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Scion

Half Year Report To 31 December 2009

SCION

Half Year Report to 31 December 2009

1. Chairman and Chief Executive Report

The Board and management of New Zealand Forest Research Institute Limited trading as Scion provide this report covering the six months to 31 December 2009. The Company has continued to meet its obligations as outlined under the Crown Research Institutes Act 1992, the Financial Reporting Act 1993, the Companies Act 1993 and the Crown Entities Act 2004.

1.1 Overview

Scion's science operations continue to perform solidly in what remains a very challenging economic environment – especially in key areas of Government investment. In addition, many in the organisation continue to support the development of important Government policy areas and the reshaping of the New Zealand science investment structure. This latter activity is critically important to the future performance of CRIs, and through them large components of the New Zealand economy. Scion remains engaged with, and generally pleased with, the overall direction of the suggested changes and looks forward to contributing as these are finalised and implemented.

The Board and executive management held a strategic planning day in November 2009 to determine future priorities and these will feature in the upcoming Statement of Corporate Intent and the Strategic Business Plan.

1.2 Financial

Scion is tracking slightly below plan, with Government-related revenue below plan and slow to secure. For the financial year to date, Scion recorded a net loss after tax of \$437,000, an unfavourable variance to plan of \$214,000 and \$437,000 favourable to the previous financial year. During the period, Scion completed a full year work programme and financial re-forecast. The full year effect of the reduction in Government revenue cited above has led us to reduce our full year revenue forecast by \$2.4 million. We have responded to this projected revenue shortfall to plan by implementing cost reduction programmes across the business and are now forecasting a full year Net Profit After Tax (NPAT) result of \$1.16 million (approximately \$500,000 lower than plan). We will continue to seek improvements in the forecast and at this stage we are confident that this will not compromise our technical capability or our priority reinvestment plans.

1.3 Highlights

This six month period saw increased interest in carbon farming on marginal agricultural land, the completion of our "Waste 2 Gold" technical evaluation for Rotorua District Council, the first joint projects with the US Department of Energy's Joint Bioenergy Institutes on the development of pre-treatment processes for softwood biorefineries, and Scion staff playing an important role for New Zealand at the World Forestry Congress in Argentina.

2. Progress against Strategic Targets

Scion contributes to the economic development of New Zealand by focusing on the following strategic goals to:

1. Increase the profitability of New Zealand's forest industries;
2. Optimise the value of marginal land;
3. Accelerate growth of the bioeconomy; and
4. Maximise the quality and impact of Scion's science.

The first six months of this financial year has seen solid operational delivery against Scion's Strategic Business Plan.

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

2.1.1 Genetically Modified Organisms (GMO) Field Trial

A scheduled amendment application was submitted to the Environmental Risk Management Authority (ERMA) in November, to extend the date of the previously approved field trial into herbicide resistant pine until 2018. The end date is currently 17 January 2010. The amendment only required Mana Whenua agreement in writing (received) and notification on ERMA's website (notified on 8 December).

2.1.2 *Sirex wood wasp risk assessment – great outcome for NZ*

The Scion pest risk assessment of *Sirex* wood wasp on export logs to India was used extensively by the Ministry of Agricultural and Forestry (MAF) Biosecurity New Zealand in recent negotiations held in India. The outcome of the negotiations is that India is now receptive to the "systems approach" for dealing with *Sirex* risk. This result was largely attributed to the Scion report. It is very likely that Scion will be contracted to carry out more work on this. If further negotiations are successful, India would accept logs meeting certain criteria as being of acceptable *Sirex* risk, thus avoiding the need to treat those logs with methyl bromide.

2.1.3 Forest Protection - Fire Research Strategy Development

A research strategy planning workshop, attended by all key rural fire stakeholders, was held in Wellington on 24 and 25 November, hosted by the New Zealand National Rural Fire Authority. The aim of the workshop was to identify the key research needs and drivers for the rural fire sector in New Zealand. The workshop outcomes were summarised into high-level themes to guide the development of a request for proposals (RFP) for the rural fire area by the Foundation for Research, Science and Technology (FRST). A subsequent phone conference with FRST indicated that there will be a closed-tender process in the New Year, with an RFP likely to be released some time around February. Proposals will be required around April 2010. A meeting with key end-users will be held once the RFP is released, where the outline for this proposal and prioritisation of research will be discussed, as well as levels of co-funding from end-users.

2.1.4 Outcomes for the forest growing sector

Scion's partnership with the forestry sector, via Future Forests Research Limited (FFR), provides a valuable link with end users of research. These include forest growers, regional councils, education providers and consultations. Research activities and FFR membership are clustered around four themes: Radiata management, Diversified species, Harvesting, and Environmental and Social research.

Progress towards outcomes is being made on a wide range of research projects across these themes. Some of the recent highlights include:

- Implementation of Vegetation Manager (VMAN) in ATLAS Forecaster has been completed. ATLAS Forecaster provides the forest manager with tools to create and explore alternative forest management plans. VMAN enhances ATLAS Forecaster by enabling the evaluation of the cost-benefit of different weed control regimes. VMAN is undergoing final testing and training prior to release.
- A model to predict modulus of elasticity (a measure of wood quality) of forest stands has been developed and implemented within ATLAS Forecaster. This model has created significant interest within the sector and has the potential to drive real benefits.
- Evaluation of the new TimberLine forest inventory methodology is progressing well and a new analysis confirms initial results that this methodology delivers a 50% cost saving on current methodology. Work to determine optimal sampling methods continues, and upon completion TimberLine will move to the industry testing stage.

2.2 Goal 2: Optimise the value of marginal land

2.2.1 Carbon Farming for Better Returns from Marginal Land

Interest in carbon farming on New Zealand's marginal agricultural land continues to grow. During Quarter Two Scion initiated several new contracts to provide comprehensive analysis of land, make recommendations on species siting, and scenario modelling around growth potential once trees have been planted, for overseas-based investors. Scion also continues to discuss carbon farming options with New Zealand-based firms and iwi.

2.2.2 Central North Island Iwi Collective (CNIIC)

Scion has continued to work closely with CNIIC as they develop their business plans following the 4 July 2009 formal hand over ceremony. Scion has provided, on request, significant work programmes to underpin CNIIC's strategic plan.

2.2.3 Bioenergy Options for New Zealand

The fifth and final report, 'Transition Analysis', of the 'Bioenergy Options for New Zealand' study was published in October 2009. Scion was the lead organisation for the project which was initiated to consider New Zealand's bioenergy potential and develop a strategy for the future. The Bioenergy Options work is part of the larger EnergyScape project which integrates the findings from a range of studies with the aim of considering New Zealand's overall energy options.

The Transition Analysis report considers the potential for energy supply of woody biomass from existing forests and drivers for change in New Zealand's energy supply.

Scion continues to engage with senior Government officials on bioenergy options for New Zealand.

2.3 Goal 3: Accelerate growth of the bioeconomy

2.3.1 Scion-Rotorua District Council Waste 2 Gold Partnership

The final report for the Waste 2 Gold project - Biosolids Management Opportunities for the Rotorua District Council (RDC) - was completed and submitted in December. This report was the culmination of approximately nine months of work by Scion. Key outcomes from the work included technical demonstration of the use of wet oxidation to breakdown sludge biosolids. In addition, the process removed nitrates from waste and produced potentially useful products such as phosphorous and carbon feedstocks.

Energy recovery options from the organic wastes such as heat, methane or electricity were also demonstrated. Overall, the proposed technology platform would confer a clear economic advantage over other options.

The technical results achieved were very promising and provide a sound basis for a further pilot plant stage to be pursued. Scion's presentation to the RDC in February will be integral to securing the funding for the next stage of the program. In addition, Scion is now working actively on a submission to the Ministry for the Environment seeking Waste Levy funding.

2.3.2 *Biowastes Hui*

A three day Biowastes hui took place at Te Rūnunga o Kaikōura Takahanga marae in Kaikōura. The hui was facilitated by Scion's Alan Leckie and Landcare Research's James Ataria with help from a broader Scion team. Major stakeholder/end-user group representatives in Kaikōura attended, including the Mayor; the Kaikōura District Council waste infrastructure engineer, planner and CEO; the local rūnanga; the major ecological community group and Innovative Waste Kaikōura. Researchers from Scion, Environmental Science and Research (ESR), Landcare Research, Plant and Food Research, Lincoln University and Whenua.biz contributed.

Kaikōura is an ideal model locality for the Biowastes project as it is the only town or city in the world to be Green Globe certified. This entails a strict quadruple bottom line approach to 12 individual community based indicators and the Biowaste programme will work very closely with all stakeholders/end users in Kaikōura to look at issues of biosolids reuse.

The hui was a major success and enabled the Biowastes programme to begin the four year research term on a positive footing. This programme has a total value of \$2.7 million over four years.

2.3.3 *Biorefining Collaboration with Joint Bioenergy Institutes (JBEI) – US*

An agreement has been signed between JBEI and Scion to carry out a first joint experiment relating to development of pre-treatment processes for lignocellulosic biorefineries. Several materials sub-sampled from Scion's lignocellulosic bioethanol pre-treatment processes for pine as well as widely different pine genetic material were sent to JBEI in November for incorporation of their ionic liquid extraction process. This is then to be followed with joint analysis by JBEI and Scion. A New Zealand International Science and Technology Linkages award has been granted to support the exchange of staff to work on the experiment, and the first Scion staff member is planning to spend two weeks at JBEI in early March.

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

2.4.1 *Presentation to the CEO of the Forest Stewardship Council (FSC)*

At the invitation of the NZ Forest Owners' Association, Scion presented an overview of forest vegetation management research and practices to Andrew de Freitas, the FSC CEO. Feedback indicated that the presentation achieved the goal of providing evidence to the FSC that weed control practices in New Zealand are justifiable based on a long history of science leading to continuous improvement.

The FSC is the dominant environmental certification body for the New Zealand plantation forestry sector, with about 42% of New Zealand's plantations currently FSC certified.

Companies see value in certification as a means of ensuring access to high value markets and occasionally price premiums are realised. While there are a number of criteria against which a forest company is assessed for FSC certification (and for which the sector is generally compliant), the policy on pesticide use has been one associated with much conflict. Scion is currently working with the sector via the FSC Cluster Group to undertake research to ensure cost-effective vegetation management options remain available to the sector.

2.4.2 Standardising Life Cycle Management Strategies

Scion, Victoria University, and Environmental Resources Management Limited provided the Ministry of Economic Development with an important assessment of five overseas lifecycle inventory (LCI) database initiatives. This work was contracted to provide a recommendation on an overarching LCI strategy for New Zealand. The project team has recommended the adoption of the International Reference Life Cycle Data (ILCD) format as a basis for a New Zealand specific Life Cycle Inventory database. The ILCD system grew out of the European Platform on Life Cycle Assessment, to widen the scope to a global network. Beyond this work, Scion has also completed pivotal work on Forestry and Wood Processing Sector Footprints that will shape the relative importance of this sector to New Zealand's overall sustainability framework. Further, Scion has been an active member of i) the primary-industry-based Life Cycle Management Centre (hosted by Massey University) that has been funded by the Ministry of Agriculture and Forestry to support national-level capability growth in this area and ii) the Life Cycle Association of New Zealand, which will provide a capacity to coordinate broader LCA activities across all practitioners in this country.

