

Statement of Performance Expectations

1 July 2025 – 30 June 2026

Callaghan Innovation

30 June 2025

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Foreword

Callaghan Innovation Statement of Performance Expectations: Year ending 30 June 2026

The Government is making changes to the Science, Innovation and Technology (SI&T) system with the objective of driving economic growth for New Zealand. As part of the reforms, Cabinet has decided that Callaghan Innovation will be disestablished, and its most important functions transferred elsewhere in the future SI&T system.

The disestablishment of Callaghan Innovation requires legislation that supersedes the Callaghan Innovation Act 2012. The Government intends for this legislation to be in place by 1 July 2026. Until that legislation is passed and comes into effect, Callaghan Innovation has a key role to play to maintain all transferring functions and ensure services can continue. This intention is reflected in the level of funding that is in place for the FY2025/26 period.

The Minister of SI&T has expressed his expectations for the Gracefield Innovation Quarter (GIQ) property and facilities to continue to be managed and operated and explore commercial opportunities.

This Statement of Performance Expectations sets out the performance expected of Callaghan Innovation for the year ending 30 June 2026, as it delivers the Government's intentions for the SI&T system and the measures which will be used for assessment in the subsequent annual report.



Jennifer Kerr
Board Chair



Stefan Korn
Chief Executive

Introduction

Science, Innovation and Technology sector reforms

On 25 March 2024, Cabinet agreed to establish the Science System Advisory Group and the University Advisory Group to investigate issues across the SI&T and the university systems. The SSAG's report focused on the architecture of the SI&T system. As part of a broad set of reforms to the SI&T system, Cabinet (in November 2024) agreed that the critical functions of Callaghan Innovation are to be redistributed to other parts of the system and Callaghan Innovation is to be disestablished. Legislation to this effect is planned to be introduced in 2026.

The Minister of SI&T, in a letter to the Callaghan Innovation Board Chair (January 2025), has requested that the Board prepares Callaghan Innovation for disestablishment and support the transition to the future state of the SI&T system. The disestablishment process is expected to last into 2025/26. The Minister of SI&T also requested that Callaghan Innovation continue managing and operating the Gracefield Innovation Quarter (GIQ) property and facilities and explore commercial opportunities to retain the site as a centre for science and innovation. Funding will support limited activities until the relevant transfers and formal disestablishment is complete.

A second announcement from the Minister of SI&T followed in March 2025 confirmed continued funding for the biotechnologies group for two years and that the biotechnologies group will transfer to the new Bioeconomy Public Research Organisation (PRO), and funding will be provided to the applied technologies group to support the orderly wind down of customer contracts by 30 September 2025.

This Statement of Performance Expectations reflects the budgets, outputs and performance measures as they currently stand, Callaghan Innovation expect significant changes to all of these through the course 2025/26 as we progress through the work programme to disestablish the organisation as an innovation agency and as the wider science system reforms are progressed.

Statement of Intent

Callaghan Innovation was granted a waiver of the requirement to prepare a new statement of intent, pursuant to section 139B (3) of the Crown Entities Act, on the basis that it is being disestablished.

Our priorities for 2025/26

In line with the Minister's expectations, Callaghan Innovation's priorities for 2025/26 are to prepare selected functions for transfer to elsewhere in the SI&T system, continue to manage GIQ and continue to wind down any other operations not completed by 30 June 2025.

2025/26 priority	Government intention
Continue to support the R&D Tax Incentive, providing technical assessments and business engagement services	BAU then transfer to MBIE
Continue to administer all grant and loan programmes for supporting business innovation and R&D	BAU then transfer to MBIE
Continue to provide the Tech Incubator programme, Health Tech Activator and Founder & Start Up Support programme	BAU then transfer to MBIE
Continue to provide the New Zealand Food Innovation Network, the Bioresource Processing Alliance and the New Zealand Product Accelerator	BAU then transfer to the appropriate PRO

2025/26 priority	Government intention
Wrap up commercial contracts and wind down the Applied Technology function	Function stopped by 30 September 2025
Continue to provide biotechnologies services to commercial customers, focus on commercial performance and transfer the Biotechnology group to the Bioeconomy PRO.	BAU then transfer to Bioeconomy PRO
Continue to provide metrology for New Zealand through the Measurement Standards Laboratory (MSL)	BAU then transfer to the Earth Sciences PRO
Continue to manage and operate GIQ property and facilities	Reduced BAU to maintain the site

Outcomes and performance reporting

Callaghan Innovation has stopped all work to implement its Impact Reporting Framework. Callaghan Innovation will continue to prepare Quarterly and Annual Reports for 2025/26.

