

# Callaghan**Innovation**

ANNUAL REPORT 2014

**\$269.8 MILLION** AWARDED TO 541 businesses for R&D

**\$14.2 MILLION** R&D SERVICES DELIVERED to 239 New Zealand businesses

**302** FUTURE INNOVATORS completing internships at top New Zealand commercial R&D facilities

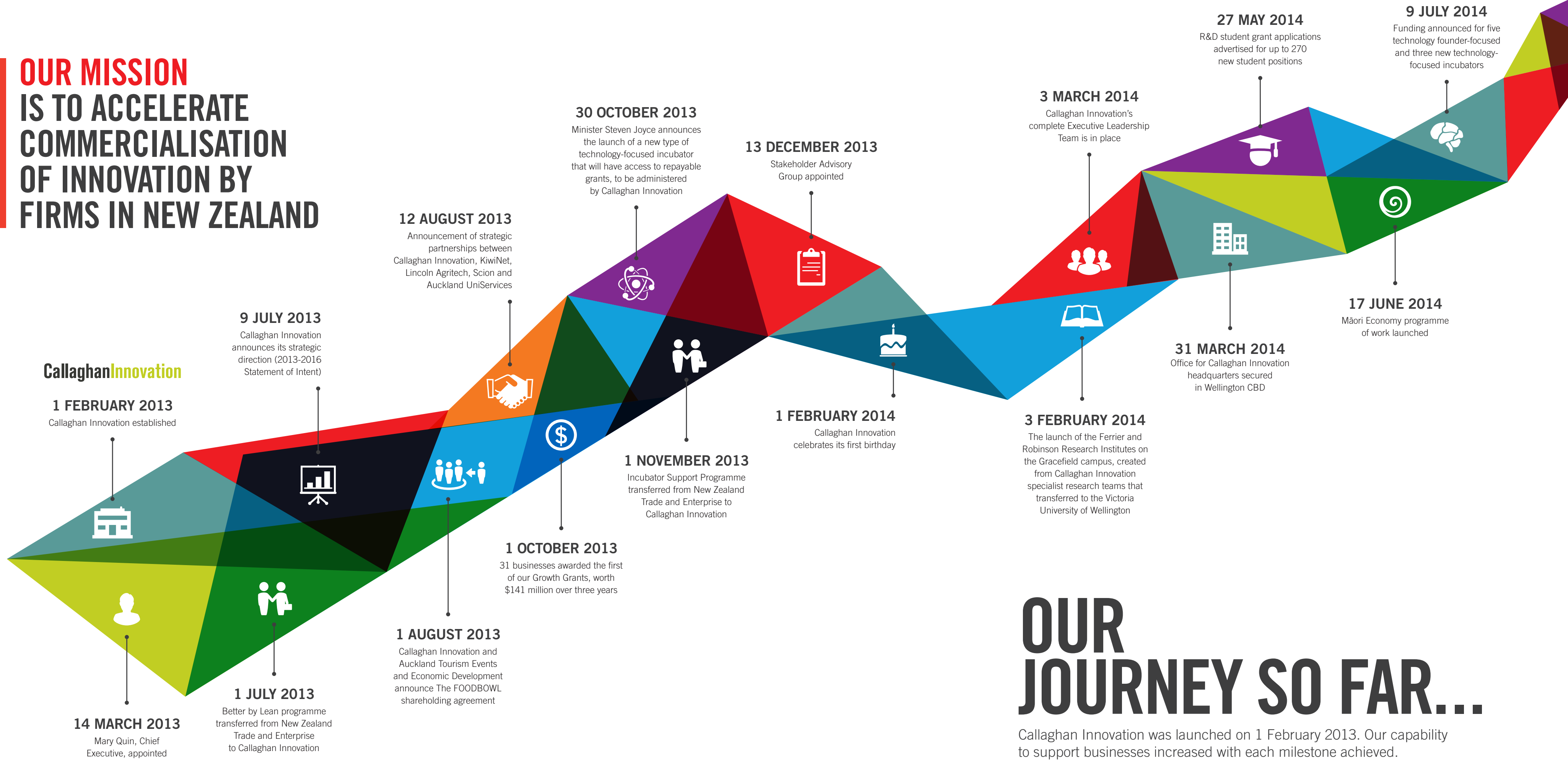
**20+** PARTNERSHIPS with universities, institutes of technology and polytechnics, CRIs and EDAs

**24** START-UP BUSINESSES GRADUATED from the incubators we support

**358 SCIENTISTS, ENGINEERS, RESEARCHERS & BUSINESS EXPERTS**



# OUR MISSION IS TO ACCELERATE COMMERCIALISATION OF INNOVATION BY FIRMS IN NEW ZEALAND



## OUR JOURNEY SO FAR...

Callaghan Innovation was launched on 1 February 2013. Our capability to support businesses increased with each milestone achieved.



# FOREWORD

Innovation lies at the heart of New Zealand's future prosperity. Innovation allows businesses to be more productive and internationally competitive, and as a result will raise the living standards of all New Zealanders.

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Callaghan Innovation has had a challenging yet exciting first year. We have worked hard to bring to life a new organisation that is now engaging with New Zealand businesses to accelerate the commercialisation of innovation.

We are honoured to be working on one of the country's most important quests: to grow high-value manufacturing and service businesses that succeed internationally, and provide high-paid jobs for New Zealanders. We are an organisation that will unashamedly 'learn as we go' – as an innovation agency we should do nothing less.

We know that companies have been 'patiently impatient' as we spent the last year building a fit-for-purpose organisation. But we have not been idle. We have awarded funding of just under \$270 million to 541 businesses. These grants stimulated Kiwi companies to increase their R&D spend, with 305 companies gaining access to R&D funding for the first time. Through student R&D grants, companies hired more than 300 tertiary students and PhD fellows to boost their innovation capacity.

We have provided a strong portfolio of R&D services to businesses. Our science and engineering teams worked on 591 projects for more than 230 customers, resulting in earnings of \$14.2 million. The projects ranged from research for milk by-products to ensuring that the new digital speed cameras comply with international measurement standards.

This year we celebrated our first birthday and we continue to work on how we can best help New Zealand companies. We have travelled the country extensively to listen to businesses and have used these insights to shape the strategy and structure of our organisation. We took a critical look at our capabilities and have restructured our R&D teams. They are now well positioned to deliver on our purpose: to accelerate the commercialisation of innovation by New Zealand firms.

As we continue to evolve, we have expanded the services we provide to firms and developed new models for engagement. To make it easier for businesses to access technological expertise, we have identified seven major technology areas that are important to one or more significant industries and are forming networks across all the R&D providers in each area of technology. The networks provide a simple line-of-sight for businesses to access R&D capabilities in New Zealand and abroad.

We have formal memoranda of understanding and partnership agreements in place with more than 20 research organisations across New Zealand. These agreements put us in the unique position of being able to see across the innovation system to help firms access the capabilities and expert knowledge they need. We have also started to broaden our international research networks, a focus area for the year ahead. Our Incubator Support Programme is part of our strategy to help launch more high-tech start-up companies. In addition to five founder-focused incubators, we have also funded three technology-focused incubators that will specifically launch new high-growth, high-tech start-ups based on emerging technologies.

The Māori economy offers huge potential to the future of New Zealand. We've taken our first steps to unleashing this potential by leading a delegation of Māori food and beverage companies on a visit to the United States in June. They were introduced to new ideas, networks and innovation in the US food technology sector and we look forward to future collaborative projects that will develop from these connections.

Stimulating the interest of today's and tomorrow's innovators ranks highly in our priorities. We need more students to be excited about the opportunities of studying science, engineering, maths and design and to see the innovation-related careers that are open to them. And we need to inspire more businesses to pursue growth through innovation. We profile and celebrate innovation through a series of sponsorships and activities, and support student initiatives such as Futureintech and Chiasma.

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**DURING OUR FIRST FULL YEAR OF REPORTING, WE HAVE BEEN ACTIVE AND SUCCESSFUL ACROSS MANY FRONTS AND OUR ACCOMPLISHMENTS ARE REFLECTED IN THIS REPORT.**

**WE LOOK FORWARD TO MAKING AN EVEN GREATER IMPACT FOR INNOVATIVE NEW ZEALAND BUSINESSES IN THE YEAR AHEAD.**



SUE SUCKLING  
Chair



DR MARY QUIN  
Chief Executive

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# OUR PERFORMANCE

**OUR PURPOSE IS TO ACCELERATE THE COMMERCIALISATION OF INNOVATION BY BUSINESSES IN NEW ZEALAND.**

Innovation is the process by which companies develop and apply new ideas; it enables them to be more competitive, to provide higher-paid jobs, and to grow internationally.

## Inspiring

an innovation culture  
– by encouraging students, current and future business owners to take risks and innovate

## Leading

multi-business action plans to address common barriers to innovation

## Funding

– in part – the research activities of businesses and providing them with advice

**Callaghan Innovation helps businesses to innovate by:**

## Providing

businesses with access to in-house and external R&D services and facilities for product development

## Building

a stronger innovation ecosystem by partnership with other providers and co-ordinating research capabilities

# LEADING MULTI-BUSINESS ACTION PLANS

We help businesses to navigate the New Zealand innovation system, identifying opportunities and barriers to growth and connecting businesses with the help they need to accelerate commercialisation of innovation – from technology and training to capital, talent and market access.

## CLUSTERS

We know HVMS businesses strive to be different, but they often share a common need for technology and expertise. These businesses may be operating in the same industry or be serving different markets.

Our partnership with New Zealand Trade and Enterprise (NZTE) has helped to facilitate collaboration between multiple telematics businesses, each serving a different market, to formally create an alliance that will see them share information and invest in technology where there are mutual benefits.

**WE HAVE BEEN WORKING HARD TO HELP CLUSTERS OF BUSINESSES BUILD NETWORKS AND CREATE EFFICIENCIES TO REDUCE R&D COSTS TO INDIVIDUAL BUSINESSES, CREATE SYNERGIES AND PROMOTE SHARING OF KNOWLEDGE.**

## BOOSTING THE MĀORI ECONOMY

We have made headway in unleashing the innovation potential of the Māori economy.

Our General Manager Māori Economy joined our team in March 2014 and has been instrumental in bringing together key players in this sector. A recent success was leading a group of Māori food and beverage companies to attend a workshop at Stanford University and the International Food Technology Conference in New Orleans.

This pilot project was a result of our collaboration with The FOODBOWL and Plant & Food Research. The exposure to the latest trends in food and technology and the connections made during this trip have motivated and inspired the companies to collaborate on joint projects.

## HEALTHTECH INNOVATION AND INVESTMENT WORKSHOP

We identified the medical technology sector as an important high-tech growth area for New Zealand, contributing an estimated \$673 million to GDP in 2013 (of which 95% was exported). This figure is predicted to double in the next three to five years.

In order to facilitate more networking, access to funding solutions and collaboration in this fast-growing and dynamic industry, Callaghan Innovation co-sponsored the 2014 Healthcare Congress and also hosted the first Healthtech Innovation and Investment Workshop afterwards.