2.4.3 Technology and Knowledge Transfer – International Linkages

Interactions during this period with the Ministry of Agriculture and Forestry, Ministry of Foreign Affairs and Trade, Ministry for the Environment and the Ministry of Research, Science and Technology have reinforced opportunities to leverage Focal Point Programmes (FPP) and Environment Cooperation Agreements (ECA) with the Trans-Pacific Strategic Economic Partnership Agreement (P4) countries, Korea and China for technology and knowledge transfer and internationally-funded collaborations.

Scion's strong (and clear) focus on biomass production, marginal land use, renewable energy and sustainability assessment (e.g. footprinting) are well embedded in the thinking of contacts in these agencies and they have expressed ongoing support for their utility in consolidating linkages with these nations. As a result, Scion has been actively involved as participants and organisers for delegations to and from these countries. Examples over this period include:

- i) FPP Renewable Energy Mission to Republic of Korea (Scion represented biomass opportunities);
- ii) Mission from the Chinese Ministry for the Environment (Rotorua leg on lakes remediation and eutrophication organised by Scion on the Ministry's behalf);
- iii) Chilean delegation on Carbon Footprinting; and
- iv) Ministerial funding support for Scion staff for collaborative visits to China and Chile.

2.4.5 *High Impact Publication*

A paper co-authored by Scion's Ecki Bockerhoff was accepted for publication in *Ecology Letters*, one of the top international ecological journals.

The research results enable a better assessment of the role of host range and host specificity of tree-feeding insects and assist with enhanced risk assessment of invasive insects or native insects colonising exotic trees.

Bertheau, C., Bockerhoff, E.G., Roux-Morabito, G., Lieutier, F., Jactel, H. 2010 (in press). Novel insect-tree associations resulting from accidental and intentional biological 'invasions': a meta-analysis of effects on insect fitness. *Ecology Letters* (in press).

3. Update on Key Collaborations and Partnerships

Scion continues to develop its collaborations and partnerships both nationally and internationally. Internationally, Scion continues to be a partner of choice for companies and organisations working in the forest science area.

3.1 *ArborGen Collaboration on Molecular Genetics*

An extension to the current ArborGen collaboration agreement with work plan milestones and budget has been agreed and signed by both parties to cover the period July to December 2009. Draft work plans for a further three year agreement, starting January 2010, are under discussion.

3.2 *Scion and Nga Pae o Te Maramatanga Joint Research Internship Programme*

Scion and Nga Pae o Te Maramatanga (New Zealand's Maori Centre of Research Excellence) launched a joint research internship programme to foster promising Maori or indigenous students and encourage them into a research career. Two interns were appointed as the inaugural participants. Jamaine Fraser recently graduated from Massey University with First Class Honours for a Bachelor of Design. Jamaine will intern on a range of science projects with the key focus of designing a display range of biomaterials products.

The second intern, Anastasia Rickard, will be working on a project to enhance the design of riparian strips using native plants. Anastasia will collate information about what traditional plantings were used in various areas, and gather ideas for plants for future use by Maori for traditional and contemporary cultural products. Anastasia is a skilled weaver and her knowledge of weaving plants and connections to Te Arawa will be essential to this project.

3.3 *Conifer Genome*

Scion has joined an international consortium led by Canada to sequence a conifer tree genome. The consortium also includes the European Union, USA, Canada, Brazil and Australia. Genome Canada funding will support the central activities with other countries providing in-kind and financial support on agreed components.

4. Funding Outcomes and Commercialisation

Scion has enjoyed some significant successes in obtaining funding for its projects.

4.1 Funding

4.1.1 Harvesting Research and Primary Growth Partnership

For some years Scion has been seeking to secure investment into harvesting research and development. This critical part of the forestry value chain is a make or break value point in the forestry and wood processing industry. Scion has allocated Capability Funding into this area over the last three years to build capability and to seed industry investment. These efforts have been rewarded recently through industry starting to invest (\$220,000 2008/09, \$240,000 2009/10) and MAF supporting a small steep country harvesting programme with Scion (\$150,000). In November, Scion and Future Forests Research submitted an expression of interest to the Primary Growth Partnership (PGP) fund requesting \$5.3 million of funding (inc. GST), (50% PGP and 50% industry). A full business case is due to be presented to MAF on 2 February 2010.

4.1.2 International Investments Opportunity Fund (IIOF)

Scion was successful in July in securing support of \$736,000 (excl. GST) through the FRST International Investments Opportunity Fund (IIOF). This will support Scion's involvement in a major European initiative in developing opportunities from lignin, a major component of woody biomass. Scion sees the development of high value opportunities from this material (a major by product in pulp manufacture or in other wood fibre processing applications) as key to making a step change in value creation in new generation wood fibre processing. Scion has also been requested by FRST to make an application for further funding support for this initiative.

4.1.3 FRST Sustainable Resource Use Funding

The ESR/Scion/Landcare Research partnership entitled "Closing the loop – Rebuilding our soils with biowastes" was successful in the latest FRST Research for Industry round. The programme will receive \$1.83 million per annum for four years from the Sustainable Resource Use portfolio. This programme will look at sustainable disposal methods for municipal biosolids with a strong emphasis on community engagement and cast study development. It is worth approximately \$650,000 per annum to Scion.

4.1.4 FRST

Scion submitted 11 proposals to FRST in their new Materials and Technologies and Leveraging New Zealand Resources portfolios in September 2009. Four of these have now been invited to submit full proposals, all of which are due in March. This includes the Biopolymer Network Ltd managed proposal, Functional Biopolymers for which Scion is the major provider. These are outlined below.

| Proposal Name | Total Amount requested | Term (yrs) |
|---|-------------------------------|-------------------|
| Lignin modification and the metasecretome | \$1,050,000 | 3 |
| Water resistance in NZ plant fibres | \$1,050,000 | 3 |
| High margin kiwifruit | \$1,050,000 | 3 |
| Functional Biopolymers (BPN) | \$13,200,000 | 6 |

4.2 Commercialisation

4.2.1 Modified Zeolite – Lake Clean-up

In August, Environment Bay of Plenty (EBOP) oversaw a second application of Scion's modified zeolite product (approximately 45 tonnes) to Lake Okaro, a Rotorua lake that is the target of a concerted nutrient management programme. The overall project is a collaboration between Scion, National Institute of Water and Atmospheric Research (NIWA), EBOP, Rotorua District Council, the University of Waikato, and Blue Pacific Minerals. The second application of this phosphorus removal product represents a continued focus towards higher volume commercial production (license with Blue Pacific Minerals under negotiation) and regional applications.

Video footage shot by NIWA in October 2009 of the lake bed at Lake Okaro has confirmed to EBOP that the trial in August of Modified Zeolite was far superior to previous trials. EBOP advised in November that they are keen to explore a granulated version of Modified Zeolite as this would not only provide better accuracy in deployment, but could also be more cost effective in application.

To test this, Scion and Blue Pacific Minerals have agreed to provide Modified Zeolite to be granulated by Axis Associates Limited. Axis is a developer of powder granulation technology primarily for the agriculture industry and has developed intellectual property which could be complementary to Modified Zeolite technology to ease the application process and accuracy of the product delivery to a water body.

4.2.2 Wood Plastic Pellets

Following on from the successful mill trial in July 2009 to produce base material via Scion's Wood Plastic Pellets technology, Sonae (France) have produced an injection moulded sanding disc with Mollerflex as part of the technology evaluation agreement which finished at the end of December. Sonae will decide in January 2010 the next steps. Laboratory work on the second patent, to support the original patent, continues and will be completed in May 2010.

Scion-produced material was also sent to Washington Penn (a large compounder in the US) who intend to injection mould and test the material early in the New Year.

4.2.3 Titrametric off Gas Analyser (TOGA)

In July, FRST awarded Scion \$24,750 for due diligence to be conducted by WaikatoLink as a precursor for their potential investment in licensing Scion's TOGA Technology (accessing funding from Endeavour Capital). The contract was signed with WaikatoLink in late August and they began their due diligence in September.

5. Science Achievements and Awards

5.1 Suffrage Scholarship

Nicole Woodsworth from Rotorua Girls' High School was selected as the 2009 Scion Suffrage Centennial Scholar. The prize consists of a one-off payment of \$2,000 and work placement at Scion over the summer for the duration of tertiary study. The scholarship was created in 1993 as part of New Zealand's centennial suffrage celebrations and has helped many young local women advance their science careers.

5.2 Leadership Role in Bioenergy

Scion's Dr Michael Jack has been asked to review the Inter-Governmental Panel on Climate Change's (IPCC) special report on Renewable Energy. This report is aimed at providing a comprehensive overview of potential renewable energy resources, technology status and renewable energy's potential contribution to climate change. Being selected as a reviewer for a report such as this with a potentially significant international impact reflects Scion's growing reputation in the bioenergy area.

5.3 Strong Presence at World Forestry Congress

The recent World Forestry Congress in Argentina was attended by 7,500 delegates from 160 countries. The timing of the conference meant that it was well placed to inform the United Nations conference on Climate Change in Copenhagen. New Zealand had a very strong presence at this conference, including two talks by Hon David Carter, Minister of Forestry and Agriculture.

A number of Scion staff were involved in high profile activities; giving presentations at plenary sessions, theme sessions and side events. Dr Michael Jack was an invited speaker at the bioenergy plenary (all of Congress) session, where he presented the approach Scion has taken in developing bioenergy supply options for New Zealand ("Large-scale Bioenergy from Forests: Land-use, environmental and economic implications" – co-authored with Peter Hall).

Dr Tim Payn was invited by the Congress Organisers to chair the drafting committee to prepare the Congress Declaration covering the key points from the Congress. Dr Payn had the honour of presenting the declaration to the full Congress at the closing ceremony. Findings within the Declaration of particular note to New Zealand included the need for forestry to link very closely with other sectors in facing global challenges, the clear recognition of the critical importance of planted forests in supplying goods and services to the world, and very strong signals that forestry as a business and economic agent has been unrecognised for too long.

These activities resulted in raising the profile of New Zealand forestry and Scion and enabled New Zealand to emphasise our particular perspective in an international forum

5.4 Royal Society Lecture

Dr Dave Moore delivered a Royal Society of New Zealand (RSNZ) invited lecture on Ergonomics/Human Factors. The audience were a gathering of prize-winning young scientists brought together in Wellington for a week of sponsored visits and interactive sessions as part of the "Realise the Dream 2009" programme. The lecture was presented on behalf of the New Zealand Ergonomics Society (NZES) who were approached by the RSNZ earlier this year. Dr Moore is a past president of the NZES.