Our performance expectations by output class

Callaghan Innovation receives Government funding to deliver specific products, programmes and grant funds (outputs). In 2025/26, interim funding will cover:

- products for customers ahead of transfer of functions to other SI&T entities
- maintenance and upkeep of the GIQ site
- transfer and disestablishment costs.

The funding and performance expectations for those outputs are set out in the Estimates of Appropriations for Vote Business, Science and Innovation.

This section sets out the funding and performance expectations for 2025/26. We will report our actual performance against these expectations in our annual report.

Callaghan Innovation Operations: Multi-Category Appropriation

The single overarching purpose of this appropriation is to fund Callaghan Innovation to broker and provide innovation services to businesses and deliver programmes that enhance New Zealand's innovation system, to ensure funding is available for the efficient cessation and transfer of activities required to disestablish Callaghan Innovation, and to retain Gracefield Innovation Quarter as a centre for science innovation and technology.

Cost and Funding (Multi-Category Appropriation)

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation	85.844	95.479
Commercial Revenue	18.035	3.870
Other Revenue	3.179	2.828
Total Revenue	107.058	102.177
Expenses	(103.808)	(97.570)
Net surplus/(deficit)	3.250	4.607

The funding in this appropriation is separated into four categories. The first three categories are non-departmental output expenses. In 2025/26, a fourth category called "Cessation and transfer of activities" was established to fund costs associated with transfer and disestablishment functions. This category is a non-departmental other expenses category.

Category 1 – Building Business Innovation

This category is limited to activities that raise awareness about and increase business investment in Research and Development.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation	34.293	3.878
Commercial Revenue	1.300	0.000
Other Revenue	0.785	0.000
Total Revenue	36.378	3.878
Expenses	(26.526)	(1.653)
Net surplus/(deficit)	9.852	2.225

Category 2 - Business Innovation Support Programme Management and retained functions

This category is limited to funding to support the administration of research, science and innovation funding mechanisms and to deliver retained initiatives that will be transferred to other entities including costs of transferring or ceasing such activities.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation	17.946	17.946
Other Revenue	0.601	0.000
Total Revenue	18.547	17.946
Expenses	(16.471)	(18.252)
Net surplus/(deficit)	2.075	(0.306)

Category 3 - Research and Development Services and Facilities for Business and Industry

This category is limited to providing research and technical expertise, including costs associated with transfer or ceasing activities, and facilities to business and industry at Gracefield Innovation Quarter, and exploration of commercial solutions for the site.

This category is where we report Crown revenue and related expenses for the Bioresource Processing Alliance and NZ Product Accelerator. Callaghan Innovation is acting as an agent and hence these values are not reflected in the Group financial statements.

This category funds our bespoke R&D projects - services that meet the R&D needs of business by helping to de-risk innovation and get products, processes, or services to markets quicker, in order to realise value faster and gain a greater return on investment.

This category also includes \$20m for management of Gracefield Innovation Quarter.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation	33.605	53.605
Commercial Revenue	16.735	3.870
Other Revenue	1.793	2.828
Total Revenue	52.133	60.303
Expenses	(60.811)	(57.615)
Net surplus/(deficit)	(8.678)	(2.688)

Category 4 – Cessation and transfer of activities

This category is limited to costs associated with the cessation and transfer of activities required to disestablish Callaghan Innovation and redistribute its most important functions.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation	n/a	20.050
Other Revenue	n/a	0.000
Total Revenue	n/a	20.050
Expenses	n/a	(20.050)
Net surplus/(deficit)	n/a	0.000

How Callaghan Innovation's performance will be assessed

The following table sets out the performance expectations for the appropriation as a whole and the three categories that sit within it.