The workshop was an excellent opportunity to build networks and secure funding for entrepreneurs in this field. During the workshop, health technology researchers, companies and entrepreneurial clinicians were matched with a group of venture capitalists and investors looking for investment opportunities in this sector, giving our medical devices sector the opportunity to showcase their work and make important future contacts.





The UAV technology sector has huge potential for growth around the world with a 10 year, \$82 billion market forecast for the US alone.

The Association for Unmanned Vehicle Systems International predicts that 80% of the commercial market for UAVs will eventually be for agricultural uses.



# Unmanned Aerial Vehicles

Unmanned aerial vehicles (UAV) are an exciting innovation within the aviation industry. Several New Zealand companies are leading the development and application of this technology.

In order for New Zealand to effectively collaborate and capitalise on this sector, we have worked with the industry to set up a UAV industry association (UAVNZ).

We also provided input to enable UAV product development and testing, connected the local industry with international research groups, enabled collaborative industry projects such as electricity lines inspection and precision agriculture, and commissioned an economic impact study on the potential impact of UAV operations on the New Zealand economy.

Photo courtesy of Massey University

# FUNDING AND ADVISING INNOVATION

Callaghan Innovation helps businesses invest more in R&D, to accelerate the commercialisation of innovation.

Investing in R&D is costly and for many businesses it may seem too expensive or too risky, especially when times are tough. To support innovative businesses, we have a range of R&D grants that we award and administer.

**OVER THE PAST  
YEAR A TOTAL OF  
541 BUSINESSES  
HAVE BEEN   
AWARDED ALMOST  
\$270 MILLION  
OF FUNDING TO  
BOOST THEIR  
R&D INVESTMENT  
AND GROW THEIR  
R&D KNOWLEDGE  
BASE.**

## OUR FUNDING PROGRAMMES

### R&D Growth Grants

Designed to increase R&D investment in businesses with a strong track record for R&D spending in New Zealand. We provide 20% co-funding for R&D for three to five years, capped at \$5 million a year.

New R&D Growth Grants worth more than \$229 million were awarded this year to 70 high-tech New Zealand businesses.

### R&D Project Grants

Support greater investment by businesses in R&D, especially those with less-established R&D programmes. We provide 30-50% co-funding of R&D costs.

Callaghan Innovation awarded more than \$33 million in supporting 347 R&D projects.

### R&D Student Grants

Support for undergraduate and graduate students to work in a commercial R&D environment as interns and fellows.

Over the past year we gave 302 future innovators the chance to work in many of New Zealand's top commercial R&D facilities; this is a win-win solution for both industry and the students. Industry gets access to the latest thinking and fresh talent at a highly discounted rate and the students get valuable work experience in their field of interest.

# Language Perfect

Ten years ago, 15-year-old Craig Smith was struggling to learn French and Japanese. Out of sheer frustration he created his own online vocabulary tool to help him hear the pronunciation of the languages from a native speaker.

What he didn't realise was he had created the first version of Language Perfect – now used in four countries by hundreds of thousands of students. It has 11 languages installed and is used by seven out of 10 senior high school language students in New Zealand. It is hugely popular in Australia and also sells in England and America.

Callaghan Innovation has supported this growth through R&D grants of \$776,000 (excluding GST) for the company, which included funding to develop an iPad application and Dynamic Grammar programme. Craig says with these features they were able to more than double their revenue in a year.

Total revenues have grown rapidly from \$153,000 in 2010 to over \$4 million expected in 2014.

*"In our market it's all about speed to market. Generous funding from Callaghan Innovation has enabled us to move faster and more effectively to secure a key market position with both Language Perfect and our other online product, Education Perfect."*

More than 1000 schools register their students with Language Perfect each year.

Language Perfect tracks individual student progress, includes native speaker pronunciation, global competitions, mobile access, and tailored content.

In 2013, students answered more than 500 million questions on the Language Perfect platform.

Language Perfect is available on iPad, iPhone, iPod Touch, and Android devices. Mobile access accounts for around 25% of global usage.

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## INCUBATOR SUPPORT PROGRAMME

**Our Incubator Support Programme accelerates the growth and success of high-value New Zealand start-up businesses through a range of services and funding. It is already generating success, with around 24 high-growth start-up businesses graduating from the programme.**

On 1 November 2013 the Incubator Support Programme was transferred from NZTE to Callaghan Innovation and an expanded incubator programme was announced to incorporate a new type of business incubator, the technology-focused incubator.

The new technology-focused incubators will be private entities that look for opportunities to commercialise complex IP-based technology, sourced from public research institutes. The technology-focused incubator will set up a start-up with the view to sell it to a buyer from day one. In order to attract the attention (and funds) of the international high-tech sector, we need to develop smart ideas into commercially viable companies.

As this is a high-value, but high-risk, area for start-ups, we will take up to 75% of the investment risk (up to \$400,000), but the start-up businesses have to secure the balance from private equity. Funding is available through a new pilot repayable grant scheme of over \$31 million for the next three years.

After a request for proposals process that started on 12 March 2014, we have approved five founder-focused incubators and three new technology-focused incubators.

## GLOBAL EXPERT

**Our Global Expert programme connects businesses with the world's greatest minds to help solve technical and market-related challenges.**

Global Expert helps to connect New Zealand businesses to global expertise in order to solve technical and market-related challenges. Over the past year there has been a 300% increase in the uptake of our Global Expert service; we made 225 connections through 58 searches.

### BETTER BY LEAN

**Better by Lean helps companies to improve their productivity and waste reduction through Lean principles.**

The Better by Lean programme transferred to Callaghan Innovation on 1 July 2013. At this time 38 companies were receiving co-funding and since then we have co-funded a further 28 companies. In total we have engaged with 107 businesses through our Better by Lean service over the past year.

We build capability through our own training programmes including Better by Lean, by funding internships, and by connecting businesses with the best training opportunities at other organisations in New Zealand and overseas.

**“The benefits of the Better by Lean initiatives were immediately evident in the area of staff looking for opportunities to reduce waste and improve workflows. We’re also seeing benefits in improved workplace organisation and process improvement.”**

– Keith Smith, General Manager at Flight Plastics



**Our Customer  
Engagement Centre  
is the front door to  
Callaghan Innovation,  
responding to all  
the calls to our  
0800 4 CALLAGHAN  
contact number.**

**Over the past year  
we have had over  
2,400 calls asking  
for advice on our  
funding, research  
and technical  
services or business  
programmes.**



# BUILDING AN INNOVATION ECOSYSTEM

We have identified that businesses often need to outsource their R&D requirements to other research providers in New Zealand. Our R&D capabilities are fragmented and finding the right research solution can be a time-consuming process.

**In order to help businesses get fast access to R&D assistance, we are setting up seven key networks that will group clusters of scientists and research capabilities together.**

We see these seven R&D technology networks as critical to one or more significant industries in New Zealand. These networks underpin the following seven key technology innovation trends:

## SEVEN KEY TECHNOLOGY INNOVATION TRENDS

1. INFORMATION AND COMMUNICATION TECHNOLOGIES
2. SENSING AND AUTOMATION TECHNOLOGIES
3. ADVANCED MATERIALS TECHNOLOGIES
4. BIOTECHNOLOGIES
5. FOOD TECHNOLOGIES
6. MEASUREMENT AND COMPLIANCE TECHNOLOGIES (INCLUDING MEASUREMENT STANDARDS LABORATORY)
7. DESIGN AND MANUFACTURING TECHNOLOGIES



We are developing these networks by bringing together the research capability that New Zealand has to offer to businesses. Our 200 scientists, engineers and researchers at Callaghan Innovation form part of these networks.

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## PARTNERSHIPS

To ensure we are effective at helping businesses succeed, we now have over 20 formal partnerships with research providers such as universities, institutes of technology and polytechnics, Crown Research Institutes (CRIs) and Economic Development Agencies (EDA). This enables Callaghan Innovation to get a full 360 degree view (and access to) the research capabilities and expertise available in the New Zealand innovation system. It helps us to give businesses advice on where to find the best R&D solution for their challenges in New Zealand.

We have also started a number of activities to not only grow our relationships with international research and innovation agencies, but also enable opportunities for collaboration between local and international businesses.

In this regard we have visited the European Union and investigated their innovation networks, taken a Māori food and beverage delegation to the USA to attend a workshop at Stanford University, as well as attend a food technology conference in New Orleans.

**WE DO NOT COMPETE  
WITH OTHER PLAYERS  
IN THE INNOVATION  
SYSTEM; WE ARE  
BUILDING NETWORKS  
FOR BUSINESSES TO GAIN  
ACCESS TO THE ENTIRE  
NEW ZEALAND RESEARCH  
AND INNOVATION  
INFRASTRUCTURE.**



## INNOVATION SPACES

One of the focus areas for us this year was to assess options for revitalising our Gracefield site as a creative and energised innovation precinct. We have completed a high-level analysis of the site and a feasibility study, whereby options have been explored. A business case is being prepared for the innovation precinct in conjunction with our overarching real estate strategy.

The development of an innovation precinct at Gracefield is a large project and we are treading carefully to ensure that the precinct will meet the expectations and needs of businesses, and effectively leverage this opportunity.

As part of our strategy to make New Zealand a place where high-tech start-up businesses can thrive, we are intending to partner with Vodafone in Christchurch to build a new unique innovation space, the xone™, in the heart of Christchurch's innovation precinct.

The Vodafone xone™ will allow between 10 and 20 start-ups to cluster together in a purpose-built, collaborative environment. It will provide technical expertise, logistical support and facilities to help promising New Zealand technology companies fast-track into proof-of-concept trials across Vodafone's network.

## INTELLECTUAL PROPERTY PORTFOLIO

We have refocused our intellectual property (IP) strategy from IP ownership to ensuring that the inherent economic value of the IP is realised for the benefit of New Zealand.

After evaluating our large IP portfolio of over 400 patents and patent applications, we have decided to only retain IP that is technology IP in its early stage, IP that benefits multiple companies or IP that is not ready for transfer to New Zealand businesses.

This is expected to result in the transfer of a significant portion of our portfolio to New Zealand businesses, existing licensees or the public domain.

# PROVIDING BUSINESSES WITH ACCESS TO R&D SERVICES AND FACILITIES

Callaghan Innovation is the front door to NZ Inc's research and development (R&D) capabilities. We connect businesses to the best R&D services within New Zealand, and internationally too.

**OVER THE PAST YEAR OUR 200 SCIENTISTS, ENGINEERS AND RESEARCHERS HAVE DELIVERED OVER \$14.2 MILLION OF RESEARCH SERVICES TO 239 BUSINESSES, AND LINKED BUSINESSES TO OTHER R&D PROVIDERS.**

We provide businesses that have limited internal R&D capability with access to a complete set of R&D services and facilities for product development. These services are provided in-house and through members of our technology networks.

Our R&D services include:

Research that supports industry or firm innovation

Designing and managing product development programmes

Expertise in measurement standards, regulations and compliance

Machine shop and workshop facilities

Testing and failure analysis

Pilot plant operations

Open labs





# CALLAGHAN INNOVATION PROVIDES OUTSOURCED AND/OR SPECIALIST RESEARCH, DEVELOPMENT AND MEASUREMENT SERVICES FOR NEW ZEALAND BUSINESSES.

