade and other receivables	16	**8,398**	7,352	8,847
Inventories	17	**391**	380	306
		22,723	15,072	24,670
Total Assets		**57,125**	52,672	54,201

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 27 August 2018.

Chair

Director

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Note	ACTUAL 2018 $000	BUDGET (unaudited) 2018 $000	ACTUAL 2017 $000
Cash Flows from Operating Activities				
Cash was provided from:				
Receipts from customers		**56,248**	54,255	53,159
Interest received		**506**	348	422
		56,754	54,603	53,581
Cash was applied to:				
Payments to employees		**27,054**	27,957	25,406
Payments to suppliers		**21,305**	20,228	18,370
Interest paid		**0**	0	9
Income tax paid		**1,175**	720	1,437
		49,534	48,905	45,222
Net cash flows from operating activities	19	**7,220**	5,699	8,359
Cash Flows from Investing Activities				
Cash was provided from:				
Proceeds from sale of fixed assets		**0**	0	19
		0	0	19
Cash was applied to:				
Purchase of property, plant and equipment		**8,640**	9,464	3,736
Purchase of intangibles		**38**	120	188
Additional investment in associate		**125**	0	370
		8,803	9,584	4,294
Net cash flows used in investing activities		**(8,803)**	(9,584)	(4,275)
Net Increase (Decrease) in Cash Held		**(1,583)**	(3,885)	4,084
Add opening cash brought forward		**15,517**	11,225	11,433
Ending Cash Carried Forward	15	**13,934**	7,340	15,517

The accompanying notes form part of these consolidated financial statements.

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 consists of New Zealand Forest Research Institute Limited and its subsidiaries (the group).

New Zealand Forest Research Institute Limited (the Company) is a reporting entity for the purposes of the Financial Reporting Act 2013. It is domiciled and incorporated in New Zealand and is wholly owned by the Crown.

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.

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 and the Financial Reporting Act 2013. 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. 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 Group 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 (continued)

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 parent'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 surpluses 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 valued at the cost of 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. 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

h) Recoverable amount of non-current assets

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

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, 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 initially recognised at fair value and subsequently valued at amortised cost less impairment allowance.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that it is probable the group will not be able to collect the debt. Financial difficulties and payment defaults without explanation are considered objective evidence of impairment.

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 and Employee Benefits

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the Consolidated Statement of Financial Position date using a discounted cash flow methodology.

(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 in the profit and loss account 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.

m) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of that arrangement at inception date.

Group as a Lessee

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

Group as a Lessor

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

n) Cash and Cash Equivalents

Cash and short-term deposits in the 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.

o) 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.

p) 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.

q) Revenue Recognition

Research Revenue

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

Government revenue includes revenue received from the Ministry of Business Innovation and Employment in the form of Strategic Science Investment Funding, Endeavour Funding, and Preseed Accelerator Fund programmes. Funding includes both devolved and milestone related programmes. Government revenue has only been recognised after all appropriate conditions have been met.

Rent Revenue

Rent revenue is recognised when earned.

Sale of Goods

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

Interest Revenue

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

r) Taxation

The income tax expense charged to the profit and loss includes both the current year's provision and the income tax effects of temporary differences calculated using the liability method.

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

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

s) Borrowing Costs

Borrowing costs are recognised as an expense when incurred 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).

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

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

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

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

1.2 Significant Accounting Judgements, Estimates and Assumptions

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

b) Heritage Assets
The group holds several heritage assets which have significant value due to being both rare, and having importance to the nation. 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.

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 10 and 21.

c) Biological Assets
The group's biological assets consist of tree plantations. These are valued at the net present value of future net harvest revenue 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 involving the plan 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 have had changes that have been issued but not yet made effective:

Standard	Date Applicable for Scion
• NZ IFRS 9 Financial Instruments (2014)	1 July 2018
• NZ IFRS 10 Consolidated Financial Statements	1 July 2020
• NZ IFRS 15 Revenue from Contracts with Customers	1 July 2018
• NZ IFRS 16 Leases	1 July 2019
• NZ IAS 28 Investments in Associates and Joint Ventures	1 July 2020

The group has chosen not to apply the changes in the above standards prior to their effective date. While these standards are applicable to the group they are not, except for NZ IFRS 15, expected to have a material impact on our accounts.