Performance Measure	Performance Standard	
	2024/25	2025/26
Callaghan Innovation Operations Multi-Category Appropriation		
Total number of organisations working with Callaghan Innovation this Financial Year	2,000	2000
Net Promoter Score of all surveyed organisations	+60	+60
Category 1 - Building Business Innovation		
Number of organisations who used Innovation Skills products or services	350	350
Net Promoter Score for Innovation Skills products or services	+60	+60
Category 2 - Business Innovation Support Programme Management and retained functions		
Number of new Student grant applications received during the financial year	600	600
Percentage of Student grant applications who have received a decision within 30 working days of receipt of the completed application	90%	90%
Number of New to Research and Development grant applications received during the financial year	40	40
Percentage of general approval applications that are processed and a recommendation made to Inland Revenue within 37 working days of receiving the application from Inland Revenue	80%	80%
Percentage of organisations who are enrolled in Research and Development Tax Incentive (via myIR) that Callaghan Innovation have proactively engaged with	80%	80%
Percentage of Research and Development Tax Incentive applicants who agree that they have received a good level of guidance and support with the application process	80%	80%
Category 3 - Research and Development Services and Facilities for Business and Industry		
Prepare Biotechnologies Group for transfer to PRO ¹	New measure	Achieved
Improve the commercial performance and financial viability of the Biotechnologies Group ¹	New measure	Achieved
An asset management plan and a building management plan are in place ¹	New measure	Achieved
Report back to Ministry of Business, Innovation and Employment on commercial solutions for Gracefield Innovation Quarter by 30 September 2025 ¹	New measure	Achieved
Category 4 - Transfer and disestablishment		

Functions cease or are transferred as outlined in the Implementation Plan	New measure	Achieved
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Note 1: This performance indicator and its standard were selected for 2025/26 and outyears to better reflect the provision of research and technical expertise, and exploration of commercial solutions for the Gracefield Innovation Quarter.

New to R&D Grant

This appropriation provides funding for private businesses to undertake R&D and capacity building activity. It is intended to encourage businesses without R&D capabilities and experience to build R&D programmes and provide a smooth transition to the R&D Tax Incentive once the business has established their programme.

This category funds the grant component of New to R&D. It only funds the grant itself - the cost of supporting and administering the grant is covered under the Business Innovation Support Programme Management category.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	29.152	15.121
Total Revenue	29.152	15.121
Grant Expenses	(29.152)	(15.121)
Net surplus/(deficit)	0.000	0.000

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2024/25	2025/26
Number of organisations with active New to Research and Development grants this financial year	48	48

Student Grant

This appropriation provides funding for students to work in research and development active businesses. It is intended to achieve the support for an increase in business's R&D capability and give students the opportunity to improve their skills in a commercial environment. Our R&D experience, career and fellowship grants (Student grants) are intended to support undergraduate and graduate students to work in a commercial R&D environment as interns in New Zealand's commercial R&D facilities, a win-win solution for both industry and the students.

This category funds the grant component of the Student Grant. It only funds the grant itself - the cost of supporting and administering the grant is covered under the Business Innovation Support Programme Management category.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	12.000	15.000
Total Revenue	12.000¹	15.000
Grant Expenses	(12.000)	(15.000)
Net surplus/(deficit)	0.000	0.000

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2024/25	2025/26
Number of organisations with active Student Grants this financial year	500	500

R&D Project Grant

This appropriation is intended to support existing financial commitments to private businesses who have already been accepted into the R&D Project Grant programme, and exists to honour those commitments until the expiry of the grant.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	0.400	0.050
Total Revenue	0.400	0.050
Grant Expenses	(0.400)	(0.050)
Net surplus/(deficit)	0.000	0.000

How Callaghan Innovation's performance will be assessed

This appropriation exists to honour existing contractual commitments and not for the issuance of new grants, therefore an exemption was granted under s15D(2)(b)(ii) of the Public Finance Act 1989, as the end-of-year performance information for the appropriation is not likely to be informative in light of the nature of the transaction.