5.5 Packaging Award

Scion won a special award at the Packaging Awards Dinner, organised by the Packaging Council of New Zealand. The dinner, held in Auckland on 4 September, was attended by the Minister for the Environment Dr Nick Smith and other industry leaders. Scion's award was for the Biopolymer Network polylactic acid foam technology as a technology that minimises the environmental impact of packaging and increases packaging recovery rates.

5.6 **Microscopy Award**

Dr Lloyd Donaldson was placed eighth out of 137 winners in the Nikon "Small World" photographic competition. The image will feature in the 2010 Nikon Small World promotional calendar.

Small World is regarded as the leading forum for showcasing the beauty and complexity of life as seen through the light microscope. The competition, which Nikon has been running for 30 years, is aimed at rewarding the world's best photomicrographers who make critically important scientific contributions to life sciences, bio-research and materials science.

6. **Human Resources**

6.1 **Group Manager Human Resources**

Keri-Anne Tane joined Scion in October 2009 as Group Manager Human Resources. Keri-Anne has an extensive background in Human Resources, most recently with Unilever in Australia and New Zealand. Prior to Unilever, she worked for Boise Office Solutions, Mercy Hospital and Fletcher Challenge Steel & Wire. Keri-Anne has a Bachelor of Business majoring in Human Resource Management.



Russell Ballard
Chairman



Tom Richardson
Chief Executive

7. Financial Statements

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | Note | 31 Dec 2009 \$000 | GROUP 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | PARENT 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
|---|--------|-------------------------|----------------------------------|-------------------------|-------------------------|-----------------------------------|-------------------------|
| Revenue | 2 (a) | 19,448 | 18,040 | 43,973 | 19,357 | 18,050 | 43,977 |
| Other income | 2 (b) | 0 | 21 | 102 | 0 | 21 | 102 |
| Expenditure | 3 (a) | (20,050) | (19,248) | (40,684) | (20,160) | (19,309) | (42,224) |
| Finance costs | 3 (b) | (12) | (7) | (20) | (12) | (7) | (20) |
| Share of profit of associates | 15 (b) | 43 | 0 | 25 | 0 | 0 | 0 |
| Profit/(Loss) before tax | | (571) | (1,194) | 3,396 | (815) | (1,245) | 1,835 |
| Tax expense/(credit) | 9 (a) | (134) | (320) | 1,113 | (134) | (320) | 1,130 |
| Profit/(Loss) attributable to the shareholders of the parent company | | (437) | (874) | 2,283 | (681) | (925) | 705 |
| Deferred tax on heritage assets | 9 (b) | 0 | 0 | (2) | 0 | 0 | (2) |
| Total comprehensive income for the period attributable to the shareholders of the parent company | | (437) | (874) | 2,281 | (681) | (925) | 703 |

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | Note | GROUP | | PARENT | | GROUP | | PARENT | | | | | |
|--|----------|-------------------|----------------------------|-------------------|-------------------|-------------------|----------------------------|-------------------|-------------------|-------------------|----------------------------|-------------------|-------------------|
| | | Ordinary Shares | Asset Re-valuation Reserve | Retained Earnings | Total | Ordinary Shares | Asset Re-valuation Reserve | Retained Earnings | Total | Ordinary Shares | Asset Re-valuation Reserve | Retained Earnings | Total |
| | | 31 Dec 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 31 Dec 2008 \$000 | 31 Dec 2008 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 30 Jun 2009 \$000 | 30 Jun 2009 \$000 | 30 Jun 2009 \$000 |
| Balance as at 1 July | | 17,516 | 48 | 8,643 | 26,207 | 15,716 | 50 | 7,860 | 23,626 | 15,716 | 50 | 7,860 | 23,626 |
| Total comprehensive income | | 0 | 0 | (437) | (437) | 0 | 0 | (874) | (874) | 0 | (2) | 2,283 | 2,281 |
| Attributable to equity holders of the parent | | | | | (437) | | | | (874) | | | | 2,281 |
| <i>Equity transactions:</i> | | | | | | | | | | | | | |
| Shares issued | | 0 | 0 | 0 | 0 | 1,800 | 0 | 0 | 1,800 | 1,800 | 0 | 0 | 1,800 |
| Dividends paid | | 0 | 0 | (109) | (109) | 0 | 0 | 0 | 0 | 0 | 0 | (1,500) | (1,500) |
| At 31 December | 5 | 17,516 | 48 | 8,097 | 25,661 | 17,516 | 50 | 6,986 | 24,552 | 17,516 | 48 | 8,643 | 26,207 |
| PARENT | | | | | | | | | | | | | |
| Balance as at 1 July | | 17,516 | 48 | 1,213 | 18,777 | 15,716 | 50 | 2,008 | 17,774 | 15,716 | 50 | 2,008 | 17,774 |
| Total comprehensive income | | 0 | 0 | (681) | (681) | 0 | 0 | (925) | (925) | 0 | (2) | 705 | 703 |
| Attributable to equity holders of the parent | | | | | (681) | | | | (925) | | | | 703 |
| <i>Equity transactions:</i> | | | | | | | | | | | | | |
| Shares issued | | 0 | 0 | 0 | 0 | 1,800 | 0 | 0 | 1,800 | 1,800 | 0 | 0 | 1,800 |
| Dividends paid | | 0 | 0 | (109) | (109) | 0 | 0 | 0 | 0 | 0 | 0 | (1,500) | (1,500) |
| At 31 December | 5 | 17,516 | 48 | 423 | 17,987 | 17,516 | 50 | 1,083 | 18,649 | 17,516 | 48 | 1,213 | 18,777 |

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

AS AT 31 DECEMBER 2009

| | Note | GROUP | | | PARENT | | |
|-------------------------------------|------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| Equity | | | | | | | |
| Share capital | 5 | 17,516 | 17,516 | 17,516 | 17,516 | 17,516 | 17,516 |
| Retained earnings | 5 | 8,097 | 6,986 | 8,643 | 423 | 1,083 | 1,213 |
| Revaluation reserve | 5 | 48 | 50 | 48 | 48 | 50 | 48 |
| | | 25,661 | 24,552 | 26,207 | 17,987 | 18,649 | 18,777 |
| Non Current Liabilities | | | | | | | |
| Provisions | 6 | 525 | 101 | 525 | 525 | 101 | 525 |
| Defined benefit plan | 7(a) | 1,243 | 1,051 | 1,213 | 1,243 | 1,051 | 1,213 |
| | | 1,768 | 1,152 | 1,738 | 1,768 | 1,152 | 1,738 |
| Current Liabilities | | | | | | | |
| Trade and other payables | 8 | 8,647 | 7,623 | 8,329 | 15,816 | 14,667 | 15,404 |
| Provisions | 6 | 74 | 315 | 74 | 74 | 315 | 74 |
| Defined benefit plan | 7(a) | 42 | 73 | 65 | 42 | 73 | 65 |
| Tax payable | 9 | 0 | 0 | 945 | 0 | 0 | 919 |
| | | 8,763 | 8,011 | 9,413 | 15,932 | 15,055 | 16,462 |
| Total Equity and Liabilities | | 36,192 | 33,715 | 37,358 | 35,687 | 34,856 | 36,977 |
| Non Current Assets | | | | | | | |
| Property, plant and equipment | 11 | 23,139 | 22,808 | 22,782 | 21,806 | 21,455 | 21,439 |
| Biological assets | 12 | 405 | 322 | 405 | 405 | 322 | 405 |
| Intangible assets | 13 | 267 | 127 | 222 | 267 | 127 | 222 |
| Deferred tax benefit | 9 | 1,163 | 656 | 788 | 1,176 | 661 | 801 |
| Investments in subsidiaries | 14 | 0 | 0 | 0 | 52 | 52 | 52 |
| Investments in associates | 15 | 184 | 116 | 141 | 35 | 35 | 35 |
| | | 25,158 | 24,029 | 24,338 | 23,741 | 22,652 | 22,954 |
| Current Assets | | | | | | | |
| Cash and cash equivalents | 16 | 6,493 | 4,420 | 7,014 | 6,485 | 4,414 | 7,012 |
| Trade and other receivables | 17 | 4,283 | 4,686 | 5,796 | 5,205 | 7,139 | 6,801 |
| Tax receivable | 9 | 48 | 402 | 0 | 46 | 473 | 0 |
| Inventories | 18 | 125 | 102 | 125 | 125 | 102 | 125 |
| Advance to associate | 24 | 76 | 76 | 76 | 76 | 76 | 76 |
| Equipment for resale | | 9 | 0 | 9 | 9 | 0 | 9 |
| | | 11,034 | 9,686 | 13,020 | 11,946 | 12,204 | 14,023 |
| Total Assets | | 36,192 | 33,715 | 37,358 | 35,687 | 34,856 | 36,977 |

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

| | Note | 31 Dec 2009 \$000 | GROUP 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | PARENT 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
|---|------|-------------------------|----------------------------------|-------------------------|-------------------------|-----------------------------------|-------------------------|
| Cash Flows from Operating Activities | | | | | | | |
| Cash was provided from: | | | | | | | |
| Receipts from customers | | 22,786 | 20,506 | 44,570 | 22,696 | 20,518 | 44,570 |
| Interest received | | 106 | 148 | 293 | 106 | 148 | 293 |
| | | 22,892 | 20,654 | 44,863 | 22,802 | 20,666 | 44,863 |
| Cash was applied to: | | | | | | | |
| Payments to employees | | 12,333 | 11,582 | 23,054 | 12,333 | 11,579 | 23,053 |
| Payments to suppliers | | 8,039 | 6,586 | 13,846 | 8,102 | 6,691 | 14,035 |
| Interest paid | | 12 | 7 | 20 | 12 | 7 | 20 |
| Income tax paid | | 1,235 | 130 | 330 | 1,204 | 130 | 330 |
| | | 21,619 | 18,305 | 37,250 | 21,651 | 18,407 | 37,438 |
| Net cash flows from operating activities | 20 | 1,273 | 2,349 | 7,613 | 1,151 | 2,259 | 7,425 |
| Cash Flows from Investing Activities | | | | | | | |
| Cash was provided from: | | | | | | | |
| Proceeds from sale of property, plant and equipment | | 0 | 12 | 7 | 0 | 12 | 7 |
| | | 0 | 12 | 7 | 0 | 12 | 7 |
| Cash was applied to: | | | | | | | |
| Purchase of property, plant and equipment | | 1,583 | 1,670 | 2,690 | 1,583 | 1,580 | 2,690 |
| Purchase of intangibles | | 102 | 39 | 184 | 102 | 39 | 184 |
| | | 1,685 | 1,709 | 2,874 | 1,685 | 1,619 | 2,874 |
| Net cash flows used in investing activities | | (1,685) | (1,697) | (2,867) | (1,685) | (1,607) | (2,867) |
| Cash Flows from Financing Activities | | | | | | | |
| Cash was provided from: | | | | | | | |
| Increase in capital | | 0 | 1,800 | 1,800 | 0 | 1,800 | 1,800 |
| Net advances from subsidiaries | | 0 | 0 | 0 | 116 | 19 | 211 |
| | | 0 | 1,800 | 1,800 | 116 | 1,819 | 2,011 |
| Cash was applied to: | | | | | | | |
| Payment of dividend | | 109 | 0 | 1,500 | 109 | 0 | 1,500 |
| | | 109 | 0 | 1,500 | 109 | 0 | 1,500 |
| Net cash flows from financing activities | | (109) | 1,800 | 300 | 7 | 1,819 | 511 |
| Net Increase (Decrease) in Cash Held | | (521) | 2,452 | 5,046 | (527) | 2,471 | 5,069 |
| Add opening cash brought forward | | 7,014 | 1,968 | 1,968 | 7,012 | 1,943 | 1,943 |
| Ending Cash Carried Forward | 16 | 6,493 | 4,420 | 7,014 | 6,485 | 4,414 | 7,012 |

The accompanying notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009

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

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

The financial statements of New Zealand Forest Research Institute Limited for the period were authorised for issue in accordance with a resolution of the directors on the date as set out on the 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 financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The financial statements have also been prepared on a historical cost basis, except for forestry assets and certain heritage assets that have been measured at fair value.