NZ IFRS 15 potentially has a material impact on revenue recognition. The company is reviewing its revenue types and contractual terms and processes to ensure it can effectively meet the standard requirements. This assessment is yet to be completed.

There are no amendments to standards under the Annual Improvements to NZ IFRS programme that affect Scion's Consolidated Financial Statements.

		ACTUAL 2018 $000	ACTUAL 2017 $000
2.	**Revenue and Other Income**		
	(a) Revenue		
	Government research revenue	**31,746**	30,195
	Commercial research revenue	**23,618**	20,405
	Software product sales and maintenance	**113**	102
	Commercial lease revenue	**767**	696
	Royalty	**20**	63
	Interest revenue	**473**	436
		56,737	51,897
	(b) Other Income/(Expenditure)		
	Change in fair value of plantation trees	**280**	(2)
	Change in fair value of carbon credits	**86**	(12)
		366	(14)
3.	**Expenditure and Finance Costs**		
	(a) Expenditure		
	Personnel remuneration and expenses	**27,089**	25,370
	Other personnel related costs	**852**	692
	Contractors and subcontractors	**10,056**	7,794
	Consumables	**1,519**	1,363
	External services	**3,432**	3,244
	Travel and accommodation	**2,243**	1,887
	Lease and rental costs	**285**	211
	Depreciation	**3,576**	3,383
	Amortisation	**163**	201
	Loss on disposal of fixed assets	**257**	71
	Impairment of assets	**300**	47
	Reversal of impairment	**(2)**	(4)
	Premises	**2,788**	3,015
	Directors' fees	**236**	253
	Restructuring costs	**418**	122
	Doubtful debt provision	**0**	0
	Bad debts expense	**(1)**	0
	Compensation provision	**0**	50
	Realised exchange fluctuations	**2**	1
	Unrealised exchange fluctuations	**0**	0
	Other	**638**	663
		53,851	48,363
	(b) Finance Costs		
	IRD use of money interest	**1**	9
		1	9
4.	**Auditor's Remuneration**		
	Amounts paid or due and payable to the auditors for:		
	Auditing financial statements		
	Parent entity auditor	**116**	113
		116	113

5. Equity

New Zealand Forest Research Institute Limited has authorised, issued and paid up capital of 17,516,000 (2017: 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 (2017: $0).

The asset revaluation reserve is used to record increments and decrements in the fair value of heritage book assets. Movements in the asset revaluation 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 $551k at June 2018 (2017: $551k) and was actuarially valued by Aon Hewitt Consulting, an independent risk management and consulting organisation.

The group has a restructuring provision of $321k at June 2018 (2017: $28k).

The provisions are made up as follows:

	ACTUAL 2018 $000	ACTUAL 2017 $000
Current Provision	397	98
Non-Current Provision	475	481
	872	579

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

	Long Service Leave 2018 $000	Restructuring 2018 $000	TOTAL 2018 $000	Long Service Leave 2017 $000	Restructuring 2017 $000	TOTAL 2017 $000
Balance 1 July	551	28	579	545	183	728
Provision reversed during the year	0	(8)	(8)	0	(72)	(72)
Amounts used during the year	(11)	(20)	(31)	(85)	(111)	(196)
Provisions made during the year	11	321	332	91	28	119
Balance 30 June	551	321	872	551	28	579

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 42 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.

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

	ACTUAL 2018 $000	ACTUAL 2017 $000
Net plan expense		
Current service cost	21	27
Interest cost on benefit obligation	34	33
Net actuarial gains recognised in the year	(12)	(88)
Net plan expense/(income)	43	(28)

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

	Defined Benefit Plan				
	2018 $000	2017 $000	2016 $000	2015 $000	2014 $000
Benefit liability included in the Statement of Financial Position					
Present value of defined benefit obligation	941	934	996	960	1,030

	ACTUAL 2018 $000	ACTUAL 2017 $000
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	934	996
Current service cost	21	27
Interest cost	34	33
Actuarial gains recognised in the year	(12)	(88)
Benefits paid	(36)	(34)
Closing balance	941	934
Current provision	259	238
Non-current provision	682	696
	941	934

7. Pension Plans (cont.)

a) Defined Benefit Plan

The history of experience adjustments is as follows:

	2018 $000	2017 $000	2016 $000	2015 $000	2014 $000
Experience adjustments on plan liabilities	**(22)**	(80)	(37)	(75)	(59)

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

	2018 $000	2017 $000
Discount rate	**3.70%**	3.61%
Future salary increases	**4.10%**	4.10%

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 2018 $000	ACTUAL 2017 $000
Current obligation	**941**	934
Salary growth		
Reduction of 1% per annum	**895**	884
Increase of 1% per annum	**991**	988
Resignation rates		
150% of assumed rates	**922**	912
50% of assumed rates	**961**	957

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

b) Defined Contribution Plan

During the period defined contributions totalling $702k (2017: $703k) were made to the Government Superannuation Fund and KiwiSaver.

	ACTUAL 2018 $000	ACTUAL 2017 $000
8. Trade and Other Payables		
Trade payables	**6,033**	5,335
Employee payables and accruals	**2,430**	2,278
Revenue in advance	**4,695**	4,903
	13,158	12,516

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.

	ACTUAL 2018 $000	ACTUAL 2017 $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	**1,079**	1,096
Adjustments to prior year current income tax charge	**(40)**	36
	1,039	1,132
Deferred income tax		
Deferred tax expenses/(income) related to prior year	**(3)**	(41)
Relating to origination and reversal of temporary differences	**(149)**	(111)
	(152)	(152)
Income tax expense/(income) reported in the Consolidated Statement of Comprehensive Income	**887**	980
(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**	0
(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	**3,157**	3,312
Tax at the statutory income tax rate of 28% (2017: 28%)	**884**	927
Adjusted by:		
Prior year income tax	**(43)**	(5)
Entertainment	**19**	16
Other	**27**	42
Income tax expense	**887**	980
(d) Deferred income tax relates to the following:		
Deferred tax liabilities		
Property, plant and equipment	**(1,620)**	(1,796)
Nursery inventory	**(101)**	(77)
Standing timber	**(231)**	(154)
	(1,952)	(2,027)
Deferred tax assets		
Patents and trademarks	**211**	200
Payroll provisions	**853**	732
Provision for doubtful debts	**7**	10
Income in advance	**0**	28
Other	**53**	77
	1,124	1,047
Net Deferred Tax Asset/(Liability) per Consolidated Statement of Financial Position	**(828)**	(980)

The group has no unused tax losses (2017: $0k).

10. 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 2017								
Carrying amount net of accumulated depreciation and impairment at 1 July 2017	**1,798**	**11,503**	**10,839**	**931**	**315**	**82**	**2,333**	**27,801**
Additions	0	508	2,881	2,279	94	7	3,222	8,991
Transfers from CWIP	0	291	1,278	0	0	0	(1,569)	0
Disposals	0	(208)	(30)	(14)	0	0	(268)	(520)
Impairment provision made	0	2	(300)	0	0	0	0	(298)
Reversal of impairment provision	0	0	0	0	0	0	0	0
Depreciation expensed	(62)	(363)	(2,872)	(199)	(79)	(1)	0	(3,576)
Carrying amount net of accumulated depreciation and impairment at 30 June 2018	**1,736**	**11,733**	**11,796**	**2,997**	**330**	**88**	**3,718**	**32,398**
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**

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 2013. 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 21 regarding other heritage assets. The heritage asset library books have been valued at $88k (2017: $82k).

Scion recognised an impairment loss of $295k on Plant & equipment which currently has no current useful value (2017: $47k on Buildings). Scion also re-assessed the economic useful life of some buildings that were identified to be partly or wholly demolished as part of its campus development plans and accordingly accelerated depreciation on the buildings. During the year it was decided that some of these buildings would be relocated and refurbished as part of the campus redevelopment. Once this work has been completed the cost to relocate and refurbish the building will be capitalised. Scion made no other impairment provisions and reduced provisions where depreciation on an asset has continued to be recognised.