## OUR SUCCESSES HAVE INCLUDED:

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Improving the performance of medical devices for our largest healthcare company

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Developing innovative vehicle safety equipment for a small company that has become an exporter

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Working with the NZ Police to calibrate their new speed cameras

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Working with large dairy companies, helping them to extract additional value from milk

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Creating new manufacturing techniques to increase the productivity of our growing titanium industry

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Delivering new automated processing solutions for the meat industry

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Partnering with Scion, AgResearch and Plant & Food in the Bioresource Processing Alliance to increase the value of low-value resource streams for our processing industry

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Assisting a marine navigation company to maintain world market leadership

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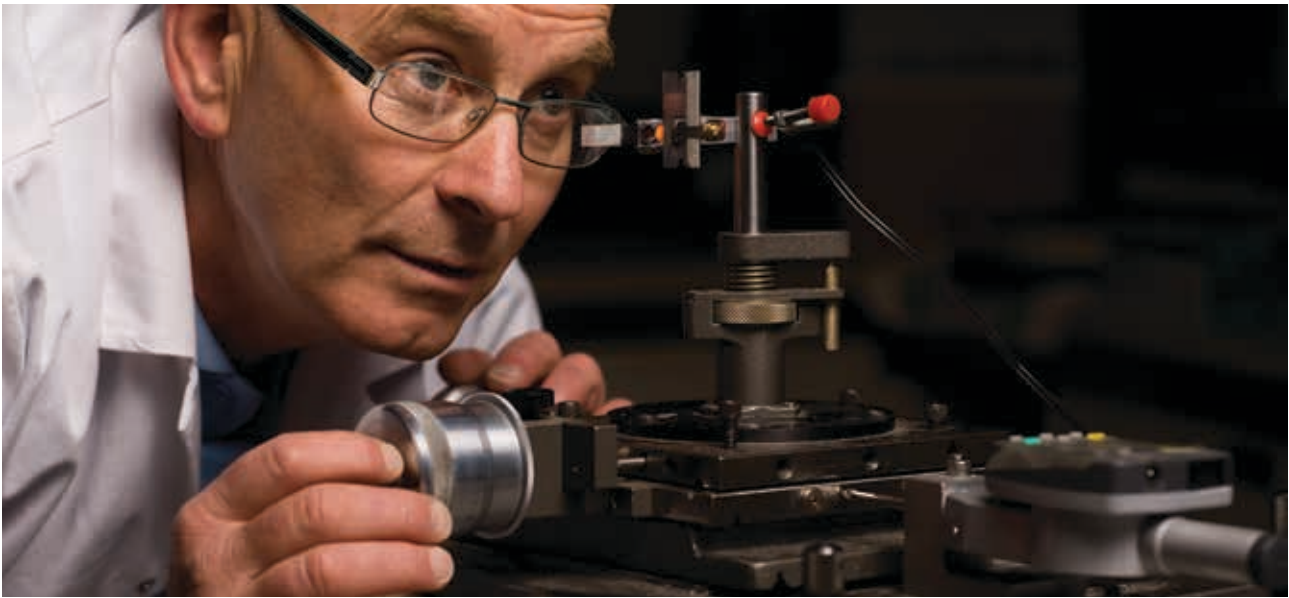
Partnering with a Māori trust to create innovative healthcare solutions

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Transferring innovative cooling technology to a Christchurch company to add an export product line to their business

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**WE LOOK FORWARD TO WORKING WITH YOU TO HELP TURN YOUR IDEAS INTO REALITY, TO HELP YOU INNOVATE YOUR BUSINESS AND TO WORK WITH THE BEST AND BRIGHTEST ACROSS NEW ZEALAND'S INNOVATION SYSTEM.**



## THE FOODBOWL

**The FOODBOWL is a key player in the food technologies network in New Zealand.**

It provides an open access facility for food and beverage companies to try out new products at a fraction of the cost of doing it themselves. Callaghan Innovation and Auckland Tourism Events and Economic Development (ATEED) own joint shareholding in The FoodBowl.

The facilities have impressed international visitors and it continues to support individual businesses, engaging with 282 businesses and facilitating 175 projects this financial year.

**“The FOODBOWL facilities are ideal for smaller manufacturers, making pilot testing accessible without the requirement for large capital investment.” – Manuka Health**

## OUR MEASUREMENT STANDARDS LABORATORY

**Our world-class Measurement Standards Laboratory operates as New Zealand’s National Metrology Institute.**

For the 2013/14 year, we issued over 250 calibration certificates to New Zealand businesses, trained over 60 people on accurate measurement skills, and continued to play a key role in ensuring international recognition of New Zealand’s National Measurement System, which is essential to New Zealand’s ongoing international trade.

# Measuring the need for speed

Measurement Standards Laboratory has helped the New Zealand Police with measurement expertise to test and evaluate the operation of the new batch of digital speed cameras. It had to ensure that the speed measurement and the traceability of the measurements are consistent with international guidelines.

Four types of cameras were evaluated and the results of the measurements were used by the Police's procurement panel during their process to select a speed camera manufacturer.

A total of 56 new digital speed cameras will be installed across New Zealand by the end of 2015. The cameras will be put in locations assessed as having a high risk for speed related crashes, including those where people have died or been injured in crashes involving speed.

# INSPIRING AN INNOVATION CULTURE

New Zealand needs more firms developing and testing new ideas. Innovation takes guts, but the rewards are high too. Celebrating the success of leading innovators is one way in which we can inspire other firms to innovate.

Over the past year we have overseen a full programme of events, workshops and sponsorships aimed at motivating and inspiring an innovation culture.

## TODAY'S INNOVATORS

New Zealand has ambitious and flourishing companies that do not receive the recognition that their success warrants. We believe that to encourage more and bigger high-tech companies, New Zealand needs to profile and celebrate those that have already taken off and are flying high.

To achieve this we have supported a range of activities and events to help raise the awareness and recognition of the next set of high-growth companies. This includes being a major partner of the TIN100 network and sponsoring awards such as the NZ Hi-Tech Awards, the Engineering Excellence Awards and the New Zealand International Business Awards.

We also partnered with regional business organisations to run a series of thought leadership events across New Zealand, such as the one with Professor Göran Roos, an internationally renowned innovation management and strategy expert.

**“TIN100 is proud to partner with Callaghan Innovation to help foster the growth of the innovation economy. The TIN100 Report is an essential tool to profile in the sector and we are delighted to have this level of support and insight to help us deliver the report.”**

– Greg Shanahan, Managing Director TIN100

## TOMORROW'S INNOVATORS

In order for New Zealand to build a high-tech, growing economy, we need to expose our future innovators and entrepreneurs to the exciting career possibilities which open up from studying science, mathematics, engineering, technology and design subjects.

This year Callaghan Innovation became a key funder of Futureintech, a programme run by the Institution of Professional Engineers New Zealand (IPENZ). It promotes careers in science, technology and engineering to college students across New Zealand. They do this through their Futureintech Ambassador initiatives, where they bring in passionate professionals from these industries into the classrooms to share their stories.

Futureintech Ambassadors have made 1,312 visits to schools in the current school year; this figure is up 60% from the previous year. Since the beginning of this year, 22,376 students, 1,360 teachers and 230 careers advisors have been involved in Futureintech activity.

We are also supporting Chiasma, a student-led organisation that fosters connections between the university science communities and high-tech industries. Their aim is to create young scientists that are innovative, business-savvy and industry connected.

# INSPIRING OUR FUTURE INNOVATORS IS AS IMPORTANT AS CELEBRATING OUR CURRENT ONES.

Since the beginning of this year,  
22,376 students, 1,360 teachers  
and 230 careers advisors have been  
involved in Futureintech activity.

Photo: Point Chevalier Primary, Auckland. Ambassadors Jacob Monash and Lara Brian, Plant & Food Research



Women make up 40%  
of the technologists,  
engineers and scientists  
who go into schools to  
share their stories.

# OUR PEOPLE

Callaghan Innovation is committed to being a good employer. We seek an inclusive high-performance business-facing culture built on mutual trust and respect.

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**WE ARE A DIVERSE WORKFORCE MADE UP OF 25 NATIONALITIES, WE HAVE 358 PERMANENT EMPLOYEES, OF WHICH 250 (70%) ARE MALE AND 107 (30%) ARE FEMALE.**

**WE HAVE A TOTAL OF 41 PART-TIME EMPLOYEES, WITH 58% OF THESE EMPLOYEES BEING WOMEN AND 42% BEING MEN.**

**OVER THE PAST 12 MONTHS WE HAVE INCREASED THE REPRESENTATION OF WOMEN AND MĀORI IN SENIOR POSITIONS WITHIN OUR ORGANISATION.**

All our appointments are on merit. Managers and employees are responsible for promoting a work culture in which all people, whatever their gender, ethnic or social background, sexual orientation or role, are valued, and treated fairly and with respect.

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## CALLAGHAN INNOVATION AS A GOOD EMPLOYER

During the past financial year, we started a detailed review of our human resources policy framework, which is now nearly complete, and we have active programmes in each of the following areas:

### **Recruitment, selection and induction**

Our recruitment and selection policies and associated processes aim to ensure that we hire the best person for each position. In the 2014 year, we have also invested in understanding the talent and capability in the innovation sector, and can now include a sourcing element to our selection process.

Over the past year, we developed and introduced Hōea te waka ki u ki uta, a Callaghan Innovation welcome and induction programme. We also completed the transfer process for staff moving from previous organisations into the new one, and in some areas this has resulted in new career opportunities and new positions.

### **Employee development, education and training**

We are committed to the ongoing development of our people. Specifically in 2014, we have implemented targeted development opportunities in the areas of intellectual property, sales and business development, and governance.

We also encourage and support our staff to ensure their expertise and connections remain strong and current through national and international conference and workshop attendance.

### **Remuneration, recognition and employment conditions**

Our frameworks for remuneration and employment conditions provide for fair and market-comparable salaries and terms and conditions of employment. They reference the public and private sector and use wider points of comparison, where appropriate, to ensure that we offer fair and equitable terms and conditions of employment.

### **Flexibility and work design**

Callaghan Innovation spent considerable time and effort in its establishment phase to incorporate flexibility into work design. Our approach is to encourage employees to have a healthy work-life balance.

### **Leadership, accountability and culture development**

We believe that continuous development of our management and leadership capability is important if we want to be successful. Over the past year and as part of our establishment phase, our Chief Executive and our ELT were appointed.

We are also investing in a programme to enable Callaghan Innovation to engage more effectively with Māori. To this end, we have created a Māori Economy Group, and the ELT has participated in a Kia Kaha programme designed for Callaghan Innovation. We are reviewing ways to implement these programmes more effectively across the organisation in future.

In order to develop and communicate our corporate culture across our organisation, we have started with a baseline measure of employee engagement. We are communicating its results to all staff and acting on the findings and staff recommendations to make Callaghan Innovation an even better place to work.