Innovation Trailblazer Grant

This appropriation provides funding for businesses to undertake innovation activities that are not R&D. It supports non-R&D activities associated with innovation that have the potential to create spill-overs to the rest of the economy.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	25.767	8.750
Total Revenue	25.767	8.750
Grant Expenses	(25.767)	(8.750)
Net surplus/(deficit)	0.000	0.000

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2024/25	2025/26
Number of new Ārohia – Innovation Trailblazer Grant applications received during the financial year	195	195
Number of organisations with active Ārohia – Innovation Trailblazer Grants this financial year	100	100

Technology Incubator Programme

This funding is for technology incubators and early stage technology based businesses. It is intended to support the creation of innovative companies based on deep technology.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	21.554	22.827
Total Revenue	21.554	22.827
Grant Expenses	(21.554)	(22.827)
Net surplus/(deficit)	0.000	0.000

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2024/25	2025/26
Number of organisations or individuals awarded a repayable grant from the Tech Incubator programme during the financial year	15	15

Founder and Start-up Support

This funding is for start-up support programmes. It is intended to support the development and growth of new technology focussed business start-ups.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	2.860	2.717
Total Revenue	2.860	2.717
Grant Expenses	(2.860)	(2.717)
Net surplus/(deficit)	0.000	0.000

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2025/26	2024/25
Number of organisations or individuals that received a Founder Start-Up support service this financial year	150	150
Net Promoter Score for Founder Start-up support services	+50	+50

National Measurement Standards

This appropriation provides funding for our Measurement Standards Laboratory to ensure that New Zealand's units of measurement are consistent with the International System of Units, to satisfy the needs for traceable physical measurement in New Zealand. This is critical for New Zealand companies selling products and services that depend on accurate and internationally accepted traceable physical measurements.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue - Appropriation	8.986	8.986
Commercial Revenue	0.565	0.600
Other Revenue	0.496	0.000
Total Revenue	10.047	9.586
Expenses	(13.669)	(9.392)
Net surplus/(deficit)	(3.622)	0.194

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2024/25	2025/26
Provision of national measurements and standards and related services in accordance with statutory obligations under section 4 of the Measurement Standards Act 1992, reported annually to the Minister.	Achieved	Achieved
All technical procedures related to the maintenance of national measurement standards (in accordance with the resolutions and recommendations of the Metre Convention) independently reviewed and validated, with all external review actions completed by the end of the financial year.	Achieved	Achieved

PSPA Business Science and Innovation Remuneration Cost Pressure

This appropriation supports changes in operating expenditure resulting from remuneration adjustments for the Public Sector Pay Adjustment.

Cost and Funding

	2024/25 SPE \$million	2025/26 SPE \$million
Revenue		
Crown Revenue – Appropriation	2.000	2.000
Total Revenue	2.000	2.000
Expenses	(3.365)	0.000
Net surplus/(deficit)	(1.365)	2.000

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2024/25	2025/26
Pay adjustments for eligible staff in line with PSPA agreement	Achieved	Achieved

Budget and Financial Statements

Financial budget to 30 June 2026

The prospective financial statements are presented in accordance with generally accepted accounting principles and the Crown Entities Act 2004. They comply with Public Benefit Entity FRS No 42 – Prospective Financial Statements and other applicable financial reporting standards, as appropriate for Public Sector Public Benefit entities.

The prospective financial statements have been prepared based on Crown policies and Callaghan Innovation outputs at the time the statements were finalised. This is forecast information and therefore the actual results achieved for the period will vary from the information presented, due to external factors.

The prospective financial statements rely on the Budget 2026 assumptions noted below. The Callaghan Innovation Board, which is responsible for the preparation of these prospective financial statements, believes the assumptions adopted at the time of preparation (June 2025) provide the best estimate of the future financial performance and state of Callaghan Innovation for the year ended 30 June 2026.