10. 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 2016								
Carrying amount net of accumulated depreciation and impairment at 1 July 2016	**1,860**	**12,182**	**10,248**	**897**	**297**	**82**	**1,780**	**27,346**
Additions	0	10	1,865	106	96	0	1,893	3,970
Transfers from CWIP	0	0	1,277	19	0	0	(1,296)	0
Disposals	0	(181)	(4)	0	(1)	0	(44)	(230)
Impairment provision made	0	(47)	0	0	0	0	0	(47)
Reversal of impairment provision	0	145	0	0	0	0	0	145
Depreciation expensed	(62)	(606)	(2,547)	(91)	(77)	0	0	(3,383)
Carrying amount net of accumulated depreciation and impairment at 30 June 2017	**1,798**	**11,503**	**10,839**	**931**	**315**	**82**	**2,333**	**27,801**
At 30 June 2016								
Cost or fair value	2,357	23,024	42,768	2,742	853	82	1,780	73,606
Accumulated depreciation and impairment	(497)	(10,842)	(32,520)	(1,845)	(556)	0	0	(46,260)
Net carrying amount	**1,860**	**12,182**	**10,248**	**897**	**297**	**82**	**1,780**	**27,346**
At 30 June 2017								
Cost or fair value	2,357	22,717	45,561	2,861	908	82	2,333	76,819
Accumulated depreciation and impairment	(559)	(11,214)	(34,722)	(1,930)	(593)	0	0	(49,018)
Net carrying amount	**1,798**	**11,503**	**10,839**	**931**	**315**	**82**	**2,333**	**27,801**

11. Biological Assets

Biological assets consist of tree plantations. The group has 73.2 hectares of trees planted initially for experimental purposes. When experiments are completed, they are classified as biological assets. Trees will be harvested when they reach maturity.

	ACTUAL 2018 $000	ACTUAL 2017 $000
Carrying amount 1 July	**548**	550
(Loss)/Gain from changes in fair value less estimated point-of-sale costs	**280**	(2)
Carrying amount 30 June	**828**	548

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

The group has tree plantations at three 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) 5.5 hectares of Mexican Cypress are located at Tikokino. The trees were planted for experimental purposes. The Mexican Cypress has a clear fell date of June 2033.
(c) 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.

The tree plantations were valued as at 30 June 2018 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.

	ACTUAL 2018 $000	ACTUAL 2017 $000
12. Intangible Assets		
Software		
Opening balance 1 July		
At cost	**4,214**	4,028
Less accumulated amortisation	**(3,829)**	(3,628)
Opening net carrying amount 1 July	**385**	400
Opening carrying amount 1 July	**385**	400
Additions	**40**	186
Disposals	**(1,271)**	0
Current year amortisation	**(163)**	(201)
Amortisation write back	**1,271**	0
Closing carrying amount 30 June	**262**	385
Closing balance 30 June		
At cost	**2,984**	4,214
Less accumulated amortisation	**(2,722)**	(3,829)
Closing net carrying amount 30 June	**262**	385
Carbon Credits		
Carrying amount 1 July	**334**	346
Increase/(Decrease) in fair value	**86**	(12)
Carrying amount 30 June	**420**	334
Total intangible assets 30 June	**682**	719

13. Investments in Subsidiaries

	Shares	Percentage Held 2018	Percentage Held 2017	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.

	ACTUAL 2018 $000	ACTUAL 2017 $000
14. Investments in Associates		
(a) Investment Details		
Biopolymer Network Limited	**241**	241
Terax 2013 Limited	**0**	0
Terax Limited Partnership	**253**	192
	494	433

New Zealand Forest Research Institute Limited has a 33.33% (2017: 33.33%) shareholding in Biopolymer Network Limited, a company carrying on research, development and commercialisation of biopolymers.

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.

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 2018 $000	ACTUAL 2017 $000
(b) Movements in the carrying amount of the group's investments in associates		
Opening carrying amount of investments	**433**	332
Prior period adjustment	**30**	0
Current year investment in associates	**125**	300
Current year share of increase/(decrease) in net assets of associates	**(94)**	(199)
Closing carrying amount of investments	**494**	433

	ACTUAL 2018 $000	ACTUAL 2017 $000
14. 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	529	1,424
Non-current assets	325	405
	854	1,829
Current liabilities	221	746
	221	746
Net assets	633	1,083
Share of associates' net assets	211	433

Note in relation to 14 (c) above: 2018 figures only include Biopolymer Network Ltd as Terax 2013 Ltd and Terax Limited Partnership accounts were not available at the time of signing the accounts.