### **Harassment and bullying prevention**

We are committed to ensuring that all people are treated with dignity and respect and to provide a work environment free from bullying, harassment and unlawful discrimination. Callaghan Innovation has zero tolerance of these behaviours and considers them unacceptable in any form. We take action to resolve any issues as promptly as possible.

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# CALLAGHAN INNOVATION VALUES THE WELLBEING OF EMPLOYEES, CONTRACTORS, CUSTOMERS AND THE COMMUNITIES IN WHICH WE OPERATE.

## **A safe and healthy environment**

Our goal is zero harm and we are committed to ensure that we have proper health and safety practices to support this goal and minimise any adverse health, safety or environmental impacts. We are committed to ongoing improvements in our health and safety management, systems, and practices, and have a programme of work underway to support this.

Callaghan Innovation provides access to the Employee Assistance Support programme, workstation assessments and access to annual flu vaccinations. Our Winter Wellness programme is a fun and appealing way of supporting the health and wellbeing of our employees.



# STAKEHOLDER ENGAGEMENT

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We have engaged extensively with our stakeholders over the past year. We have talked to many businesses to get a clear picture of what they and other key players in the innovation system think we need to do to achieve our mission.

This included:

- extensive business engagement by our senior leadership team
- informal discussion with the ELT and the Board on a regular basis
- numerous presentations and speeches at business and industry events
- supporting and sponsoring industry events aimed at stakeholders, such as the EPIC NZ Go Global conference, Morgo, the 2014 NZ Hi-Tech Awards and Professor Göran Roos' series of talks on innovation in the manufacturing sector
- the appointment of the Stakeholder Advisory Group
- working closely with NZTE to ensure a 'no wrong door approach' for New Zealand businesses.

## STAKEHOLDER ADVISORY GROUP

Our Stakeholder Advisory Group members come from the business and science community, and between the nine members have expertise in the manufacturing, research and services sector. They are all appointed on a voluntary basis for two or three-year terms.

Accountable to the Board, the group provides candid wisdom and insight to guide our strategy and design programmes.

The group consists of Dr Andrew Coy (Chairperson), Paul Adams, Tom Grealley, Brett Hewlett, Frank Owen, Suse Reynolds, Charlotte Walshe, Peter Landon-Lane and Professor Claire Robinson.

# GOVERNANCE

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The Callaghan Innovation Board is the governing body with the authority in Callaghan Innovation's name to exercise the powers and perform functions of the Crown Entity.

All decisions relating to the operation of Callaghan Innovation are made by, or under the authority of, the Board in accordance with the Callaghan Innovation Act 2012 and the Crown Entities Act 2004.

The Board's members are Sue Suckling (Chairperson), Paul Lockey, Robin Hapi, Michele Allan, Richard Janes, Peter Hunter, Craig Richardson and Peter Maire. The Minister of Science and Innovation appointed the Chief Executive of the Ministry of Business, Innovation and Employment as advisor to the Board. This role was delegated to Paul Stocks, DCE Science, Skills and Innovation. The Board meets monthly and at other times when required.

There are four Board committees:

## **Audit and Risk**

This committee assists the Board in fulfilling its responsibilities for the oversight of the internal control environment, external accountability, the internal audit function, legislative compliance, internal reporting, external audit and oversight of the risk management framework.

## **Appointments and Remuneration**

This committee oversees and recommends to the Board all matters in regard to the effective management of the appointment and remuneration of the Chief Executive and her direct reports.

## **Governance**

The primary function of this committee is to oversee all governance-related policies.

## **Grants Committee**

The role of the Grants Committee is to support the Callaghan Innovation Board in its decision-making on proposals received for government funding for business-led research and development. In addition to the Board members, this committee includes two external members: Peter Townsend and Dr Alastair MacCormick.

## BOARD TERMS AND COMMITTEE MEMBERSHIP

Board Members	Board Term	Audit and Risk	Appointment and Remuneration	Governance	Grants
Sue Suckling (Board Chair)	31/01/2017	Ex-officio member	Chair	Ex-officio member	
Paul Lockey	31/01/2017	Chair	-	-	
Robin Hapi	31/01/2015	-	-	Chair	
Michele Allan	31/01/2015	-	-	Member	
Richard Janes	31/01/2016	Member	-	-	Chair
Peter Hunter	31/01/2016	-	Member	-	
Craig Richardson	31/01/2016	Member	-	-	Member
Peter Maire	31/01/2015	-	Member	-	Member

Non-Board Members	Board Term	Audit and Risk	Appointment and Remuneration	Governance	Grants
Peter Townsend	30/09/2015	-	-	-	Member
Dr Alastair MacCormick	30/09/2015	-	-	-	Member

Governance policies underpin the approach of the Board's governance responsibilities. These policies are regularly reviewed and include a Code of Conduct and the obligation regarding the disclosure of interests. A formal delegation framework is in place relating to Callaghan Innovation's principal operations and the delegation of financial authority and decision rights from the Board to the Chief Executive, managers and staff. Business continuity plans are in place. These are reviewed and refreshed to reflect organisational changes and context.

# MANAGEMENT COMMENTARY

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The 2013/14 Group surplus of \$1 million was \$0.8 million higher than the \$0.2 million budget. While the operating surplus is not necessarily a key indicator of Callaghan Innovation's overall performance, this result is positive, given the financial challenges the organisation faced in the 2013/14 year that included:

- The strategic decision to withdraw from the Crown contestable funding for research and development, which resulted in contestable funding being \$1.8 million lower than budget
- The transfer of two fundamental science research teams to Victoria University of Wellington in January 2014 included a payment of \$12.7 million. The payment was partly funded by an appropriation of \$4.4 million
- A one-off acquisition gain of \$4.4 million was recognised for the valuation of subsidiary company New Zealand Food Innovation Auckland Limited, acquired on 1 August 2013 for \$1.00
- Commercial revenue was \$5.3 million below budget due to lower than expected demand for both overseas and domestic research services and products.

Savings were made in operating expenses, in part due to the lower demand for research services, products and science being delivered via the contestable funding. Some programmes and innovation initiatives rolled out more slowly than planned as the organisation recruited staff into key positions. This also contributed to the 2013/14 cost savings.

# STATEMENT OF RESPONSIBILITY

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The Callaghan Innovation Board is responsible for the preparation of the financial statements and the statement of service performance for the period 1 July 2013 to 30 June 2014, and the judgements used in them.

The Board is also responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting. In the opinion of the board, the financial statements and statement of service performance for the period from 1 July 2013 to 30 June 2014 fairly reflect the financial position and operations of Callaghan Innovation.

On behalf of the Board:



SUE SUCKLING  
Chair



PAUL LOCKEY  
Board member

# STATEMENT OF SERVICE PERFORMANCE

This Statement of Service Performance (SSP) reports progress against the performance measures contained in Callaghan Innovation's first Statement of Intent (SOI) to 30 June 2016. Callaghan Innovation was established as a Crown agent on 1 February 2013 by the Callaghan Innovation Act 2012, so this first SOI was written a matter of months after the organisation came into existence. However, after only our first full year of operation, we are pleased to be able to report we are making progress against the metrics originally set.

Callaghan Innovation's main objective as stated in the Callaghan Innovation Act 2012 is "to support science and technology-based innovation and its commercialisation by businesses, primarily in the manufacturing sector and services sector, in order to improve their growth and competitiveness".

Along with other agencies, we contribute to the Government's priority of "building a more competitive and productive economy". This is supported by our mission statement to accelerate the commercialisation of innovation by "helping firms realise the value of their ideas, faster". This is ultimately the overall outcome that we are trying to achieve; in essence, to help high-value manufacturing and services businesses realise the value of their ideas, launch new and better products and services, and build the skills and capability they need to grow and be successful.

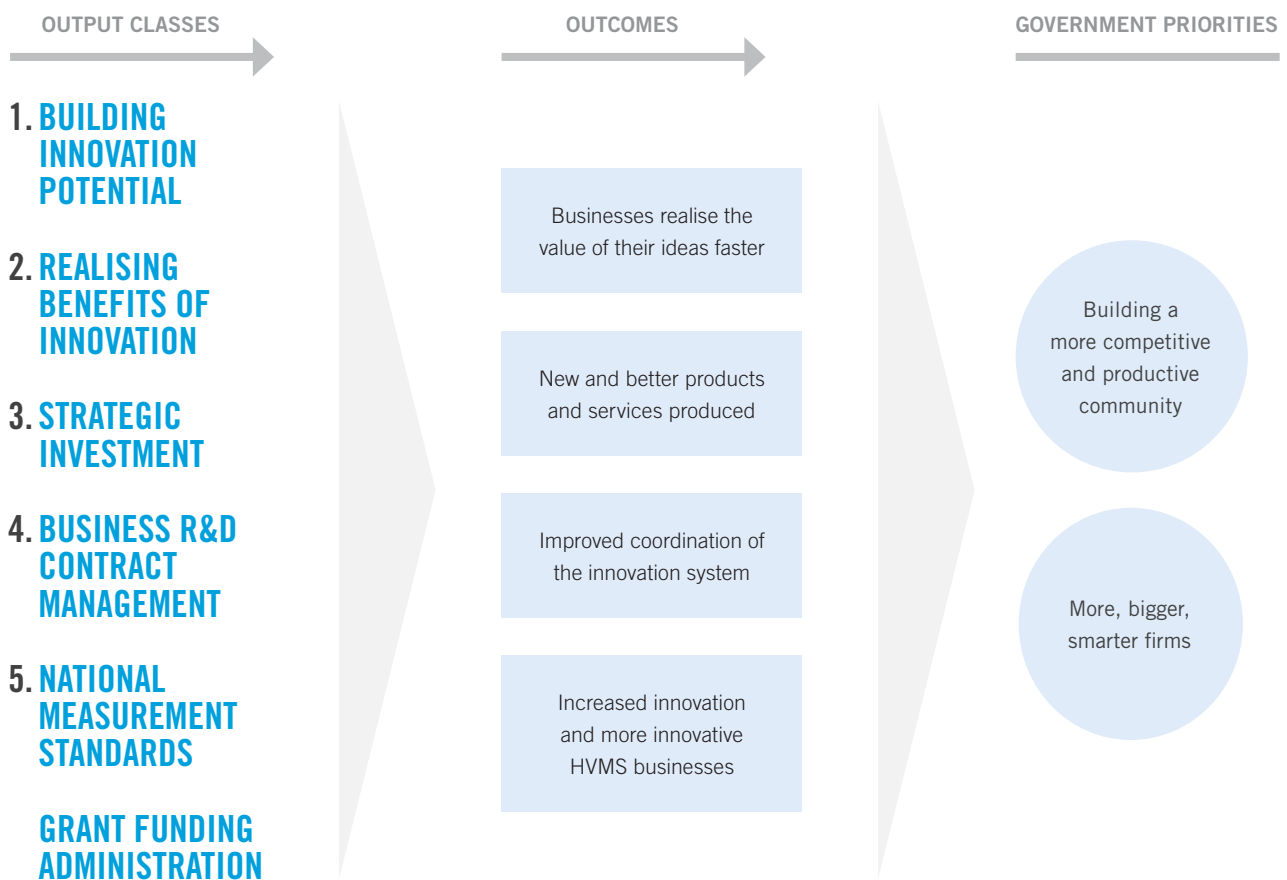
Through our support to businesses, we are contributing to the Government's Business Growth Agenda. We want the HVMS sector to increase its R&D expenditure and grow faster by having more, bigger and smarter firms – helping New Zealand become a more competitive and productive economy.