Prospective Statement of Comprehensive Revenue and Expense

For the year ending 30 June \$million	2024/25 Budget	2025/26 Budget
Income		
Revenue from the Crown	91.605	101.240
Revenue from the Crown – Grants	91.733	64.465
Commercial revenue	18.600	3.169
Other income	3.061	3.119
Interest income	1.925	1.010
Total Income	206.924	173.003
Expenditure		
Personnel costs	58.801	52.509
Science project and subcontract costs	11.516	2.600
Other expenses	33.338	34.556
Depreciation and amortisation	13.272	12.073
Grant expense	91.733	64.465
Total expenditure	208.661	166.202
Surplus/(deficit)	(1.737)	6.801

Prospective Statement of Changes in Equity

For the year ending 30 June \$million	2024/25 Budget	2025/26 Budget
Balance at 1 July	165.083	175.021
Total forecast comprehensive income & expenditure	(1.737)	6.801
Movement in hedge reserve	0.000	0.000
Capital contribution	0.000	0.000
Balance as at 30 June	163.346	181.822

Prospective Statement of Financial Position

As at 30 June \$million	2024/25 Budget	2025/26 Budget
EQUITY		
Contributed capital	170.768	170.768
Hedge Reserve	0.003	0.000
Accumulated surplus	(7.426)	11.054
TOTAL EQUITY	163.346	181.822
Current assets		
Cash and cash equivalents	28.410	70.854
Trade and other receivables	6.025	3.418
Crown – debtor grants	20.929	28.131
Other current assets	0.374	0.462
Total current assets	55.738	102.865
Non-current assets		
Property plant and equipment	142.288	131.385
Investments	0.000	0.000
Total non-current assets	142.288	131.385
TOTAL ASSETS	198.025	234.250
Current liabilities		
Trade creditors and other payables	3.820	8.609
Employee benefits	6.054	2.969
Grant obligations	20.929	28.131
Income in advance	3.829	12.676
Total current liabilities	34.632	52.386
Non-current liabilities		
Employee benefits	0.048	0.042
Deferred tax	0.000	0.000
Total non-current liabilities	0.048	0.042
TOTAL LIABILITIES	34.680	52.428
NET ASSETS	163.346	181.822

Prospective Statement of Cash Flows

For the year ending 30 June \$million	2024/25 Budget	2025/26 Budget
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from Crown – operating	89.647	101.240
Receipts from Crown – grants	91.733	64.465
Receipts from customers	21.888	6.676
Interest received	1.925	1.010
	205.193	173.391
Cash was applied to:		
Payments to suppliers	(46.454)	(35.592)
Payments to employees	(57.738)	(53.176)
Payments to grant recipients	(91.733)	(64.465)
	(195.924)	(153.233)
Net cash flows from operating activities	9.269	20.158
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was applied to:		
Purchase of property plant and equipment	(6.214)	(5.000)
Net cash flows from investing activities	(6.214)	(5.000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Capital contribution	0.000	0.000
Net cash flows from financing activities	0.000	0.000
Net increase (decrease) in cash and cash equivalents	3.055	15.158
Cash and cash equivalents at the beginning of the year	25.355	55.696
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	28.410	70.854

Statement of Accounting Policies

Reporting entity

Callaghan Innovation is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. The Government intends to introduce legislation to disestablish Callaghan Innovation. Until that legislation is passed and comes into effect, the relevant legislation governing Callaghan Innovation's operations includes the Crown Entities Act 2004 and the Callaghan Innovation Act 2012.

Callaghan Innovation's parent is the New Zealand Crown. The consolidated financial Statements of the Group consist of those of Callaghan Innovation, its controlled entities and associates.

Callaghan Innovation's primary purpose is to grow New Zealand's innovation economy by helping businesses succeed through technology.

Callaghan Innovation does not operate to make a financial return.

Callaghan Innovation is designated as a public benefit entity for financial reporting purposes.

Basis of preparation

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of compliance

The financial statements of Callaghan Innovation and Group have been prepared in accordance with the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements comply with public benefit entity accounting standards.

Functional Presentation currency and rounding

The functional currency of Callaghan Innovation is New Zealand dollars (\$NZD). The financial statements are presented in New Zealand dollars and all values are rounded to the nearest million dollars (\$000,000).