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

b) Statement of Compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. This includes the New Zealand equivalent to International Financial Reporting Standard 34 – Interim Financial Reporting. The financial statements comply with International Financial Reporting Standards (IFRS).

c) Basis of Consolidation

The consolidated financial statements include the parent company and its subsidiaries. All intercompany transactions and unrealised profits and losses between the group of companies are eliminated from the financial statements on consolidation. In the parent company financial statements, investments in subsidiaries are stated at cost less any impairment charges.

d) Associate Companies

These are companies in which the group holds substantial shareholdings and in whose commercial and financial policy decisions it participates.

Associate companies 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

e) Intangible Assets

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

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

Where amortisation is charged on assets with finite lives, this expense is taken to the profit and loss account.

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

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

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

f) Biological Assets

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

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

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

g) Property, Plant and Equipment

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

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 | 40–60 years |
| Plant and Equipment | 4–15 years |
| Furniture and Fittings | 10 years |
| Motor Vehicles | 3–7 years |
| Library Books | 20 years |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

h) Recoverable amount of non-current assets

On an annual basis the group assesses whether there is any indication that 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.

j) Inventories

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

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

k) Research Costs

Research costs are expensed in the period incurred.

l) Provisions and Employee Benefits

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the 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 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 in the period in which they arise.

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

Long service leave and retirement leave provisions are based on annual actuarial valuations completed at financial year end.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

m) Leases

Group as a Lessee

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits associated with ownership of the leased items, are included as an expense in the Statement of Comprehensive Income 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 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 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)

The financial statements are prepared on a GST exclusive basis.

p) Foreign Currencies

Functional and presentation currency

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

Transactions and balances

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

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 Statement of Comprehensive Income includes both the current period 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

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 and actual results to date.

b) **Heritage Assets**

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

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

c) **Biological Assets**

The group's biological assets consist of tree plantations. These are valued at the net present value of future net harvest 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.

A valuation is done on an annual basis at each financial year end.

1.3 Accounting Standards Issued but not yet Effective

The following standards have had changes that have been issued but not yet made effective:

- | | |
|---|----------------|
| • NZ IAS 24 Related Party Disclosures | 1 January 2011 |
| • NZ IAS 27 Consolidated and Separate Financial Statements | 1 January 2011 |
| • NZ IAS 34 Interim Financial Reporting | 1 January 2010 |
| • NZ IFRS 3 Business Combinations | 1 January 2010 |
| • NZ IFRS 9 Financial Instruments | 1 January 2013 |
| • Other amendments to NZ IFRS arising from the Annual Improvement Project | 1 January 2010 |
| • Omnibus amendments | 1 January 2010 |

The group has chosen not to apply the changes in the above standards prior to their effective date except for NZ IAS 24 where the group has applied the partial exemption for government related entities from 31 December 2009. While these standards are applicable to the group they are not expected to have a material impact on our accounts.

1.4 Changes in Accounting Policies

There have been no changes in accounting policies during the period under review and all policies have been applied on a basis consistent with the equivalent period in the previous year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

| | GROUP | | | PARENT | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 2. Revenue and Other Income | | | | | | |
| (a) Revenue | | | | | | |
| Government research revenue | 8,965 | 9,049 | 21,144 | 8,965 | 9,049 | 21,144 |
| Commercial research revenue | 10,335 | 8,823 | 22,516 | 10,245 | 8,833 | 22,520 |
| Royalty | 5 | 2 | 17 | 5 | 2 | 17 |
| Interest revenue | 143 | 166 | 296 | 142 | 166 | 296 |
| | 19,448 | 18,040 | 43,973 | 19,357 | 18,050 | 43,977 |
| (b) Other Income | | | | | | |
| Change in fair value of plantation trees | 0 | 0 | 83 | 0 | 0 | 83 |
| Net realised exchange fluctuations | 0 | 20 | 19 | 0 | 20 | 19 |
| Net unrealised exchange fluctuations | 0 | 1 | 0 | 0 | 1 | 0 |
| | 0 | 21 | 102 | 0 | 21 | 102 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

| | GROUP | | | PARENT | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 3. Expenditure and Finance Costs | | | | | | |
| (a) Expenditure | | | | | | |
| Personnel remuneration and expenses | 12,255 | 11,651 | 23,791 | 12,255 | 11,648 | 23,790 |
| Other personnel related costs | 386 | 344 | 704 | 386 | 344 | 704 |
| Contractors and subcontractors | 2,272 | 2,233 | 5,329 | 2,271 | 2,230 | 5,312 |
| Consumables | 443 | 465 | 1,057 | 443 | 465 | 1,057 |
| External services | 1,424 | 1,227 | 2,859 | 1,424 | 1,227 | 2,858 |
| Travel and accommodation | 655 | 729 | 1,509 | 653 | 728 | 1,508 |
| Lease and rental costs | 354 | 342 | 699 | 532 | 519 | 1,055 |
| Depreciation | 1,087 | 1,081 | 2,131 | 1,077 | 1,071 | 2,111 |
| Amortisation | 57 | 49 | 97 | 57 | 49 | 97 |
| Loss on disposal of fixed assets | 24 | 0 | 173 | 24 | 0 | 173 |
| Impairment of assets | 0 | 0 | 115 | 0 | 0 | 115 |
| Reversal of impairment | (19) | 0 | 0 | (19) | 0 | 0 |
| Premises | 846 | 724 | 1,528 | 798 | 630 | 1,341 |
| Impairment of intercompany advance | 0 | 0 | 0 | 0 | 0 | 1,353 |
| Inventory written off | 0 | 0 | 16 | 0 | 0 | 16 |
| Director's fees | 141 | 161 | 300 | 134 | 155 | 289 |
| Restructuring costs | 0 | 27 | (119) | 0 | 27 | (119) |
| Bad debts written off | 0 | 0 | 0 | 0 | 0 | 0 |
| Doubtful debt provision | (97) | 6 | 101 | (97) | 6 | 101 |
| Other | 222 | 209 | 394 | 222 | 210 | 463 |
| | 20,050 | 19,248 | 40,684 | 20,160 | 19,309 | 42,224 |
| (b) Finance Costs | | | | | | |
| Bank loans and overdraft | 12 | 7 | 20 | 12 | 7 | 20 |
| | 12 | 7 | 20 | 12 | 7 | 20 |

| | GROUP | | | PARENT | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 4. Auditor's Remuneration | | | | | | |
| Amounts paid or due and payable to the auditors for: | | | | | | |
| Auditing financial statements | | | | | | |
| Parent entity auditor | 73 | 75 | 140 | 73 | 75 | 140 |

Audit fees costs are included in contractors and sub-contractors expenses in Note 3(a) Expenditure.

5. Equity

New Zealand Forest Research Institute Limited has authorised, issued and paid up capital of 17,516,000 ordinary shares at 31 December 2009 (2008: 17,516,000). 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.

During the period dividends recognised as distributions to shareholders totalled \$109k representing 0.62 cents per share (2008: \$0).

The asset valuation reserve is used to record increments and decrements in the fair value of heritage book assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

6. Provisions

The group has provisions for long service leave and restructuring. The long service leave provision totals \$599k in December 2009 (2008: \$235k). The provision was valued by an actuary as at 30 June 2009.

There is no restructuring provision as at 31 December 2009. A provision of \$181k in June 2008 was made to allow for costs associated with the termination of Ensis joint venture, a jointly controlled entity, and the reshaping of Scion, both of which occurred in the financial year ended 30 June 2008. Costs provided were for potential payments to terminated personnel. This provision was reversed in June 2009.

The provisions are made up as follows:

| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
|-----------------------|----------------------------------|----------------------------------|----------------------------------|
| Current Provision | 74 | 315 | 74 |
| Non Current Provision | 525 | 101 | 525 |

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

| | 31 December 2009 | | | 31 December 2008 | | | 30 June 2009 | | |
|--------------------------------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
| | Long Service Leave \$000 | Restruct- uring \$000 | Total \$000 | Long Service Leave \$000 | Restruct- uring \$000 | Total \$000 | Long Service Leave \$000 | Restruct- uring \$000 | Total \$000 |
| Balance 1 July | 599 | 0 | 599 | 235 | 181 | 416 | 235 | 181 | 416 |
| Provision reversed during the period | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (181) | (181) |
| Amounts used during the period | 0 | 0 | 0 | 0 | 0 | 0 | (118) | 0 | (118) |
| Provisions made during the period | 0 | 0 | 0 | 0 | 0 | 0 | 425 | 0 | 425 |
| Discount rate adjustment | 0 | 0 | 0 | 0 | 0 | 0 | 57 | 0 | 57 |
| Balance 31 December | 599 | 0 | 599 | 235 | 181 | 416 | 599 | 0 | 599 |

7. Pension Plans

(a) Defined Benefit Plan

Scion operates an unfunded defined benefit plan. The plan is closed to new members and will cease when all current 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 Statement of Financial Position as at 31 December represents the present value of the defined benefit obligation as actuarially determined at 30 June 2009 adjusted for payments during the current period and a provision for actuarial movement.

| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
|---|----------------------------------|----------------------------------|----------------------------------|
| Net plan expense | | | |
| Current service cost | 0 | 0 | 43 |
| Interest cost on benefit obligation | 0 | 0 | 71 |
| Net actuarial (gains)/losses recognised in the year | 30 | 25 | 114 |
| Net plan expense | 30 | 25 | 228 |