With permanent leadership in place and greater clarity on our strategy, we have now moved past our start-up phase and are seeing some real and tangible outcomes from the investment decisions we are making. This will be better reflected in next year's Annual Report, where we report against our current SOI to 30 June 2018 and also reflect what we stated in our first SOI, which was that "Callaghan Innovation will be a learning organisation: trying a range of approaches and evaluating and making changes as necessary".

The impacts from much of our work will not be seen immediately, as many of our outcomes have growth targets to 2025. During our first year, we have found that some of the originally proposed metrics are not as relevant as first thought or are difficult to measure. More useful and collectable measures of our outputs and how they feed longer-term outcomes are being established. These includes phased work to develop long-term outcome measures where it can be difficult for us to have a clear and attributable line of sight to our contribution.

**WE HAVE NOW MOVED PAST OUR  
START-UP PHASE AND ARE SEEING  
SOME REAL AND TANGIBLE OUTCOMES.**

**THE RELATIONSHIP BETWEEN OUR OUTPUT CLASSES AND INTENDED OUTCOMES (IMPACTS) IS HIGHLIGHTED IN THE DIAGRAM BELOW:**



**Explanatory Note – Financial Performance for all Output Classes**

There is a \$9.8 million surplus across all output classes. This surplus has been offset by the restructuring and transition costs of moving two teams to Victoria University of Wellington. We have included the \$4.39 million capital appropriation and expenses for the above transition in output class three for the budget, business case and actual numbers.

## OUTPUT CLASS

# 1. BUILDING INNOVATION POTENTIAL

Output class one builds innovation potential through providing and enhancing access to information, training, mentoring, foresighting, networking and leadership across the innovation system, and facilitating human capital mobility, for both businesses and research, science and technology providers. This appropriation is intended to contribute to a stronger culture of innovation and increased innovation skills and expertise.

### Callaghan Innovation has delivered services and outputs in two areas:

Motivating an innovation culture: outputs providing a coordinated programme of events, sponsorship, internships and information. This is also supported by Business R&D Student Grants that support internships.

Building innovation skills and expertise: outputs providing training courses, information and tailored advice and support from commercial and technical specialists. This is also supported by Business R&D Project Grants that help business to upskill.

### FINANCIAL PERFORMANCE

	Budget Revenue 2013/14 – \$000	Business Case Revenue 2013/14 – \$000	Actual Revenue 2013/14 – \$000	Actual Expenditure 2013/14 – \$000	Actual Surplus 2013/14 – \$000
Appropriation	6,178	6,178	4,678	-	-
Other	65	-	580	-	-
<b>Total</b>	<b>6,243</b>	<b>6,178</b>	<b>5,258</b>	<b>3,694</b>	<b>1,564</b>

### PERFORMANCE MEASURES\*

Quantity	Performance Standard	Result
Establishment of a coordinated programme of events, sponsorship, internships and information	In place	Achieved Callaghan Innovation administered a range of events, sponsorships and internships programme. Some major achievements include our involvement with the International Business Awards, Go Global conference, Futureintech, Chiasma, TIN100 and Morgo sponsorships
Proportion of businesses from target sectors participating in Callaghan Innovation-run events	Establish baseline	Achieved – 100% All Callaghan Innovation-run events are specifically targeted at businesses within the HVMS sector
Number of contacts to Customer Engagement Centre	Average of 75 per month by year end	Achieved A total of 2,448 business-related contacts were received into the Customer Engagement Centre, an average of 204 calls per month
Number of unique accesses to Innovation Readiness Self-Assessment Tool	Establish baseline	Not achieved Due to changes in strategic and organisational priorities, the Innovation Readiness Self-Assessment Tool development has been postponed to 2014/15

\*Performance measures (for all output classes) are currently under review to establish more useful and collectable measures of our outputs and how they feed longer-term outcomes. This will support Callaghan Innovation's journey towards effective demonstration of the impact of its work.



<b>Quality</b>		
Net number of attendees at workshops and sponsored business events rating the event positively	Establish baseline but at least 75% in first year	Achieved 87% of attendees rated workshops and/or Callaghan Innovation sponsored events positively <sup>1</sup>
<b>Effectiveness</b>		
Number of businesses with product and process innovations as percentage of all businesses measured in the biennial R&D survey	Increase	Baseline set at 46% 46% of businesses innovated (implemented or developed new or significantly improved goods, services, or methods) as per the 2013 Statistics New Zealand Biennial Innovation Survey <sup>2</sup>

<sup>1</sup> Not all externally run events have satisfaction results; this figure collated a weighted average of the results to which we had access.

<sup>2</sup> This performance measure is a proxy for the performance of Callaghan Innovation. The Statistics New Zealand Biennial Innovation Survey (part of the Business Operations Survey: 2013) measures the perception of contribution the New Zealand Innovation system makes to the innovation rate to businesses, to which Callaghan Innovation is a contributor.

## 2. REALISING THE BENEFITS OF INNOVATION

Output class two supports activities that build the level of, and returns from, science and technology-driven innovation through providing tailored brokerage and access to advice, technical services and facilities, and creating linkages, projects and collaborations between business and industry and research, science and technology providers. This appropriation is intended to accelerate the growth in the number, size and diversity of knowledge-intensive globally competitive businesses in New Zealand.

**Callaghan Innovation has delivered outputs in two areas:**

Business-focused connectivity: outputs that enable firms to connect to the R&D and related services they need to commercialise successfully. This is also supported by Business R&D Project and Growth Grants that support technology development.

Networks and projects: outputs that support and coordinate national networks of science, engineering, technology and design expertise across New Zealand and offshore, and help companies find and effectively utilise these resources. This is also supported by Business R&D Project Grants that support collaboration.

**FINANCIAL PERFORMANCE**

	Budget Revenue 2013/14 – \$000	Business Case Revenue 2013/14 – \$000	Actual Revenue 2013/14 – \$000	Actual Expenditure 2013/14 – \$000	Actual Surplus 2013/14 – \$000
Appropriation	17,500	17,500	10,500	-	-
Other	360	-	468	-	-
<b>Total</b>	<b>17,860</b>	<b>17,500</b>	<b>10,968</b>	<b>6,192</b>	<b>4,776</b>

**PERFORMANCE MEASURES**

Quantity	Performance Standard	Result
Number of customers with engagement plans, including shared with NZTE	Establish baseline	Partially achieved In the 2013 financial year Callaghan Innovation developed engagement plans for 40 individual companies. These included objectives for Callaghan Innovation’s support activities with these businesses. We are in the process of developing joint engagement plans with NZTE <sup>3</sup>
Number of businesses accessing Accelerator Services	Establish baseline	Achieved Accelerator Services business units engaged with the following HVMS businesses <sup>4</sup> : National Technology Networks – 42 businesses Business Innovation Advisors – 64 businesses Better by Lean – 107 businesses Global Expert – 58 businesses Grants – 620 businesses (541 were approved for grants) Incubators – 132

<sup>3</sup> The process to produce joint engagement plans involves sharing businesses’ commercial information between Callaghan Innovation and NZTE. We are currently in the process of engaging with those businesses we have identified as joint customers to get consent to share their commercial information. Once this is received, we will develop and implement joint engagement plans.

<sup>4</sup> Each business unit has collated the number of businesses with whom they have engaged independently of the other business units. Some companies have engaged with more than one of our business units.

Business case for Avatar initiative	Accepted by Board	Not achieved A modular approach has been adopted for achieving Avatar objectives, and the original Avatar concept has been discontinued. Three smaller database portal initiatives collectively known as the Innovation Portal are underway. It is therefore not necessary to have an overall business case for Avatar
<b>Quality</b>		
Percentage of businesses that give a positive satisfaction rating to services provided through Accelerator Services	Establish baseline	Not achieved Changes in strategic and organisational priorities have delayed the development of a satisfaction rating survey for Accelerator Services till 2014/15
<b>Effectiveness</b>		
Number of businesses reporting they access SETD providers	Increase	Baseline set at 13% 13% of innovating businesses partnered with New Zealand universities or polytechs in cooperative arrangements and 14% of innovating businesses partnered with New Zealand crown research institutes, other research institutes, or research associations, including Callaghan Innovation, as per the 2013 Statistics New Zealand Biennial Innovation survey <sup>5</sup>
Business expenditure on R&D as percentage of GDP as measured in the biennial business R&D survey	Increase	Baseline set at 0.58% of GDP Business expenditure on R&D is 0.58% of GDP, reported in the 2012 Statistics New Zealand Biennial R&D Survey <sup>6</sup>
Number of businesses with product and process innovations as percentage of all businesses measured in the biennial R&D survey	Increase	Baseline set at 46% 46% of businesses innovated (implemented or developed new or significantly improved goods, services, or methods) as per the 2013 Statistics New Zealand Biennial Innovation Survey <sup>7</sup>

<sup>5</sup> This performance measure is a proxy for the performance of Callaghan Innovation. The Statistics New Zealand Biennial Innovation Survey (part of the Business Operations Survey: 2013) measures which businesses had innovation cooperative arrangements with various participants in the New Zealand Innovation system, to which Callaghan Innovation is a contributor.

<sup>6</sup> This performance measure is a proxy for the performance of Callaghan Innovation. The Statistics New Zealand Biennial R&D survey: 2012 measures the amount of business expenditure on R&D as a percentage of GDP. Callaghan Innovation is one of many contributors to increasing performance of this measure.

<sup>7</sup> This performance measure is a proxy for the performance of Callaghan Innovation. The Statistics New Zealand Biennial Innovation Survey (part of the Business Operations Survey: 2013) measures the perception of contribution the New Zealand innovation system makes to the innovation rate of businesses, to which Callaghan Innovation is a contributor.

# OUTPUT CLASS

## 3. CALLAGHAN INNOVATION STRATEGIC INVESTMENT

Output class three supports the development and maintenance of science, engineering, technology, design and other strategic capabilities required to develop, deliver, improve and evaluate its services and activities to meet the immediate and future needs of business and industry, and to facilitate its interactions with research, science and technology providers. This appropriation is intended to support niche science, engineering, technology and design services that support growth in knowledge-intensive businesses' global scale and competitiveness.

Services provided through this output class include applied research and product development, measurement, technical analysis and support services, testing and failure analysis, pilot facilities and infrastructure, and Open Labs.