	ACTUAL 2018 $000	ACTUAL 2017 $000
Extract from the associates' Statement of Comprehensive Income:		
Revenue	2,308	3,399
Net Profit/(Loss)	(90)	(75)

There are no known contingent liabilities relating to Associates.

15. Cash and Cash Equivalents		
Cash on hand	4	5
Bank	1	1
Call deposits	4,997	4,811
Short term deposits	8,932	10,700
	13,934	15,517

Deposits earn interest at rates ranging from 1.60% to 3.66% (2017: 1.60% to 3.81%). 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 2018 $000	ACTUAL 2017 $000
16.	**Trade and Other Receivables**		
	Trade receivables	**6,121**	6,983
	Allowance for impairment loss	**(24)**	(35)
	Other debtors	**60**	97
	Prepayments	**811**	917
	Accrued revenue	**1,327**	718
	Related party receivables:		
	Associates	**103**	167
	Other related parties	**0**	0
	Carrying amount 30 June	**8,398**	8,847

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

(b) Allowance for Impairment Loss
Trade receivables are non-interest bearing and are generally on 30–60 day terms. A provision for impairment loss is recognised when there is objective evidence that a trade receivable is impaired. No increase or decrease in the allowance for impairment loss in the current year.

Movements in the allowance for impairment loss were as follows:

	ACTUAL 2018 $000	ACTUAL 2017 $000
Opening balance 1 July	**35**	35
Reversal of prior year provision	**(11)**	0
Charge for the year	**0**	0
Bad debts written off	**0**	0
Closing balance 30 June	**24**	35

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
2018	**6,121**	**5,599**	**0**	**484**	**0**	**3**	**0**	**11**	**24**
2017	6,983	6,653	0	186	0	76	0	33	35

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

(c) For related party terms and conditions refer to Note 23.

	ACTUAL 2018 $000	ACTUAL 2017 $000
17. Inventories		
Consumable stores (at cost)	**29**	30
Nursery stock	**362**	276
Closing carrying amount	**391**	306

Consumable stores recognised as an expense for the year are $97k (2017: $67k). The expense has been included in the "consumables" line item in Note 3 (a). Consumable inventory write-down in the period was $0k (2017: $0k).

18. Financial Instruments

Financial Instruments include:

Loans and Receivables
Cash and cash equivalents
Trade receivables
Other debtors
Related party receivables

Other Financial Liabilities
Trade payables
Other payables
Related party payables

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

All financial instruments held at fair value are Level 2.

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 ($3,117k) are non-interest bearing and are normally settled within 60 days. The company and 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 2018 $000	ACTUAL 2017 $000
Current account	**1**	1
Call and short term deposits	**13,929**	15,511
Trade receivables	**6,121**	6,893
Other debtors	**60**	97
Related party receivables	**103**	167

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

18. 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 cash deposits. Cash and cash equivalents have increased during the year to a year ended 30 June 2018 group balance of $13,934k (2017: $15,517k).

	ACTUAL 2018 $000	ACTUAL 2017 $000
Cash in hand	4	5
Current account	1	1
Call deposits	4,997	4,811
Short term deposits	8,932	10,700
	13,934	15,517

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 2018 bank call and short term deposits were earning interest at rates between 1.60% and 3.66% (2017: 1.60% and 3.81%).

At 30 June 2018, 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	2018 Change in Interest Rate	2018 Effect on Post Tax Profit & Equity $000	2017 Change in Interest Rate	2017 Effect on Post Tax Profit & Equity $000
	+1%	100	+1%	112
	-1%	(100)	-1%	(112)

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 2018 $000	ACTUAL 2017 $000
19. Reconciliation of operating surplus after taxation with cash flows from operating activities		
Reported surplus/(loss) after taxation	**2,270**	2,332
Add/(less) non-cash items:		
Depreciation (Refer Note 3 and 10)	**3,576**	3,383
Amortisation	**163**	201
Compensation provision	**0**	50
Impairment provision	**298**	43
Movement in deferred tax (Refer Note 9)	**(152)**	(152)
	3,885	3,525
Add/(less) items classified as investing activity:		
Investment contribution included in payables	**0**	70
(Gain)/loss on disposal of property, plant and equipment	**257**	71
Share in associate company (profit)/loss	**94**	199
Capital related items in creditors	**(89)**	(234)
Fair value movement in carbon credits	**(85)**	12
Fair value movement in in biological assets	**(280)**	2
	(103)	120
Movements in working capital items:		
(Increase)/Decrease in debtors and prepayments	**450**	(1,630)
(Increase)/Decrease in inventories	**(85)**	75
Increase/(Decrease) in creditors and accruals	**939**	4,242
Increase/(Decrease) in taxation payable	**(136)**	(305)
	1,168	2,382
Net cash flows from operating activities	**7,220**	8,359

20. 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.