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

7. Pension Plans (cont) (a) Defined Benefit Plan (cont)

| | Defined Benefit Plan | | | | |
|---|----------------------|---------------|---------------|---------------|---------------|
| | 2009 \$000 | 2008 \$000 | 2007 \$000 | 2006 \$000 | 2005 \$000 |
| Benefit liability included in the Statement of Financial Position | | | | | |
| Present value of defined benefit obligation as at 30 June for the last five years | 1,278 | 1,099 | 1,160 | 1,188 | 1,276 |

The defined benefit plan liability is actuarially valued on an annual basis at financial year end. No present value numbers or experience amount is available as at 31 December 2009. Actuarial loss for the period is an estimate.

| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
|--|-------------------------|-------------------------|-------------------------|
| Changes in the present value of the defined benefit obligation are as follows: | | | |
| Opening balance | 1,278 | 1,099 | 1,099 |
| Current service cost | 0 | 0 | 43 |
| Interest cost | 0 | 0 | 71 |
| Actuarial (gains)/losses recognised in the period | 30 | 25 | 114 |
| Benefits paid | (23) | 0 | (49) |
| Closing balance | 1,285 | 1,124 | 1,278 |

The history of experience adjustments is as follows:

| | 2009 \$000 | 2008 \$000 | 2007 \$000 | 2006 \$000 | 2005 \$000 |
|--|---------------|---------------|---------------|---------------|---------------|
| Experience adjustments on plan liabilities as at 30 June for last five years | (38) | (126) | 0 | 68 | 44 |

The principal actuarial assumptions used in determining the defined benefit plan obligations as at 30 June are shown below:

| | 2009 \$000 | 2008 \$000 |
|-------------------------|---------------|---------------|
| Discount rate | 6.14% | 6.42% |
| Future salary increases | 4.50% | 4.50% |

(b) Defined Contribution Plan

During the period defined contributions totalling \$70k (2008: \$55k) were made to the Government Superannuation Fund.

8. Trade and Other Payables

| | GROUP | | | PARENT | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| Trade payables | 2,365 | 2,559 | 3,790 | 2,351 | 2,543 | 3,762 |
| Other payables | 15 | 61 | 19 | 15 | 61 | 19 |
| Employee payables and accruals | 2,613 | 2,510 | 2,696 | 2,613 | 2,510 | 2,696 |
| Intercompany payable(s) (refer note 24) | 0 | 0 | 0 | 7,190 | 7,065 | 7,114 |
| Payable to associates | 49 | 20 | 40 | 49 | 20 | 40 |
| Payable to directors | 10 | 10 | 10 | 10 | 10 | 10 |
| Revenue in advance | 3,595 | 2,463 | 1,774 | 3,588 | 2,458 | 1,763 |
| | 8,647 | 7,623 | 8,329 | 15,816 | 14,667 | 15,404 |

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

| | GROUP | | | PARENT | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 9. Income Tax | | | | | | |
| (a) Income Tax Expense | | | | | | |
| The major components of income tax expense in the Statement of Comprehensive Income are: | | | | | | |
| Current income tax | | | | | | |
| Current income tax charge | 241 | (344) | 1,225 | 241 | (344) | 1,248 |
| | 241 | (344) | 1,225 | 241 | (344) | 1,248 |
| Deferred income tax | | | | | | |
| Deferred tax expense/(income) related to prior year | 0 | 0 | 70 | 0 | 0 | 72 |
| Relating to origination and reversal of temporary differences | (375) | 24 | (182) | (375) | 24 | (190) |
| | (375) | 24 | (112) | (375) | 24 | (118) |
| Income tax expense/(income) reports in the Statement of Comprehensive Income | (134) | (320) | 1,113 | (134) | (320) | 1,130 |
| (b) Amounts charged or credited directly to equity | | | | | | |
| <i>Deferred income tax related to items charged (credited) directly to equity</i> | | | | | | |
| Net gain on revaluation of heritage assets | 0 | 0 | (2) | 0 | 0 | (2) |
| (c) Reconciliation between the aggregate tax expense/(income) recognised in the Statement of Comprehensive Income to tax expense/(income) calculated at the statutory income tax rate | | | | | | |
| Accounting profit/(loss) before income tax | (571) | (1,194) | 3,396 | (815) | (1,245) | 1,835 |
| Tax at the statutory income tax rate of 30% (2008: 30%) | (171) | (358) | 1,019 | (245) | (374) | 551 |
| Adjusted by: | | | | | | |
| Prior year income tax | 0 | 0 | 19 | 0 | 0 | 70 |
| Entertainment | 6 | 2 | 4 | 6 | 2 | 4 |
| Non-deductible legal fees | 2 | 3 | 1 | 2 | 3 | 1 |
| Intercompany receivable | 0 | 0 | 0 | 0 | 0 | 406 |
| Other | 29 | 33 | 70 | 29 | 49 | 98 |
| Tax effect of loss offsets | 0 | 0 | 0 | 74 | 0 | 0 |
| | (134) | (320) | 1,113 | (134) | (320) | 1,130 |

(d) Recognised deferred tax assets and liabilities

| GROUP | 31 Dec 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 30 Jun 2009 \$000 |
|-------------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|
| | Current Income Tax | Deferred Income Tax | Current Income Tax | Deferred Income Tax | Current Income Tax | Deferred Income Tax |
| Opening balance | (945) | 788 | (71) | 680 | (71) | 680 |
| Charge to income | (241) | 375 | 344 | (24) | (1,225) | 112 |
| Prior period adjustment | (1) | 0 | (1) | 0 | (1) | (2) |
| Resident withholding tax paid | 0 | 0 | 0 | 0 | 22 | 0 |
| Charge to equity | 0 | 0 | 0 | 0 | 0 | (2) |
| Other payments | 1,235 | 0 | 130 | 0 | 330 | 0 |
| Closing balance | 48 | 1,163 | 402 | 656 | (945) | 788 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

9. Income Tax (cont)

| PARENT | 31 Dec 2009 | 31 Dec 2009 | 31 Dec 2008 | 31 Dec 2008 | 30 Jun 2009 | 30 Jun 2009 |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| | Current | Deferred | Current | Deferred | Current | Deferred |
| | Income Tax | Income Tax | Income Tax | Income Tax | Income Tax | Income Tax |
| Opening balance | (919) | 801 | 0 | 685 | 0 | 685 |
| Charge to income | (241) | 375 | 344 | (24) | (1,248) | 118 |
| Prior period adjustment | 2 | 0 | (1) | 0 | (23) | 0 |
| Resident withholding tax paid | 0 | 0 | 0 | 0 | 22 | 0 |
| Charge to equity | 0 | 0 | 0 | 0 | 0 | (2) |
| Other payments | 1,204 | 0 | 130 | 0 | 330 | 0 |
| Closing balance | 46 | 1,176 | 473 | 661 | (919) | 801 |

(e) Deferred income tax relates to the following:

| | GROUP | | | PARENT | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | 31 Dec 2009 | 31 Dec 2008 | 30 Jun 2009 | 31 Dec 2009 | 31 Dec 2008 | 30 Jun 2009 |
| | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| <i>Deferred tax liabilities</i> | | | | | | |
| Property, plant and equipment | (287) | (315) | (302) | (274) | (310) | (289) |
| Nursery inventory | (17) | 0 | (17) | (17) | 0 | (17) |
| Standing timber | (122) | (97) | (122) | (122) | (97) | (122) |
| | (426) | (412) | (441) | (413) | (407) | (428) |
| <i>Deferred tax assets</i> | | | | | | |
| Patents and trademarks | 114 | 116 | 119 | 114 | 116 | 119 |
| Payroll provisions | 806 | 862 | 895 | 806 | 862 | 895 |
| Provision for doubtful debts | 1 | 4 | 32 | 1 | 4 | 32 |
| Income in advance | 575 | 0 | 115 | 575 | 0 | 115 |
| Other | 93 | 86 | 68 | 93 | 86 | 68 |
| | 1,589 | 1,068 | 1,229 | 1,589 | 1,068 | 1,229 |
| <i>Net Deferred Tax Asset per Statement of Financial Position</i> | 1,163 | 656 | 788 | 1,176 | 661 | 801 |

(f) Imputation credits

Under section ME 1(2)g of the Income Tax Act 1994 New Zealand Forest Research Institute Limited is not required to maintain an imputation credit account due to it being a Crown Research Institute.

Scion Australasia Limited a wholly owned subsidiary of New Zealand Forest Research Institute Limited has an imputation credit account with a balance of \$611,814 at 31 December 2009 (2008: \$591,326).

Liro Limited a wholly owned subsidiary of New Zealand Forest Research Institute Limited has an imputation credit account with a balance of \$938 at 31 December 2009 (2008: \$938).

Te Papa Tipu Properties Limited a wholly owned subsidiary of New Zealand Forest Research Institute Limited has an imputation credit account with a balance of \$19,102 at 31 December 2009 (2008: \$0).

10. Bank Debt

The bank debt facility is unsecured, but subject to financial covenants being maintained. The total facility available to the group is \$2,000,000 (2008: \$3,500,000). The bank facility maturity date is 31 October 2010. As at 31 December 2009 no borrowings were drawn down (2008: nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

11. Property, Plant and Equipment

| GROUP | Land & Improvements \$000 | Buildings \$000 | Plant & Equipment \$000 | Furniture & Fittings \$000 | Motor Vehicles \$000 | Books & Periodicals \$000 | Capital Work in Progress \$000 | Total \$000 |
|---|------------------------------|--------------------|----------------------------|-------------------------------|-------------------------|------------------------------|-----------------------------------|----------------|
| At 1 July 2009 | 1,668 | 15,238 | 5,032 | 164 | 101 | 244 | 335 | 22,782 |
| Carrying amount net of accumulated depreciation and impairment at 1 July 2009 | | | | | | | | |
| Additions | 0 | 409 | 851 | 26 | 0 | 0 | 163 | 1,449 |
| Transfers from CWIP | 0 | 16 | 293 | 0 | 0 | 0 | (309) | 0 |
| Disposals | 0 | (3) | (2) | 0 | 0 | 0 | 0 | (5) |
| Depreciation expensed | (18) | (223) | (823) | (16) | (7) | 0 | 0 | (1,087) |
| Carrying amount net of accumulated depreciation and impairment at 31 December 2009 | 1,650 | 15,437 | 5,351 | 174 | 94 | 244 | 189 | 23,139 |

At 31 December 2009

| | | | | | | | | |
|---|--------------|---------------|--------------|------------|-----------|------------|------------|---------------|
| Cost or fair value | 1,834 | 20,159 | 32,284 | 1,604 | 216 | 244 | 189 | 56,530 |
| Accumulated depreciation and impairment | (184) | (4,722) | (26,933) | (1,430) | (122) | 0 | 0 | (33,391) |
| Net carrying amount | 1,650 | 15,437 | 5,351 | 174 | 94 | 244 | 189 | 23,139 |

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 2008. Fair value is the amount for which the books could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction as at valuation date. Fair value is determined by reference to recent prices realised at national and international auctions and prices being asked for by specialist dealers for comparable items. Refer to note 22 regarding other heritage assets. The heritage asset library books have been valued at \$75k.