### FINANCIAL PERFORMANCE

	Budget Revenue 2013/14 – \$000 <sup>8</sup>	Business Case Revenue 2013/14 – \$000	Actual Revenue 2013/14 – \$000	Actual Expenditure 2013/14 – \$000	Actual Surplus 2013/14 – \$000
Appropriation	22,913	22,913	30,863	-	-
Other	37,556	32,386	30,667	-	-
<b>Total</b>	<b>60,469</b>	<b>55,299</b>	<b>61,530</b>	<b>58,688</b>	<b>2,842</b>

### PERFORMANCE MEASURES

Quantity	Performance Standard	Result
New arrangements in place for early-stage fundamental research teams that best fit with universities or CRIs, in line with MBIE processes and requirements (Rebalancing and transfer of teams that best fit with universities or CRIs in line with MBIE processes and requirements)	Achieved	Achieved The Callaghan Innovation Carbohydrate Chemistry and Superconductivity teams were transferred to Victoria University of Wellington, now known as the Ferrier Research Institute and the Robinson Research Institute respectively
Percentage of funds invested at any time	90%	Achieved 100% invested
<b>Quality</b>		
New investment projects are subject to peer review and Callaghan Innovation Board-approved investment process	100%	Achieved
<b>Effectiveness</b>		
Percentage of new investment projects that have a related contribution from business in the form of co-funding, in-kind contributions, participation or endorsement	80%	Achieved

<sup>8</sup> The appropriation of \$22,913 million includes the budget appropriation (\$18,523 million) and a \$4.39 million capital appropriation allocated for restructuring and transition costs of two business groups to the Victoria University of Wellington.

OUTPUT CLASS

# 4. BUSINESS RESEARCH AND DEVELOPMENT CONTRACT MANAGEMENT

Output class four funds the selection of businesses or individuals for either the provision of research, science and technology output, or the award of grants, and to negotiate, manage and monitor appropriate contracts with these businesses or individuals. This appropriation is intended to provide for the efficient and effective allocation and contracting of research, science and technology outputs and grants to maximise their returns for New Zealand.

**FINANCIAL PERFORMANCE**

	Budget Revenue 2013/14 – \$000	Business Case Revenue 2013/14 – \$000	Actual Revenue 2013/14 – \$000	Actual Expenditure 2013/14 – \$000	Actual Surplus 2013/14 – \$000
Appropriation	6,256	6,256	7,567	-	-
Other	157	-	407	-	-
<b>Total</b>	<b>6,413</b>	<b>6,256</b>	<b>7,974</b>	<b>7,374</b>	<b>600</b>

**PERFORMANCE MEASURES**

Quantity	Performance Standard	Result
Percentage of grants made consistent with ministerial requirements	100%	Achieved
Contracts are on track to achieve their objectives and critical steps	95% of contracts	Achieved 100% of contracts greater than \$30,000 are on track to achieve their objectives and critical steps. Callaghan Innovation monitors contracts through progress reporting requirements
Contracts are monitored in terms of their likelihood of delivering on the contract outcomes	100% monitored	Achieved
Number of active Student Grants	270	Achieved 288 approved internships became active <sup>9</sup>
<b>Quality</b>		
Applications for on-demand investments over \$250,000 are independently reviewed by experts	100% of proposals	Achieved
<b>Timeliness</b>		
Establish baseline for meaningful timelines and customer satisfaction measures identified and implemented	Achieved	Achieved

<sup>9</sup> 41 of the 288 active internships were terminated after becoming active. Terminated internships occurred as the businesses receiving the grants were unable to fill the internship positions.

## OUTPUT CLASS

# 5. NATIONAL MEASUREMENT STANDARDS

Output class five funding is limited to providing specified standards to satisfy the need for traceable physical measurement in New Zealand in accordance with Section 4 of the Measurement Standards Act 1992, which states: “The Minister of Science and Innovation shall provide for the use throughout New Zealand of uniform units of measurement of physical quantities, and for the establishment and maintenance of standards of measurement of physical quantities. This appropriation is intended to contribute to the global success of businesses selling products and services dependent on accurate and internationally accepted traceable physical measurements”.

### FINANCIAL PERFORMANCE

	Budget Revenue 2013/14 – \$000	Business Case Revenue 2013/14 – \$000	Actual Revenue 2013/14 – \$000	Actual Expenditure 2013/14 – \$000	Actual Surplus 2013/14 – \$000
Appropriation	5,764	5,764	5,764	-	-
Other	797	-	762	-	-
<b>Total</b>	<b>6,561</b>	<b>5,764</b>	<b>6,526</b>	<b>6,478</b>	<b>48</b>

### PERFORMANCE MEASURES

PERFORMANCE MEASURES	Performance Standard	Result
Ensuring provision of national measurements and standards and related services in accordance with the Minister’s statutory obligations under Section 4 of the Measurement Standards Act, reported as required by the Minister.	100% of reports accepted	Achieved
Maintenance of the national measurement standards in accordance with the resolutions and recommendations of the Metre Convention, with all technical procedures related to the measurement standards validated and reviewed each six months by Callaghan Innovation Research Limited	100% of reviews completed	Achieved

# BUSINESS RESEARCH AND DEVELOPMENT GRANTS

Below is a table comparing the estimated and actual new grant commitments for the period 1 July 2013 to 30 June 2014.

GRANT	Number	Average Size \$000	Govt. Share %	Number	Average Size \$000	Govt. Share %
		Estimated			Actual	
Growth	100	1,500	20	70	3,200	20
Project	250	103	40	347	97	40
Students	300	13	100	345 <sup>10</sup>	18	100

# FOODBOWL

The FOODBOWL is an open-access plant jointly owned by Callaghan Innovation (67%) and Auckland Tourism, Events and Economic Development (33%), dedicated to fostering and advancing New Zealand's food innovators and their businesses.

PERFORMANCE MEASURES	Performance Standard	Result
Segmentation and targets for contacting businesses with possible new product development projects	Achieved	Achieved Segmentation and targets finalised and applied to the 2014/15 business plan
Conversion of contacts to projects	Establish baseline	Achieved Baselines determined and applied to the 2014/15 business plan

<sup>10</sup> 295 internships and 55 other student projects.

# FINANCIAL STATEMENTS

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2014

Notes	Group 2014		Group 2013	Parent 2014	Parent 2013
	Actual \$000	Budget \$000	Actual \$000	Actual \$000	Actual \$000
		Unaudited	5 months		5 months
<b>CONTINUING OPERATIONS</b>					
Revenue from the Crown	77,513	75,723	28,680	58,122	11,054
Revenue from the Crown – grants	108,871	141,500	39,589	108,871	39,589
Commercial revenue	14,534	19,765	7,263	7,369	11
Total revenue	200,918	236,988	75,532	174,362	50,654
Other income	2,429	2,057	862	4,075	-
	<b>203,347</b>	<b>239,045</b>	<b>76,394</b>	<b>178,437</b>	<b>50,654</b>
Personnel costs	(40,809)	(40,666)	(17,902)	(23,966)	(2,897)
Direct operating costs	(23,444)	(26,615)	(6,522)	(16,752)	(2,025)
Other expenses*	(16,004)	(20,148)	(7,147)	(11,497)	(1,063)
Depreciation and amortisation expense	(5,831)	(6,073)	(2,522)	(3,482)	(101)
Grant expense	(108,871)	(141,500)	(39,589)	(108,871)	(39,589)
<b>Total operating expenses</b>	<b>(194,959)</b>	<b>(235,002)</b>	<b>(73,682)</b>	<b>(164,568)</b>	<b>(45,675)</b>
<b>Total operating surplus before finance income</b>	<b>8,388</b>	<b>4,043</b>	<b>2,712</b>	<b>13,869</b>	<b>4,979</b>
Finance income	845	539	182	632	51
Fundamental science teams' transfer expense*	(12,660)	(4,390)	-	-	-
Acquisition gain	4,400	-	-	-	-
Impairment on investment in associate	-	-	(417)	-	-
Impairment on investment in subsidiary	-	-	-	(20,384)	-
Share of surplus from joint venture	217	-	-	-	-
<b>Surplus before income tax</b>	<b>1,190</b>	<b>192</b>	<b>2,477</b>	<b>(5,883)</b>	<b>5,030</b>
Income tax (expense) credit	(225)	-	352	-	-
<b>Surplus for the period</b>	<b>965</b>	<b>192</b>	<b>2,829</b>	<b>(5,883)</b>	<b>5,030</b>
<b>Other comprehensive (loss) income</b>					
Cash flow hedges (net of tax)	268	-	(219)	79	-
<b>Total comprehensive income</b>	<b>1,233</b>	<b>192</b>	<b>2,610</b>	<b>(5,804)</b>	<b>5,030</b>

\*This expense item in the Statement of Intent includes property costs, other project expenses and the cost of transferring fundamental science teams.



## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

<b>GROUP</b>	Notes	General funds	Hedge reserve	Total equity
		\$000	\$000	\$000
Balance as at 1 February 2013		-	-	-
Acquisition of Callaghan Innovation Research Limited	8	40,543	30	40,573
Surplus for the period		2,829	-	2,829
<b>Other comprehensive income</b>				
Cash flow hedge reserve (net of tax)		-	(219)	(219)
<b>Total comprehensive income</b>		2,829	(219)	2,610
<b>Balance as at 30 June 2013</b>		43,372	(189)	43,183
Balance as at 1 July 2013		43,372	(189)	43,183
Surplus for the year		965	-	965
<b>Other comprehensive income</b>				
Cash flow hedge reserve (net of tax)		-	268	268
<b>Total comprehensive income</b>		965	268	1,233
<b>Balance as at 30 June 2014</b>	8	<b>44,337</b>	<b>79</b>	<b>44,416</b>
<b>PARENT</b>				
Balance as at 1 February 2013		-	-	-
Acquisition of Callaghan Innovation Research Limited		40,573	-	40,573
Surplus for the period		5,030	-	5,030
<b>Other comprehensive income</b>				
Cash flow hedge reserve (net of tax)		-	-	-
<b>Total comprehensive income</b>		5,030	-	5,030
<b>Balance as at 30 June 2013</b>		45,603	-	45,603
Balance as at 1 July 2013		45,603	-	45,603
Loss for the year		(5,883)	-	(5,883)
<b>Other comprehensive income</b>				
Cash flow hedge reserve (net of tax)		-	79	79
<b>Total comprehensive income</b>		(5,883)	79	(5,804)
<b>Balance as at 30 June 2014</b>	8	<b>39,720</b>	<b>79</b>	<b>39,799</b>

THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

		Group 2014		Group 2013	Parent 2014	Parent 2013
Notes		Actual \$000	Budget \$000	Actual \$000	Actual \$000	Actual \$000
			Unaudited			
<b>EQUITY</b>						
General funds	8	44,337	42,869	43,372	39,720	45,603
Hedge reserve	8	79	-	(189)	79	-
<b>TOTAL EQUITY</b>		<b>44,416</b>	<b>42,869</b>	<b>43,183</b>	<b>39,799</b>	<b>45,603</b>
<i>Represented by:</i>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	7	17,280	11,588	14,629	16,959	5,723
Trade and other receivables	9	4,988	5,300	5,894	4,987	108
Crown debtor – grants	9	44,834	-	33,365	44,834	33,365
Derivative financial instruments	20	79	-	-	79	-
Work in progress		523	885	416	523	-
Inventories		254	290	260	254	-
<b>Total current assets</b>		<b>67,958</b>	<b>18,063</b>	<b>54,564</b>	<b>67,636</b>	<b>39,196</b>
<b>NON-CURRENT ASSETS</b>						
Trade and other receivables	9	2,344	-	-	2,344	-
Investment in subsidiaries	12	-	-	-	20,189	40,573
Investment in joint ventures and associates	13	4,617	-	-	-	-
Property plant and equipment	10	29,183	36,756	34,288	29,183	834
Intangible assets	11	970	2,536	1,130	970	32
Deferred tax	16	-	-	223	-	-
<b>Total non-current assets</b>		<b>37,114</b>	<b>39,292</b>	<b>35,641</b>	<b>52,686</b>	<b>41,439</b>
<b>TOTAL ASSETS</b>		<b>105,072</b>	<b>57,355</b>	<b>90,205</b>	<b>120,322</b>	<b>80,635</b>

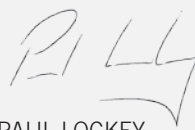
		Group 2014		Group 2013	Parent 2014	Parent 2013
Notes		Actual \$000	Budget \$000	Actual \$000	Actual \$000	Actual \$000
			Unaudited			
<b>CURRENT LIABILITIES</b>						
Trade creditors and other payables	17	8,861	7,908	5,113	8,745	861
Payables to subsidiary		-	-	-	20,339	453
Employee benefits	14	3,524	2,589	4,241	3,523	337
Grant obligations	19	44,834	-	33,365	44,834	33,365
Derivative financial instruments	20	-	-	189	-	-
Deferred tax		-	128	-	-	-
Income in advance	15	3,071	3,232	3,704	2,716	-
<b>Total current liabilities</b>		<b>60,290</b>	<b>13,857</b>	<b>46,612</b>	<b>80,157</b>	<b>35,016</b>
<b>NON-CURRENT LIABILITIES</b>						
Employee benefits	14	366	629	410	366	16
<b>Total non-current liabilities</b>		<b>366</b>	<b>629</b>	<b>410</b>	<b>366</b>	<b>16</b>
<b>TOTAL LIABILITIES</b>		<b>60,656</b>	<b>14,486</b>	<b>47,022</b>	<b>80,523</b>	<b>35,032</b>
<b>NET ASSETS</b>		<b>44,416</b>	<b>42,869</b>	<b>43,183</b>	<b>39,799</b>	<b>45,603</b>

The accompanying accounting policies and notes form an integral part of these financial statements.

For and on behalf of the members of the Board, which authorised the issue of the financial statements on 27 August 2014.



SUE SUCKLING  
Chair, Callaghan Innovation Board



PAUL LOCKEY  
Callaghan Innovation Board

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2014

		Group 2014		Group 2013	Parent 2014	Parent 2013
		Actual	Budget	Actual	Actual	Actual
		\$000	\$000	\$000	\$000	\$000
Notes						
			Unaudited	5 months		5 months
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>						
<i>Cash was provided from:</i>						
	Receipts from Crown operating	76,977	80,538	26,320	60,173	11,054
	Receipts from Crown – grants	97,401	141,500	39,861	97,401	39,861
	Receipts from commercial customers	14,037	22,976	9,472	5,614	3
	Interest received	846	539	182	632	22
		189,261	245,553	75,835	163,820	50,940
<i>Cash was applied to:</i>						
	Payments to suppliers	(33,168)	(46,876)	(11,086)	(19,227)	(2,248)
	Payments to employees	(40,736)	(46,569)	(16,370)	(19,947)	(2,594)
	Payments to grant recipients	(97,401)	(141,500)	(39,861)	(97,401)	(39,861)
		(171,305)	(234,945)	(67,317)	(136,575)	(44,703)
	<b>Net cash flow from operating activities</b>	<b>17,956</b>	<b>10,608</b>	<b>8,518</b>	<b>27,245</b>	<b>6,237</b>
18						

		Group 2014		Group 2013	Parent 2014	Parent 2013
Notes		Actual \$000	Budget \$000	Actual \$000	Actual \$000	Actual \$000
			Unaudited	5 months		5 months
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>						
<i>Cash was provided from:</i>						
		95	-	10	95	-
		1,351	-	-	996	-
			-		-	453
		-	-	10,526	-	-
		1,446	-	10,536	1,091	453
<i>Cash was applied to:</i>						
		(3,888)	(9,900)	(4,283)	(2,394)	(932)
		(203)	-	(142)	(59)	(35)
		-	-	-	(14,647)	-
	4	(12,660)	(4,390)	-	-	-
		(16,751)	(14,290)	(4,425)	(17,100)	(967)
		<b>(15,305)</b>	<b>(14,290)</b>	<b>6,111</b>	<b>(16,009)</b>	<b>(514)</b>
		<b>2,651</b>	<b>(3,682)</b>	<b>14,629</b>	<b>11,236</b>	<b>5,723</b>
		14,629	15,270	-	5,723	-
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>17,280</b>	<b>11,588</b>	<b>14,629</b>	<b>16,959</b>	<b>5,723</b>
<i>Cash balance at the end of the period comprises:</i>						
	7	17,280	11,588	14,629	16,959	5,723
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>17,280</b>	<b>11,588</b>	<b>14,629</b>	<b>16,959</b>	<b>5,723</b>

THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

## 1. STATEMENT OF ACCOUNTING POLICIES

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### **REPORTING ENTITY**

Callaghan Innovation is a Crown agent as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. Callaghan Innovation's parent is the New Zealand Crown. The consolidated financial statements of the Group comprise Callaghan Innovation and its subsidiaries. Callaghan Innovation Group commenced activities on 1 February 2013.

### **BASIS OF PREPARATION**

#### *Statement of compliance*

The financial statements of Callaghan Innovation and the 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).

These financial statements comply with NZ IFRS and other applicable financial reporting standards, as appropriate for public benefit entities.

New Public Sector PBE Standards will be effective on or after financial periods beginning on or after 1 July 2014. Therefore, Callaghan Innovation will transition to the new standards as Tier 1 when preparing its 30 June 2015 financial statements. Due to the change in the Accounting Standards Framework for public benefit entities, all new NZ IFRS and amendments to existing NZ IFRS will not apply to public benefit entities.

Therefore, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standards Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS. Callaghan Innovation is working through the implications of the new Accounting Standards Framework. At this stage, it is not expected that there will be any material measurement or recognition impacts.

#### *Measurement base*

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain investments and financial instruments as identified in specific accounting policies and accompanying notes.

#### *Functional and presentation currency*

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

### **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied to these financial statements.

### **REVENUE**

Revenue is measured at fair value of consideration received or receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

The following specific recognition criteria must be met before revenue is recognised:

#### *Revenue from the Crown – operational grants*

Callaghan Innovation is primarily funded through revenue received from the Crown that is required to be used for the purpose of meeting its objectives as specified in the Statement of Intent.

#### *Grants (Crown revenue)*

Grants received are recognised in the income statement when the requirements under the grant have been met. Any grants for which the requirements have not been completed are carried as liabilities until all conditions have been fulfilled.

Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and all the conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is to compensate.

#### *Provision of goods and services (commercial revenue)*

Revenue from the sale of goods is not recognised until the goods have been shipped and the customer invoiced.

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 contract outcome can not be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *Interest*

Interest income is recognised using the effective interest method.

#### *Royalty and licensing income*

Royalty and licensing income arises from income earned from patent royalties and licensing of patents. Royalty and licensing income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

### **GRANTS EXPENDITURE**

Grants are approved and administered by Callaghan Innovation for the funding of research and development activities by New Zealand businesses and enterprises. Grant expenditure is recognised in the Statement of Comprehensive Income when the third party recipient can demonstrate they have incurred expenditure that meets the grant conditions. An operating commitment is disclosed in the notes to the accounts for those grant contracts awarded but yet to be drawn down.

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## **BASIS OF CONSOLIDATION**

The consolidated financial statements combine the financial statements of Callaghan Innovation, its subsidiaries, associates and joint ventures as at 30 June 2014 ("the Group").

Subsidiaries 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 subsidiaries are prepared for the same reporting period as 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 subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Callaghan Innovation has control. The purchase method is used to account for the acquisition of subsidiaries 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 JOINT VENTURES**

A joint venture is a contractual arrangement whereby the parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for using the equity method from the date on which it becomes a joint venture. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as follows:

- (a) Goodwill relating to a joint venture is included in the carrying amount of the investment.
- (b) Any excess of the investor's share of the net fair value of the joint venture's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

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

## **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.

## **INVESTMENT IN SUBSIDIARIES**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by Callaghan Innovation on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets, including goodwill.

## **FOREIGN CURRENCY**

Transactions in foreign currencies are initially recorded in the functional currencies at the exchange rates ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date.

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

All other foreign currency translation differences in the consolidated financial statements are taken to the income statement.

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 using the exchange rate at the date when the fair value was determined.

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## **PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists 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. Where an asset is acquired at no cost or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

### ***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.

### ***Subsequent costs***

Costs incurred subsequent to 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.

### ***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 useful lives and associated depreciation rates of major classes have been estimated as follows:

	<b>Estimated useful life</b>	<b>Rate</b>
Freehold buildings	10 – 40 years (depending on age)	2.5% – 10%
Building auxiliary services	8 – 20 years	5% – 12.5%
Computer equipment	3 – 5 years	20% – 33%
Plant and scientific equipment	3 – 15 years	6.7% – 33%
Motor vehicles	3 – 5 years	20% – 33%
Office furniture, fittings and equipment	3 – 10 years	10% – 33%

## **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 expenditure capitalised is amortised over the period of expected future sales from the related project from the point the asset is ready for use.

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 on the basis of 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 NON-FINANCIAL ASSETS**

Plant and equipment and intangible assets that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts 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.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) for the purposes of assessing impairment.

Non-financial assets that are impaired are reviewed for possible reversal of the impairment at each reporting date.



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## **RECOVERABLE AMOUNT OF NON-CURRENT ASSETS**

The Group assesses whether there is any indication that a non-current asset may be impaired at each reporting date. Where an indicator of impairment exists, the Group makes a formal estimate of the 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.

The recoverable amount is the greater of fair value less costs to sell and value in use for an individual asset or cash generating unit as appropriate.

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.

## **FINANCIAL ASSETS**

The Group classifies its financial assets in two categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

### **(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if designated by management.

Derivatives are also categorised as at fair value through profit and loss unless they are designated as hedges.

### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date are classified as non-current assets.

The Group's loans and receivables comprise 'cash and cash equivalents' and 'trade and other receivables' in the Statement of Financial Position.

Regular purchases and sales of financial assets are recognised on the dates on which the Group commits to purchase or sell the assets.

Loans and receivables are carried at amortised cost, using the effective interest method.

The Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance date.

## **DERECOGNITION OF FINANCIAL INSTRUMENTS**

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

## **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 Income. Amounts accumulated in equity are recycled in the Statement of Comprehensive Income in the periods when the hedged items will affect profit or loss (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. 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.