21. 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. For the library refer to note 10.

22. Commitments

Operating Lease Commitments – Group as Lessee:

The group has entered into commercial leases on certain motor vehicles and items of office equipment. The leases have lives of three or four years with renewal options included in the motor vehicle leases only. There are no restrictions placed on the lessee by entering into these leases. In addition the parent company leases land from its subsidiary Te Papa Tipu Properties Limited.

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

	ACTUAL 2018 $000	ACTUAL 2017 $000
Lease commitments under non-cancellable operating leases:		
Within one year	8	20
One to five years	0	18
	8	38

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 2018 $000	ACTUAL 2017 $000
Within one year	385	364
One to five years	491	504
Greater than five years	428	406
	1,304	1,274

Capital Commitments

Capital expenditure contracted for at balance date but not provided for	2,320	484

23. Transactions with Related Parties

(a) Parent

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 at arms-length. Government Public Good Science funding and Capability funding comprises close to 50% of research revenue earned by Scion.

	ACTUAL 2018 $000	ACTUAL 2017 $000
(b) Subsidiary Companies of Parent		
Te Papa Tipu Properties Ltd		
Charge for services	76	76
Payment of Rent	(557)	(398)
Net Paid on behalf	181	187
Amount (payable)/receivable at balance date		
– Intercompany account	(517)	(215)
Sala Street Holdings Ltd		
Paid on behalf	125	370
Amount receivable at balance date	595	470

	ACTUAL 2018 $000	ACTUAL 2017 $000
23. Transactions with Related Parties (cont.)		
(c) Associates of Parent		
Biopolymer Network Ltd		
Supplied goods and services	**1,213**	1,737
Receivable at balance date	**103**	167
Terax 2013 Ltd		
Services provided	**22**	101
Cash contributions made	**125**	300
Receivable at balance date	**0**	0
Terax Limited Partnership		
Services provided	**0**	20
Services paid on behalf	**0**	0
Receivable at balance date	**0**	0

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 party receivables or payables.

No related party debts were written off during the year (2017: $0k) and no impairment allowance has been raised for any of these debts.

	ACTUAL 2018 $000	ACTUAL 2017 $000
24. Key Management Personnel		
Short term employee benefits	**1,835**	1,968
KiwiSaver employee benefits	**41**	36
	1,876	2,004

25. Segment Information

The group operates principally in New Zealand providing scientific research and technology to Government and commercial clients.

BOARD OF DIRECTORS

Mr Tony Nowell CNZM – Chair (retired 5 August 2018)
Mr Greg Mann (commenced 14 August 2017)
Ms Colleen Neville
Mr Barry O'Neil
Ms Stana Pezic (commenced 14 August 2017)
Mr Jon Ryder
Mr Steve Wilson

Dr Helen Anderson has been appointed Chair from 6 August 2018

Mr Rob Trass (Company Secretary)

EXECUTIVE MANAGEMENT

Dr Julian Elder – Chief Executive Officer

Dr Russell Burton – General Manager, Research and Investments
Dr Elspeth MacRae – General Manager, Manufacturing and Bioproducts
Mr Arron Judson – General Manager, Marketing and Partnerships (commenced 1 November 2017)
Prof Alison Stewart – General Manager, Forest Science (resigned 8 March 2018)
Dr Brian Richardson and Mr Lindsay Bulman – Acting General Manager, Forest Science
Mrs Adriana Botha – General Manager, People, Culture and Safety (commenced 1 November 2017)
Mr Rob Trass – General Manager, Finance and Corporate Services

AUDITORS

Susan Jones
Ernst & Young, Auckland, on behalf of the Auditor-General

BANKERS

ANZ Bank of New Zealand

SOLICITORS

Bell Gully, Auckland

REGISTERED OFFICE DETAILS

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