An impairment allowance of \$19k previously raised for a particular building was reversed during the period due to the building being demolished. A loss on disposal is included in the total for losses on disposal in note 3(a) Expenditure.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

11. Property, Plant and Equipment (cont)

| GROUP | Land & Improvements \$000 | Buildings \$000 | Plant & Equipment \$000 | Furniture & Fittings \$000 | Motor Vehicles \$000 | Books & Periodicals \$000 | Capital Work in Progress \$000 | Total \$000 |
|---|---------------------------------|--------------------|-------------------------------|----------------------------------|-------------------------|---------------------------------|--------------------------------------|----------------|
| At 1 July 2008 | 1,704 | 14,953 | 4,838 | 191 | 105 | 244 | 643 | 22,678 |
| Carrying amount net of accumulated depreciation and impairment at 1 July 2008 | | | | | | | | |
| Additions | 0 | 622 | 583 | 3 | 0 | 0 | 3 | 1,211 |
| Transfers from CWIP | 0 | 121 | 450 | 0 | 0 | 0 | (571) | 0 |
| Depreciation expensed | (19) | (204) | (835) | (17) | (6) | 0 | 0 | (1,081) |
| Carrying amount net of accumulated depreciation and impairment at 31 December 2008 | 1,685 | 15,492 | 5,036 | 177 | 99 | 244 | 75 | 22,808 |
| At 1 July 2008 | | | | | | | | |
| Cost or fair value | 1,833 | 19,007 | 29,650 | 1,577 | 208 | 244 | 643 | 53,162 |
| Accumulated depreciation and impairment | (129) | (4,054) | (24,812) | (1,386) | (103) | 0 | 0 | (30,484) |
| Net carrying amount | 1,704 | 14,953 | 4,838 | 191 | 105 | 244 | 643 | 22,678 |
| At 31 December 2008 | | | | | | | | |
| Cost or fair value | 1,833 | 19,750 | 30,683 | 1,580 | 208 | 244 | 75 | 54,373 |
| Accumulated depreciation and impairment | (148) | (4,258) | (25,647) | (1,403) | (109) | 0 | 0 | (31,565) |
| Net carrying amount | 1,685 | 15,492 | 5,036 | 177 | 99 | 244 | 75 | 22,808 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

11. Property, Plant and Equipment (cont)

| GROUP | Land & Improvements \$000 | Buildings \$000 | Plant & Equipment \$000 | Furniture & Fittings \$000 | Motor Vehicles \$000 | Books & Periodicals \$000 | Capital Work in Progress \$000 | Total \$000 |
|---|---------------------------------|--------------------|-------------------------------|----------------------------------|-------------------------|---------------------------------|--------------------------------------|----------------|
| At 1 July 2008 | | | | | | | | |
| Carrying amount net of accumulated depreciation and impairment at 1 July 2008 | 1,704 | 14,953 | 4,838 | 191 | 105 | 244 | 643 | 22,678 |
| Additions | 0 | 839 | 1,349 | 14 | 8 | 0 | 320 | 2,530 |
| Transfers from CWIP | 0 | 124 | 504 | 0 | 0 | 0 | (628) | 0 |
| Disposals | 0 | (155) | (17) | (8) | 0 | 0 | 0 | (180) |
| Impairment provision made | 0 | (108) | (7) | 0 | 0 | 0 | 0 | (115) |
| Depreciation expensed | (36) | (415) | (1,635) | (33) | (12) | 0 | 0 | (2,131) |
| Carrying amount net of accumulated depreciation and impairment at 30 June 2009 | 1,668 | 15,238 | 5,032 | 164 | 101 | 244 | 335 | 22,782 |
| At 30 June 2009 | | | | | | | | |
| Cost or fair value | 1,834 | 19,766 | 31,145 | 1,578 | 216 | 244 | 335 | 55,118 |
| Accumulated depreciation and impairment | (166) | (4,528) | (26,113) | (1,414) | (115) | 0 | 0 | (32,336) |
| Net carrying amount | 1,668 | 15,238 | 5,032 | 164 | 101 | 244 | 335 | 22,782 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

11. Property, Plant and Equipment

| PARENT | 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 2009 | 325 | 15,238 | 5,032 | 164 | 101 | 244 | 335 | 21,439 |
| Carrying amount net of accumulated depreciation and impairment at 1 July 2009 | | | | | | | | |
| Additions | 0 | 409 | 851 | 26 | 0 | 0 | 163 | 1,449 |
| Transfers from CWIP | 0 | 16 | 293 | 0 | 0 | 0 | (309) | 0 |
| Disposals | 0 | (3) | (2) | 0 | 0 | 0 | 0 | (5) |
| Depreciation expensed | (8) | (223) | (823) | (16) | (7) | 0 | 0 | (1,077) |
| Carrying amount net of accumulated depreciation and impairment at 31 December 2009 | 317 | 15,437 | 5,351 | 174 | 94 | 244 | 189 | 21,806 |
| At 31 December 2009 | | | | | | | | |
| Cost or fair value | 441 | 20,159 | 32,284 | 1,604 | 216 | 244 | 189 | 55,137 |
| Accumulated depreciation and impairment | (124) | (4,722) | (26,933) | (1,430) | (122) | 0 | 0 | (33,331) |
| Net carrying amount | 317 | 15,437 | 5,351 | 174 | 94 | 244 | 189 | 21,806 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

11. Property, Plant and Equipment (cont)

| PARENT | 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 2008 | | | | | | | | |
| Carrying amount net of accumulated depreciation and impairment at 1 July 2008 | 341 | 14,953 | 4,838 | 191 | 105 | 244 | 643 | 21,315 |
| Additions | 0 | 622 | 583 | 3 | 0 | 0 | 3 | 1,211 |
| Transfers from CWIP | 0 | 121 | 450 | 0 | 0 | 0 | (571) | 0 |
| Depreciation expensed | (9) | (204) | (835) | (17) | (6) | 0 | 0 | (1,071) |
| Carrying amount net of accumulated depreciation and impairment at 31 December 2008 | 332 | 15,492 | 5,036 | 177 | 99 | 244 | 75 | 21,455 |
| At 1 July 2008 | | | | | | | | |
| Cost or fair value | 441 | 19,007 | 29,650 | 1,577 | 208 | 244 | 643 | 51,770 |
| Accumulated depreciation and impairment | (100) | (4,054) | (24,812) | (1,386) | (103) | 0 | 0 | (30,455) |
| Net carrying amount | 341 | 14,953 | 4,838 | 191 | 105 | 244 | 643 | 21,315 |
| At 31 December 2008 | | | | | | | | |
| Cost or fair value | 441 | 19,750 | 30,683 | 1,580 | 208 | 244 | 75 | 52,981 |
| Accumulated depreciation and impairment | (109) | (4,258) | (25,647) | (1,403) | (109) | 0 | 0 | (31,526) |
| Net carrying amount | 332 | 15,492 | 5,036 | 177 | 99 | 244 | 75 | 21,455 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

11. Property, Plant and Equipment (cont)

| PARENT | 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 2008 | | | | | | | | |
| Carrying amount net of accumulated depreciation and impairment at 1 July 2008 | 341 | 14,953 | 4,838 | 191 | 105 | 244 | 643 | 21,315 |
| Additions | 0 | 839 | 1,349 | 14 | 8 | 0 | 320 | 2,530 |
| Transfers from CWIP | 0 | 124 | 504 | 0 | 0 | 0 | (628) | 0 |
| Disposals | 0 | (155) | (17) | (8) | 0 | 0 | 0 | (180) |
| Impairment provision made | 0 | (108) | (7) | 0 | 0 | 0 | 0 | (115) |
| Depreciation expensed | (16) | (415) | (1,635) | (33) | (12) | 0 | 0 | (2,111) |
| Carrying amount net of accumulated depreciation and impairment at 30 June 2009 | 325 | 15,238 | 5,032 | 164 | 101 | 244 | 335 | 21,439 |
| At 30 June 2009 | | | | | | | | |
| Cost or fair value | 441 | 19,766 | 31,145 | 1,578 | 216 | 244 | 335 | 53,725 |
| Accumulated depreciation and impairment | (116) | (4,528) | (26,113) | (1,414) | (115) | 0 | 0 | (32,286) |
| Net carrying amount | 325 | 15,238 | 5,032 | 164 | 101 | 244 | 335 | 21,439 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

12. Biological Assets

Biological assets consist of tree plantations. The group has 98 hectares of trees planted for experimental purposes. Trees will be harvested for sale when experimental work is completed and they have reached maturity.

| | GROUP | | | PARENT | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| Carrying amount 1 July | 405 | 322 | 322 | 405 | 322 | 322 |
| Gain/(loss) from changes in fair value less estimated point-of-sale costs | 0 | 0 | 83 | 0 | 0 | 83 |
| Carrying amount 31 December | 405 | 322 | 405 | 405 | 322 | 405 |

The group has tree plantations at three locations:

- 35 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.
- 20.8 hectares of immature Radiata Pine and 5.5 hectares of Mexican Cypress are located at Tikokino. The trees were planted for experimental purposes. The Mexican Cypress has zero value at 30 June 2009.
- 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.

No agricultural assets have been harvested during the six months to 31 December 2009.

13. Intangible Assets

Software

Opening balance 1 July

At cost

Less accumulated amortisation

Opening net carrying amount 1 July

Opening net carrying amount 1 July

External additions

Current year amortisation

Closing carrying amount 31 December

Closing balance 31 December

At cost

Less accumulated amortisation

Closing net carrying amount 31 December

| | GROUP | | | PARENT | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| At cost | 2,920 | 2,785 | 2,785 | 2,920 | 2,785 | 2,785 |
| Less accumulated amortisation | (2,698) | (2,649) | (2,649) | (2,698) | (2,649) | (2,649) |
| Opening net carrying amount 1 July | 222 | 136 | 136 | 222 | 136 | 136 |
| Opening net carrying amount 1 July | 222 | 136 | 136 | 222 | 136 | 136 |
| External additions | 102 | 39 | 183 | 102 | 39 | 183 |
| Current year amortisation | (57) | (48) | (97) | (57) | (48) | (97) |
| Closing carrying amount 31 December | 267 | 127 | 222 | 267 | 127 | 222 |
| Closing balance 31 December | 2,992 | 2,824 | 2,920 | 2,992 | 2,824 | 2,920 |
| At cost | 2,992 | 2,824 | 2,920 | 2,992 | 2,824 | 2,920 |
| Less accumulated amortisation | (2,725) | (2,697) | (2,698) | (2,725) | (2,697) | (2,698) |
| Closing net carrying amount 31 December | 267 | 127 | 222 | 267 | 127 | 222 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

| | PARENT | | |
|--|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 14. Investments in Subsidiaries | | | |
| Opening shares in subsidiaries | 52 | 52 | 52 |
| Acquired in current year | 0 | 0 | 0 |
| Disposed of in current year | 0 | 0 | 0 |
| Closing shares in subsidiaries | 52 | 52 | 52 |

| Subsidiaries | Shares | Percentage Held | Balance Date |
|---|--------|-----------------|--------------|
| Liro Limited | 1,000 | 100% | 30 June |
| Forest Research (Australasia) Pty Limited | 100 | 100% | 30 June |
| Atlas Technology Limited | 100 | 100% | 30 June |
| Te Papa Tipu Properties Limited | 100 | 100% | 30 June |
| Scion Australasia Limited | 100 | 100% | 30 June |

Liro Limited does not trade.