Summary of significant accounting policies

Revenue

The specific accounting policies for significant revenue items are explained below.

Revenue from the Crown – operational funding

Callaghan Innovation is primarily funded from the Crown. This funding is provided for the purpose of Callaghan Innovation meeting its objectives as specified in the Statement of Intent and Statement of Performance Expectations and is recognised as revenue at the point of entitlement.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

Grants (Crown revenue)

Grants received are recognised in the Statement of Comprehensive Revenue and Expense when they become receivable unless there is an obligation in substance to return the funding if the requirements under the grant have not been met. Any grants for which the requirements have not been completed are carried as liabilities until all conditions have been fulfilled and recognised as revenue when conditions of the grant are satisfied.

Provision of goods and services (commercial revenue)

Revenue from the sale of goods is recognised when the risk and reward of ownership have been transferred to the buyer.

Revenue from research contract services is recognised by reference to the stage of completion. The stage of completion is measured by reference to project milestones or costs incurred to date as a percentage of the total cost for each contract. Where the project outcome cannot be measured reliably revenue is recognised only to the extent of the expenses recognised that are recoverable.

Funds in advance

Any income or funds received in advance of the corresponding obligations being satisfied are carried as liabilities, until those obligations have been fulfilled.

Interest

Interest income is recognised using the effective interest method.

Royalty and licensing income

Royalty and licensing income arise from income earned from patent royalties and licensing of patents. Royalty and licensing income are recognised on an accrual's basis in accordance with the substance of the relevant agreements.

Rental revenue and other income

Lease receipts and expense charges under an operating sublease are recognised as revenue on a straight-line basis monthly over the lease term.

Grants expenditure

Grants are approved and administered by Callaghan Innovation for the funding of research and development activities by New Zealand business and enterprise in accordance with Ministerial guidelines.

Grant expenditure is recognised in the Statement of Comprehensive Income and Expense when the third-party recipient can demonstrate they have incurred expenditure that meets the grant conditions, or when it is probable this expenditure has been incurred. An operating commitment is disclosed in the notes to the accounts for those grant contracts awarded but yet to be drawn down either in full or in part.

Repayable incubator grants for start-ups are expensed in the Statement of Comprehensive Income and Expense in the period payment is made due to the uncertainty of future repayment. Repayable grants for start-ups are classified as a contingent asset.

Basis of consolidation

The consolidated prospective financial statements combine the financial statements of Callaghan Innovation, its controlled entities and associates ("the Group").

Controlled entities are those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The financial statements of controlled entities are prepared for the same reporting period as that of Callaghan Innovation using consistent accounting policies.

All inter-company balances and transactions, including unrealised profits and losses arising from intra-Group transactions, have been eliminated in full.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting year during which Callaghan Innovation had control. The purchase method is used to account for the acquisition of controlled entities by the Group.

The cost of an acquisition is measured at fair value of the assets given and liabilities incurred at the date of exchange. Identifiable assets and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Investment in associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Group investments in associates are accounted for using the equity method.

The financial statements of the associate are used by the Group to apply the equity method. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Under the equity method of accounting, interests in associates are initially recognised at cost and adjusted to recognise the Group's share of the post-acquisition surpluses or deficits and movements in other comprehensive revenue. When the Group's share of losses in an associate equals or exceeds its interests in the associate (which includes any long term interests that, in substance, form part of the Group's net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

Impairment in Associates

The Group periodically reviews the fair value of its investment in its associate investment. If the associate net assets exceed the fair value of the Group investment an impairment is recognised in the Statement of Comprehensive Income and Expenses.

Foreign currency

Transactions in foreign currencies are initially recorded in the functional currencies in New Zealand dollars using the spot rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange at the balance sheet date, unless they are hedged in which case they are recognised at the underlying hedge rate.

Exchange gains, losses and hedging costs arising on contracts entered as hedge firm commitments are deferred in equity as qualifying cash flow hedges until the dates that the underlying transactions will affect surplus or deficit.

All other foreign currency translation differences in the consolidated financial statements are taken to the Statement of Comprehensive Income and Expense. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated to the New Zealand dollar using the exchange rate at the date when the fair value was determined.

Property, plant and equipment

Property, plant and equipment consist of land, freehold buildings, fittings, building auxiliary services, computer equipment, plant and scientific equipment, motor vehicles and office furniture. Property, plant and equipment are shown at cost less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to Callaghan Innovation and the cost of the item can be measured reliably. In most instances an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

Where assets are purchased outright they are recognised once control is obtained and the asset is available for use. Where assets are constructed or developed over time, relevant costs are initially captured in capital work in progress and then transferred to fixed assets and depreciated once the constructed asset is available for use.

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amounts of the assets. Gains and losses on disposals are included in the Statement of Comprehensive Income and Expense.

Subsequent costs

Costs incurred after initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to Callaghan Innovation and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Income and Expense.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the costs of the assets to their estimated residual values over their useful lives. The estimated range of useful lives and associated depreciation rates for major asset classes are set out in the table below. Where assets are integrated into a leased building or location, they are depreciated using the shorter of the estimated useful life and the remaining lease term (to final expiry).

	Estimated useful life	Rate
Freehold buildings	10 - 40 years (depending on age)	2.5% - 10%
Building auxiliary services	4 - 20 years	5% - 25%
Computer equipment	3 - 5 years	20% - 33%
Plant and scientific equipment	3 - 20 years	5% - 33%
Motor vehicles	4 - 5 years	20% - 25%
Office furniture, fittings and equipment	4 - 20 years	5% - 25%

Intangible assets

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure from the point at which the asset is ready to use, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any capitalised development costs are amortised over the period the related asset is expected to provide future economic benefit. The amortisation period and amortisation method for development costs are reviewed at each financial year end. If the useful life or method of consumption is different from that in the previous assessment, changes are made accordingly. The carrying value of development costs is reviewed for indicators of impairment annually.

Computer software

Acquired computer software is capitalised based on the costs incurred to acquire and gain the right to use the specific software. Computer software development costs recognised as assets are amortised over their estimated useful lives (between three and five years). The costs of maintaining computer software are expensed as incurred.

Patents

Costs associated with the registration of patents are expensed immediately due to the uncertainty of deriving economic benefits from the commercial use of the patents.

Impairment of property, plant and equipment, and intangible assets

The Group holds both cash-generating assets and non-cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return. Property, plant and equipment, and intangible assets held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

Cash-generating assets

Value in use for cash-generating assets is determined by the present value of the estimated future cash flows expected to be derived from the continuing use of the assets and from their disposal at the end of their useful life. The Group uses a discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Non-cash-generating assets

Value in use for non-cash-generating assets' is determined by the present value of the asset's remaining service potential and is determined using an approach based on a depreciated replacement cost approach, a restoration cost approach or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

Financial assets and liabilities

Classification:

The Group classifies its financial assets in the following measurement categories:

1. those to be measured subsequently at fair value through surplus or deficit, and
2. those to be measured at amortised cost.

The Group classifies its financial assets as at amortised cost only if both the following criteria are met:

1. The asset is held within a management model whose objective is to collect the contractual cash flows, and
2. its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets not meeting the criteria above are measured at fair value through surplus or deficit. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTSD if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

All financial liabilities are measured at amortised cost or classified as derivatives used for hedging and measured at fair value.

Measurement

At initial recognition, the group measures a financial instrument at its fair value plus, in the case of a financial asset not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through surplus or deficit are expensed in surplus or deficit. At initial recognition, an entity may measure short-term receivables and payables at the original invoice amount if the effect of discounting is immaterial.

Subsequent measurement of financial instruments at amortised cost are measured at amortised cost using effective interest rate method. Any gain or loss arising on derecognition is recognised directly in comprehensive income and expenses and presented in other gains/(losses) together with foreign exchange gains and losses.

Impairment losses are presented as a separate line item in the Statement of Comprehensive Revenue and Expense.