Forest Research (Australasia) Pty Ltd does not trade.

Atlas Technology Limited does not trade.

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

Scion Australasia Limited was incorporated on 14 June 2004 as a special purpose company for a jointly controlled entity. Operations of the jointly controlled entity have ceased.

New Zealand Forest Research Institute Limited is the registered holder of 100% of the shares of Future Forests Research Limited however these shares are held in trust for the members and therefore it has not been treated as a subsidiary for consolidation purposes.

All subsidiaries are incorporated in New Zealand.

| | GROUP | | | PARENT | | |
|--------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 15. Investments in Associates | | | | | | |
| (a) Investment Details | | | | | | |
| Frontline Biosecurity Limited | 0 | 0 | 0 | 0 | 0 | 0 |
| Beacon Pathway Limited | 40 | 38 | 40 | 20 | 20 | 20 |
| Biopolymer Network Limited | 144 | 78 | 101 | 15 | 15 | 15 |
| | 184 | 116 | 141 | 35 | 35 | 35 |

New Zealand Forest Research Institute Limited has a 25% (2008: 25%) shareholding in Frontline Biosecurity Limited. The company carries out research, development and commercialisation of biosecurity processes. The company has a balance date of 31 March.

New Zealand Forest Research Institute Limited has a 20% (2008: 20%) shareholding in Beacon Pathway Limited. The company carries out research in the area of sustainability in the built environment.

New Zealand Forest Research Institute Limited has a 33.33% (2008: 33.33%) shareholding in Biopolymer Network Limited, a company carrying on research, development and commercialisation of biopolymers.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

15. Investments in Associates (cont)

| | GROUP | | | PARENT | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| (b) Movements in the carrying amount of the Group's investments in Associates | | | | | | |
| Opening share of decrease in net assets | 96 | 71 | 71 | (10) | (10) | (10) |
| Current year share of increase/(decrease) in net assets of associates | 43 | 0 | 25 | 0 | 0 | 0 |
| Closing share of increase/(decrease) in net assets | 139 | 71 | 96 | (10) | (10) | (10) |
| Cost of investments | 45 | 45 | 45 | 45 | 45 | 45 |
| Carrying amount of investments to 31 December | 184 | 116 | 141 | 35 | 35 | 35 |
| 16. Cash and Cash Equivalents | | | | | | |
| Cash on hand | 3 | 5 | 7 | 3 | 5 | 6 |
| Bank | 164 | 140 | 277 | 156 | 134 | 276 |
| Call deposits | 6,326 | 4,275 | 6,730 | 6,326 | 4,275 | 6,730 |
| | 6,493 | 4,420 | 7,014 | 6,485 | 4,414 | 7,012 |

Cash at bank earns interest at 0.31% on balances over \$250,000 (2008: 1.9%). Call deposits earn interest at the rate applicable on the day. For the purposes of the Statement of Cash Flows, Cash and Cash equivalents are equivalent to cash and cash equivalents presented in the Statement of Financial Position.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

| | GROUP | | | PARENT | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 17. Trade and Other Receivables | | | | | | |
| Trade receivables | 1,457 | 1,607 | 3,650 | 1,449 | 1,602 | 3,644 |
| Allowance for impairment loss | (4) | (13) | (108) | (4) | (13) | (108) |
| Other debtors | 54 | 49 | 103 | 54 | 48 | 103 |
| Prepayments | 881 | 700 | 601 | 835 | 670 | 598 |
| Accrued revenue | 1,003 | 1,770 | 417 | 1,003 | 1,770 | 417 |
| Related party receivables: | | | | | | |
| Associates | 131 | 146 | 131 | 131 | 146 | 131 |
| Other related parties | 761 | 427 | 1,002 | 761 | 427 | 1,002 |
| Subsidiaries | 0 | 0 | 0 | 2,329 | 2,489 | 2,367 |
| Allowance for impairment loss | 0 | 0 | 0 | (1,353) | 0 | (1,353) |
| | 4,283 | 4,686 | 5,796 | 5,205 | 7,139 | 6,801 |

(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. A reversal of impairment loss allowance of \$98k (2008: \$6k increase) was recognised for both the Group and Parent for specific debtors. The allowance is included in a separate line item in Note 3 (a) Expenditure.

Movements in the allowance for impairment loss were as follows:

| | GROUP | | | PARENT | | |
|----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| Opening balance 1 July | 108 | 7 | 7 | 108 | 7 | 7 |
| Reversal of prior year provision | (98) | 0 | (7) | (98) | 0 | (7) |
| Charge for the year | 0 | 6 | 108 | 0 | 6 | 108 |
| Amounts written off | (6) | 0 | 0 | (6) | 0 | 0 |
| Closing balance 31 December | 4 | 13 | 108 | 4 | 13 | 108 |

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

| | Total | 0-30 Days | | 31-60 Days | | 61-90 Days | | +91 Days | | |
|-------------|--------------|-----------|--------|------------|--------|------------|--------|----------|--------|----|
| | | CNI* | CI* | CNI* | CI* | PDNI* | CI* | PDNI* | CI* | |
| | \$000s | \$000s | \$000s | \$000s | \$000s | \$000s | \$000s | \$000s | \$000s | |
| 31 Dec 2009 | Consolidated | 1,457 | 1,032 | 0 | 309 | 0 | 71 | 0 | 41 | 4 |
| | Parent | 1,449 | 1,025 | 0 | 308 | 0 | 71 | 0 | 41 | 4 |
| 31 Dec 2008 | Consolidated | 1,607 | 951 | 0 | 388 | 0 | 126 | 6 | 129 | 7 |
| | Parent | 1,602 | 946 | 0 | 388 | 0 | 126 | 6 | 129 | 7 |
| 30 Jun 2009 | Consolidated | 3,650 | 3,115 | 87 | 199 | 0 | 88 | 0 | 140 | 21 |
| | Parent | 3,644 | 3,109 | 87 | 199 | 0 | 88 | 0 | 140 | 21 |

* Current not impaired (CNI)

* Past due not impaired (PDNI)

* Considered impaired (CI)

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

| | GROUP | | | PARENT | | |
|-----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 18. Inventories | | | | | | |
| Consumable stores (at cost) | 68 | 102 | 68 | 68 | 102 | 68 |
| Nursery stock | 57 | 0 | 57 | 57 | 0 | 57 |
| Closing carrying amount | 125 | 102 | 125 | 125 | 102 | 125 |

Inventories recognised as an expense for the six months ended 31 December 2009 are \$25k (2008: \$178k) for the Group and \$25k (2008: \$178k) for the parent company. There were no inventory write-downs in the period.

19. Financial Instruments

Financial Instruments include:

Loans and Receivables

Trade Debtors

Other Debtors

Intercompany Receivables

Other Financial Liabilities

Trade and Other Payables

Term Loan

All the above financial instruments are measured at amortised cost.

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 monitor, on a monthly basis, our free capacity within the debt facility and our forecasted ability to pay for that debt.

The group's debt facility is with the National Bank of New Zealand. As at 31 December 2009 no borrowings were drawn down (2008: Nil).

Trade payables 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.

Maximum exposures to credit risk as at balance date are:

| | GROUP | | | PARENT | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| Current account | 164 | 140 | 277 | 156 | 134 | 276 |
| Call deposits | 6,326 | 4,275 | 6,730 | 6,326 | 4,275 | 6,730 |
| Receivables | 2,510 | 3,413 | 4,062 | 2,502 | 3,407 | 4,056 |
| Intercompany receivable | 0 | 0 | 0 | 976 | 2,489 | 1,014 |
| Associate trade receivables and advances | 207 | 222 | 207 | 207 | 222 | 207 |
| Other related party trade receivables | 761 | 427 | 1,002 | 761 | 427 | 1,002 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

19. Financial Instruments (cont)

The group is not exposed to any significant concentrations of credit risk.

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

Market Risk

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

Interest Rate Risk

The groups exposure to market interest rates relates primarily to the groups long term debt and cash deposits. Debt has been managed at low levels over the reported period and cash and cash equivalents have increased during that period to a year ended 30 June 2009 group balance of \$7,014k (2008: \$4,420).

| | GROUP | | | PARENT | | |
|---------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| Cash on hand | 3 | 5 | 7 | 3 | 5 | 6 |
| Bank | 164 | 140 | 277 | 156 | 134 | 276 |
| Call deposits | 6,326 | 4,275 | 6,730 | 6,326 | 4,275 | 6,730 |
| | 6,493 | 4,420 | 7,014 | 6,485 | 4,414 | 7,012 |

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 31 December 2009 bank call deposits were earning interest at rates between 2.50% and 4.50% (2008: 5% and 6%).

At 30 June 2009, 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:

| | 31 December 2009 | | Parent and Group 31 December 2008 | | 30 June 2009 | |
|--|----------------------------------|--|--------------------------------------|--|----------------------------------|--|
| | Change in Interest Rate | Effect on Post Tax Profit \$000 | Change in Interest Rate | Effect on Post Tax Profit \$000 | Change in Interest Rate | Effect on Post Tax Profit \$000 |
| Judgement of reasonably possible movements in interest rates: | + 5% | 221 | +2% | 60 | + 5% | 236 |
| | -1% | (44) | -4% | (120) | -1% | (47) |

The movements in profit are due to higher/lower interest revenue on call deposit balances. The sensitivity is higher in 2009 than 2008 because of the increase in call deposits during 2009.