For assets that are held at fair value through surplus or deficit, gains and losses are recognised in Comprehensive Income and Expenses and presented net within other gains/(losses) in the period in which it arises, unless included in a hedge relationship. Gains and losses from interest, foreign exchange and other fair value movements are separately reported in the statement of Comprehensive Income and Expenses. Transaction costs are expensed as they are incurred.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost.

Cash and cash equivalents

Cash and cash equivalents are recognised at amortised cost. Cash and cash equivalents include cash on hand, bank accounts and deposits with an original maturity of no more than three months. They are reported initially and subsequently at the amount invested.

Trade and other payables

Trade and other payables are recognised at amortised cost. Initially and subsequently at the carrying value as being a reasonable approximation to amortised cost as they are typically short term in nature.

Allowances for expected losses

An expected credit loss model is used to recognise and calculate impairment losses for financial assets subsequently measured at amortised cost.

The group uses the simplified approach as prescribed by PBE IPSAS 41 to measure loss allowances at an amount equal to lifetime expected credit losses for trade and other receivables. The allowance for doubtful debts on trade and other receivables that are individually significant are determined on an individual basis. Those deemed not to be individually significant are assessed on a portfolio basis based on the number of days overdue, and taking into account the historical loss experience and incorporating any external and future information.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Derivative financial instruments

Derivatives are initially recognised at fair value on the dates that derivative contracts are entered into and are subsequently re-measured to their fair value. The method of recognising a resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being

hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of a transaction the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Revenue and Expense. Amounts accumulated in equity are recycled to the Statement of Comprehensive Revenue and Expense in the periods when the hedged items will affect surplus or deficit (for instance when a forecast sale that is hedged takes place).

However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income and Expense. When a forecast transaction is no longer expected to occur the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Comprehensive Income and Expense.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting, or hedge accounting has not been adopted. Changes in the fair value of those derivatives that don't qualify for hedge accounting are recognised immediately in surplus or deficit in the Statement of Comprehensive Income and Expense.

Inventories

Inventories are valued at the lower of cost and net realisable value (NRV), where NRV is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Raw materials are recognised initially at purchase cost on a first-in, first-out basis.

Work-in-progress

Work-in-progress comprises the costs of any direct materials and labour incurred where a project milestone has not yet been met such that the client has not yet been invoiced.

Provisions

Callaghan Innovation recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure 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 the expenditure expected to be required to

settle the obligation using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Leases

Finance leases – lessor

Leases that transfer substantially all the risks and rewards incidental to the ownership of an asset, whether title is eventually transferred, are classified as finance leases. When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned financial income.

Operating leases – lessor

Leases that do not transfer substantially all the risks and rewards incidental to the ownership of an asset are classified as operating leases. When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

Operating leases – lessee

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to the Group are classified as operating leases. Payments under operating leases are recognised as an expense on a straight line basis over the lease term.

Employee benefits

Short-term employee entitlements

Employee entitlements that Callaghan Innovation expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date and retirement and long service leave entitlements expected to be settled within 12 months.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis. The calculations are based on:

- € Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information.
- € The present value of estimated future cash flows. The discount rate is based on risk-free discount rates published by the New Zealand Treasury. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation schemes

Obligations for contributions to KiwiSaver and the Government Superannuation Fund are accounted for as a defined contribution superannuation scheme and are recognised as an expense in the Statement of Comprehensive Revenue and Expense as incurred.

Income tax

Callaghan Innovation (parent entity) is a crown agent and is consequently exempt from paying income tax. New Zealand Food Innovation Auckland Limited and New Zealand Food Innovation (South Island) Limited (both subsidiaries) are tax paying entities.

Goods and Services Tax (GST)

All items in the financial statements are presented exclusive of GST, except for trade receivables and trade payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense. The net amount of GST recoverable from or payable to the Inland Revenue Department is included as part of receivables or payables in the Statement of Financial Position. The net GST paid to or received from the Inland Revenue Department including the GST relating to investing or financing activities is classified as an operating cash flow in the Statement of Cash Flows. Commitments and contingencies are disclosed exclusive of GST.