Currency Risk

Only small balances are held in currencies other than New Zealand dollars, with these 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

| | GROUP | | | PARENT | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 20. Reconciliation of operating surplus after taxation with cash flows from operating activities | | | | | | |
| Reported surplus after taxation | (437) | (874) | 2283 | (681) | (925) | 705 |
| Add (less) non cash items: | | | | | | |
| Depreciation | 1,087 | 1,081 | 2,132 | 1,077 | 1,071 | 2,111 |
| Amortisation | 57 | 49 | 97 | 57 | 49 | 97 |
| Movement in impairment provision | (19) | 0 | 117 | (19) | 0 | 117 |
| Doubtful debts | (97) | 6 | 101 | (97) | 6 | 101 |
| Movement in deferred tax benefit | (375) | 24 | (110) | (375) | 24 | (118) |
| Revaluation of biological assets | 0 | 0 | (82) | 0 | 0 | (82) |
| Write off provision intercompany advance | 0 | 0 | 0 | 0 | 0 | 1,353 |
| Unrealised loss on foreign currency account | 0 | (1) | 0 | 0 | (1) | 0 |
| | 653 | 1,159 | 2,255 | 643 | 1,149 | 3,579 |
| Add (less) items classified as investing activity: | | | | | | |
| (Gain) loss on disposal of property, plant and equipment | 23 | 0 | 173 | 23 | 0 | 173 |
| Share in associate company profit | (43) | 0 | (25) | 0 | 0 | 0 |
| Capital related items in creditors | 134 | 446 | 157 | 134 | 356 | 157 |
| | 114 | 446 | 305 | 157 | 356 | 330 |
| Movements in working capital items: | | | | | | |
| (Increase)/Decrease in debtors and prepayments | 1,611 | 1,495 | 281 | 1,692 | 1,544 | 425 |
| (Increase)/Decrease in inventories | 0 | 128 | 105 | 0 | 128 | 105 |
| Increase/(Decrease) in creditors and accruals | 326 | 468 | 1,510 | 418 | 499 | 1,572 |
| Increase/(Decrease) in taxation payable | (994) | (473) | 874 | (963) | (473) | 919 |
| Increase/(Decrease) in intercompany debtors | 0 | 0 | 0 | (39) | (20) | (141) |
| (Increase)/Decrease in intercompany creditors | 0 | 0 | 0 | (76) | 1 | (69) |
| | 943 | 1,618 | 2,770 | 1,032 | 1,679 | 2,811 |
| Net cash flows from operating activities | 1,273 | 2,349 | 7,613 | 1,151 | 2,259 | 7,425 |

21. Contingent Liabilities 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 these potential liabilities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

22. Contingent Assets

Heritage Assets

The company has identified its herbarium collection as a heritage asset in accordance with Financial Reporting Standard No.3, Accounting for Property, Plant and Equipment. The Directors believe that there is no practical basis upon which to reliably value this collection. Therefore in accordance with Financial Reporting Standard No.15, Provisions, Contingent Liabilities and Contingent Assets, the herbarium collection meets the definition of a contingent asset.

23. 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.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

| | GROUP | | | PARENT | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| Lease commitments under non-cancellable operating leases: | | | | | | |
| Within one year | 349 | 359 | 484 | 349 | 359 | 484 |
| One to five years | 264 | 312 | 278 | 264 | 312 | 278 |
| | 613 | 671 | 762 | 613 | 671 | 762 |

Operating Lease Commitments – Group as Lessor:

The group has entered into commercial property leases on its surplus corporate buildings and land. These non-cancellable leases have remaining terms of up to four years on buildings and 30 years on land leases. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

| | GROUP | | | PARENT | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| Lease commitments under non-cancellable operating leases: | | | | | | |
| Within one year | 233 | 259 | 287 | 146 | 195 | 199 |
| One to five years | 1,799 | 510 | 1,858 | 101 | 256 | 161 |
| Greater than five years | 1,072 | 883 | 1,116 | 0 | 0 | 0 |
| | 3,104 | 1,652 | 3,261 | 247 | 451 | 360 |
| Capital Commitments: | | | | | | |
| Capital expenditure contracted for at balance date but not provided for | 176 | 0 | 611 | 176 | 0 | 611 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

24. Transactions with Related Parties

New Zealand Forest Research Institute Limited is wholly owned by the Crown. All transactions with state-owned enterprises and Government departments and agencies are at arms length, and are not considered to fall within the intended scope of related party transactions.

During the year New Zealand Forest Research Institute Limited entered into the following transactions:

| | 31 Dec 2009 \$000 | PARENT 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
|---|-------------------------|-----------------------------------|-------------------------|
| Subsidiary Companies | | | |
| <i>Liro Limited</i> | | | |
| Amount (payable)/receivable at balance date | | | |
| – Intercompany account | (1,398) | (1,398) | (1,398) |
| <i>Forest Research (Australasia) Pty Ltd</i> | | | |
| Amount (payable)/receivable at balance date | | | |
| – Intercompany account | 1,353 | 1,353 | 1,353 |
| – Provision for impairment | (1,353) | 0 | (1,353) |
| | <u>0</u> | <u>1,353</u> | <u>0</u> |
| <i>Scion Australasia Ltd</i> | | | |
| Tax payment/(receipts) made on behalf | 8 | 0 | 22 |
| Purchase of equipment | 0 | 0 | (70) |
| Debtors receipts on behalf | (85) | 0 | 0 |
| Other liabilities paid on behalf | 0 | 1 | 0 |
| Amount (payable)/receivable at balance date | | | |
| – Intercompany account | (5,792) | (5,667) | (5,716) |
| <i>Te Papa Tipu Properties Ltd</i> | | | |
| Charge for services | 40 | 40 | 76 |
| Payment of rent | (178) | (178) | (356) |
| Paid on behalf | 111 | 128 | 148 |
| Debtors receipts on behalf | (10) | 0 | 0 |
| Amount (payable)/receivable at balance date | | | |
| – Intercompany account | 976 | 1,136 | 1,014 |
| Associates | | | |
| <i>Beacon Pathway Ltd</i> | | | |
| Contribution to research outputs | (100) | (100) | (200) |
| Supplied goods and services | 16 | 4 | 179 |
| Receivable/(Payable) at balance date | 0 | (17) | (16) |
| Outstanding unsecured shareholders advance from New Zealand Forest Research Institute Limited to Beacon Pathway Ltd | 76 | 76 | 76 |
| <i>Biopolymer Network Ltd</i> | | | |
| Supplied goods and services | 727 | 622 | 1,383 |
| Received goods and services | 0 | 1 | (1) |
| Receivable/(Payable) at balance date | 131 | 143 | 108 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

24. Transactions with Related Parties (cont)

| | 31 Dec 2009 \$000 | PARENT 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
|--|-------------------------|-----------------------------------|-------------------------|
| Other Related Parties | | | |
| <i>Radiata Pine Breeding Co Ltd</i> | | | |
| Contribution to research outputs | 74 | (72) | (115) |
| Supplied goods and services | 140 | 216 | 727 |
| Receivable/(Payable) at balance date | 46 | 26 | 177 |
| <i>WQI Ltd</i> | | | |
| Supplied goods and services | 240 | 276 | 704 |
| Received goods and services | 25 | 0 | 7 |
| Receivable/(Payable) at balance date | 92 | 181 | 154 |
| <i>Future Forests Research Limited</i> | | | |
| Services provided | 3,425 | 1,927 | 6,102 |
| Goods sold | 3 | 0 | 0 |
| Receivable/(Payable) at balance date | 574 | 245 | 671 |

A revised accounting standard for Related Party disclosures (NZ IAS 24) was issued in November 2009 effective from 1 January 2011. Scion has chosen to apply the partial exemption for government related entities earlier than the official effective date and has not disclosed transactions and balances with Government Entities and Agencies.

Other

Mr Peter Berg, a director of New Zealand Forest Research Institute Limited, is the President of New Zealand Forest Owners Association Incorporated and a director of the other below mentioned entities. Mr Sheldon Drummond, a director of New Zealand Forest Research Institute Limited is a director of the New Zealand Forest Owners Association. Dr Brian Rhoades, a director of New Zealand Forest Research Institute Limited, is a director of FITEC. The services were provided and/or received on normal trading terms.

During the period transactions were as follows:

| | | | |
|---|-----|-----|-----|
| <i>FITEC</i> | | | |
| Supplied goods and services | 27 | 85 | 113 |
| <i>New Zealand Farm Forestry Association Incorporated</i> | | | |
| Supplied goods and services | 19 | 6 | 6 |
| <i>New Zealand Forestry Limited</i> | | | |
| Supplied goods and services | 39 | 2 | 4 |
| Received goods and services | 7 | 0 | 0 |
| <i>New Zealand Forest Owners Association Incorporated</i> | | | |
| Supplied goods and services | 112 | 105 | 605 |
| Received goods and services | 3 | 6 | 11 |
| <i>Pentarch Forest Products Limited</i> | | | |
| Supplied goods and services | 0 | 1 | 1 |
| <i>Tane Tree Trust</i> | | | |
| Supplied goods and services | 12 | 0 | 60 |
| <i>New Zealand Institute of Forestry Incorporated</i> | | | |
| Received goods and services | 0 | 1 | 5 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2009 (continued)

24. Transactions with Related Parties (cont)

Other

Dr Russell Ballard, Chairman of New Zealand Forest Research Institute Limited was appointed Chancellor of Massey University on 5 December 2008. Services provided to Massey University during the period totalled \$22k (2008: \$0 and 30 June 2009: \$22k). Services received during the period totalled \$132k (2008: \$85k and 30 June 2009: \$85k).

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. 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 (2008: Nil) and no impairment allowance has been raised for any of these debts.

| | GROUP | | | PARENT | | |
|-------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 | 31 Dec 2009 \$000 | 31 Dec 2008 \$000 | 30 Jun 2009 \$000 |
| 25. Key Management Personnel | | | | | | |
| Short term employee benefits | 1,180 | 1,153 | 2,173 | 1,180 | 1,149 | 2,165 |
| Long term employee benefits | 0 | 0 | 0 | 0 | 0 | 0 |
| Termination employee benefits | 0 | 0 | 13 | 0 | 0 | 13 |
| KiwiSaver employer contributions | 0 | 0 | 11 | 0 | 0 | 11 |
| | 1,180 | 1,153 | 2,197 | 1,180 | 1,149 | 2,189 |

26. Segment Information

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

27. Reporting Period

These financial statements cover the period 1 July 2009 to 31 December 2009 and have not been audited.

Board of Directors

Dr Russell Ballard (Chairman)
Ms Bronwyn Monopoli (Deputy Chair)
Ms Alison Andrew
Mr Peter Berg
Mr Sheldon Drummond
Mr Chris Insley
Mr Michael Ludbrook
Dr Brian Rhoades

Executive Management

Dr Tom Richardson – Chief Executive Officer
Dr Russell Burton – Group Manager, Investments
Mr Darren Hill – Group Manager, Business Development and Commercialisation
Dr Elspeth MacRae – Group Manager, Bioproduct Development
Ms Chelydra Percy – Group Manager, Corporate Services
Dr Brian Richardson – Group Manager, New Forests and Forest Science
Dr Trevor Stuthridge – Group Manager, Sustainable Design
Ms Keri-Anne Tane – Group Manager, Human Resources
Mr Rob Trass – Chief Financial Officer

Auditors

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

Bankers

ANZ National Bank of New Zealand

Solicitors

Bell Gully, Auckland

Registered Office

Te Papa Tipu Innovation Park
49 Sala Street, Private Bag 3020
Rotorua 3010, New Zealand