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### **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 the Statement of Comprehensive Income.

### **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 cost 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.

### **TRADE AND OTHER RECEIVABLES**

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method less any provision for impairment.

The impairment of a receivable is established when there is objective evidence that Callaghan Innovation will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the carrying amount of the asset and the present value of estimated future cash flows using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due).

### **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, deposits held on call with both domestic and international banks, and other short-term, highly liquid investments with original maturities of three months or less.

### **TRADE AND OTHER PAYABLES**

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

### **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 or not 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 finance 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 Callaghan Innovation are classified as operating leases.

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## **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, retirement and long service leave entitlements expected to be settled within 12 months and sick leave. Callaghan Innovation recognises a liability for sick leave to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date to the extent that Callaghan Innovation anticipates it will be used by staff to cover those future absences.

### *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 Income as incurred.

## **INCOME TAX**

Callaghan Innovation is a Crown agent and is consequently exempt from paying income tax. Subsidiary company Callaghan Innovation Research Limited is a taxable entity and subject to income tax.

## **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, 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 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.

## 2. REVENUE

	Group 2014	Group 2013	Parent 2014	Parent 2013
	Actual \$000	Actual \$000	Actual \$000	Actual \$000
		5 months		5 months
<b><u>CROWN AND OTHER REVENUE</u></b>				
Ministry of Business, Innovation and Employment – Operations	20,000	11,054	20,000	11,054
Ministry of Business, Innovation and Employment – Research and Development funding	57,254	17,396	38,122	-
Ministry of Business, Innovation and Employment – Research and Development grants	108,871	39,589	108,871	39,589
The Royal Society of New Zealand	259	230	-	-
<b>Total Crown and other revenue</b>	<b>186,384</b>	<b>68,269</b>	<b>166,993</b>	<b>50,643</b>
<b><u>COMMERCIAL REVENUE</u></b>				
Commercial – domestic	6,887	4,204	3,739	9
Commercial – overseas	7,302	2,940	3,368	2
Royalty and licensing income	345	119	262	-
<b>Total commercial revenue</b>	<b>14,534</b>	<b>7,263</b>	<b>7,369</b>	<b>11</b>
<b>Total revenue</b>	<b>200,918</b>	<b>75,532</b>	<b>174,362</b>	<b>50,654</b>
<b><u>OTHER INCOME</u></b>				
Property and equipment rental	1,110	445	755	-
Other income	1,319	417	3,320	-
<b>Total other income</b>	<b>2,429</b>	<b>862</b>	<b>4,075</b>	<b>-</b>
<b>TOTAL INCOME</b>	<b>203,347</b>	<b>76,394</b>	<b>178,437</b>	<b>50,654</b>

Callaghan Innovation received funding from the Crown for specific purposes as set out in the Output Agreement and the scope of the relevant government appropriations.

Callaghan Innovation received funding from the Crown for grants as set out in the Statement of Intent and the scope of the relevant government appropriations.

### 3. EXPENDITURE

	Group 2014	Group 2013	Parent 2014	Parent 2013
	Actual \$000	Actual \$000	Actual \$000	Actual \$000
		5 months		5 months
<b>Personnel costs include:</b>				
Salary and wages	37,301	16,630	21,614	2,767
Defined contribution plan employer contributions	1,016	388	555	28
	38,317	17,018	22,169	2,795
<b>Severance payments</b>				
Severance payments include any consideration (monetary or non-monetary) provided to any employee in respect of the termination of their employment with Callaghan Innovation.				
Severance payments	899	-	171	-
Number of employees	16	-	4	-
<b>Other expenses include:</b>				
Repairs and maintenance	2,088	779	1,355	5
Premises and utility expenses	2,879	1,946	1,750	237
Auditors' fees				
– for auditing the financial statements	149	78	149	47
– Assurance and related services	-	15	-	15
– Operational process review	25	-	25	-
Bad and doubtful debts	113	137	100	-
Directors' fees	264	198	264	194
Rent and lease expenses	2,179	981	1,446	230
Donations	1	3	-	-
Loss on disposal of fixed assets	334	495	300	-
Foreign exchange losses	62	25	46	-
Intellectual property (patents)	513	249	281	-

## 4. FUNDAMENTAL SCIENCE TEAMS' TRANSFER EXPENSE

	Group 2014	Group 2013	Parent 2014	Parent 2013
	Actual \$000	Actual \$000	Actual \$000	Actual \$000
		5 months		5 months
Fundamental science teams' transfer expense	12,660	-	-	-

On 6 January 2014 the High Temperature Superconductor and Carbohydrate Chemistry science teams were transferred to Victoria University. Callaghan Innovation Research Limited paid \$12,660,000 to Victoria University as consideration for the transfer of two science teams. A total of 58 administration and science staff were transferred to Victoria University.

## 5. GRANTS EXPENSE

Grants approved for which recipients can demonstrate they have met grant conditions	108,871	39,589	108,871	39,589
<b>Total grants expense</b>	<b>108,871</b>	<b>39,589</b>	<b>108,871</b>	<b>39,589</b>

## 6. TAXATION

The parent Callaghan Innovation (a Crown entity) is exempt from payment of income tax.

Major components of income tax expense for the period ended 30 June 2014.

### Statement of Comprehensive Income

Current income tax

Current income tax charge

Deferred income tax

Temporary differences

**Total tax expense (credit) reported in the Statement of Comprehensive Income**

### Reconciliation of income tax expense

Surplus before income tax

Tax at current rate of 28%

Adjustment to taxation:

Group operating surplus not subject to income tax

Non-deductible expenses

Earnings of associates / joint venture

Deferred tax adjustments in respect to prior periods

Current and prior year tax losses not recognised

Effective portion cash flow hedge

**Total tax expense (credit)**

	Group 2014	Group 2013	Parent 2014	Parent 2013
	Actual \$000	Actual \$000	Actual \$000	Actual \$000
		5 months		5 months
	-	-	-	-
	225	(352)	-	-
	225	(352)	-	-
	1,190	2,477	-	-
	333	694	-	-
	(5,353)	(1,408)	-	-
	3,552	21	-	-
	-	117	-	-
	225	286	-	-
	1,454	-	-	-
	14	(62)	-	-
	225	(352)	-	-

## 7. CASH AND CASH EQUIVALENTS

	Group 2014	Group 2013	Parent 2014	Parent 2013
	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Cash at bank	4,780	2,629	4,459	723
Term deposits	12,500	12,000	12,500	5,000
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>17,280</b>	<b>14,629</b>	<b>16,959</b>	<b>5,723</b>

The carrying value of cash at bank and term deposits approximates their fair value.

## 8. EQUITY

<b>GENERAL FUNDS</b>				
Balance at 1 July 2013	43,372	-	45,603	-
Acquisition of Callaghan Innovation Research Limited	-	40,543	-	40,573
Surplus (loss) for the period	965	2,829	(5,883)	5,030
<b>BALANCE AT 30 JUNE 2014</b>	<b>44,337</b>	<b>43,372</b>	<b>39,720</b>	<b>45,603</b>
<b>HEDGE RESERVE</b>				
Balance at 1 July 2013	(189)	-	-	-
Acquisition of Callaghan Innovation Research Limited	-	30	-	-
Fair value gain (loss) for the period	268	(219)	79	-
<b>BALANCE AT 30 JUNE 2014</b>	<b>79</b>	<b>(189)</b>	<b>79</b>	<b>-</b>
<b>TOTAL EQUITY AT 30 JUNE 2014</b>	<b>44,416</b>	<b>43,183</b>	<b>39,799</b>	<b>45,603</b>

On 1 February 2013, Callaghan Innovation, a Crown entity, was created and acquired 100% equity interest in Callaghan Innovation Research Limited. On the same day, Callaghan Innovation Research Limited became a subsidiary of Callaghan Innovation.

The hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge.

The amounts are recognised in the Statement of Comprehensive Income when the associated hedge transaction affects profit or loss.



## 9. TRADE AND OTHER RECEIVABLES

	Group 2014	Group 2013	Parent 2014	Parent 2013
	Actual \$000	Actual \$000	Actual \$000	Actual \$000
<b><u>CURRENT</u></b>				
Debtors	3,114	3,556	3,071	8
Less: provision for impairment	(142)	(29)	(100)	-
	2,972	3,527	2,971	8
Accrued income	432	603	432	29
Income tax receivable	-	1	-	-
Other receivables	29	43	29	13
Prepayments	1,125	1,720	1,125	58
Finance leases – gross receivables	750	-	750	-
Unearned finance income	(320)	-	(320)	-
	430	-	430	-
	<b>4,988</b>	<b>5,894</b>	<b>4,987</b>	<b>108</b>
<b><u>CROWN DEBTOR GRANTS</u></b>				
Ministry of Business, Innovation and Employment – grants receivable	44,834	33,365	44,834	33,365
Total current government grants receivable	<b>44,834</b>	<b>33,365</b>	<b>44,834</b>	<b>33,365</b>
<b><u>NON-CURRENT RECEIVABLES</u></b>				
Finance leases – gross receivables	2,908	-	2,908	-
Unearned finance income	(564)	-	(564)	-
	<b>2,344</b>	<b>-</b>	<b>2,344</b>	<b>-</b>
<b><u>GROSS RECEIVABLES FROM FINANCE LEASES</u></b>				
– Less than 1 year	750	-	750	-
– Greater than 1 year but less than 5 years	2,908	-	2,908	-
– Greater than 5 years	-	-	-	-
	3,658	-	3,658	-
Unearned finance income	(884)	-	(884)	-
Net investment in finance leases	<b>2,774</b>	<b>-</b>	<b>2,774</b>	<b>-</b>

	Group 2014	Group 2013	Parent 2014	Parent 2013
	Actual \$000	Actual \$000	Actual \$000	Actual \$000
<b>NET INVESTMENT IN FINANCE LEASES:</b>				
– Less than 1 year	430	-	430	-
– Greater than 1 year but less than 5 years	2,344	-	2,344	-
– Greater than 5 years	-	-	-	-
	<b>2,774</b>	<b>-</b>	<b>2,774</b>	<b>-</b>

The carrying amount of trade receivables is equivalent to fair values.  
Trade receivables includes amounts due from related parties (see note 23 for details).

**(a) Provision for impairment**

At 30 June 2014 trade receivables of \$142,000 (2013: \$29,000) were considered impaired. The impaired receivables were from a number of customers.

Opening balance	29	-	-	-
Recognised during the period	113	29	100	-
<b>CLOSING BALANCE</b>	<b>142</b>	<b>29</b>	<b>100</b>	<b>-</b>

**(b) Past due but not impaired**

At 30 June 2014 trade receivables of \$728,000 (2013: \$681,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The aging of trade receivables is as follows:

Within 1 month	555	563	555	-
Within 1 to 3 months	127	65	127	-
Beyond 3 months	46	53	1	-
	<b>728</b>	<b>681</b>	<b>683</b>	<b>-</b>

## 10. PROPERTY, PLANT AND EQUIPMENT

	Land Assets	Buildings Assets	Plant Assets	Capital Work in Progress	Total Actual
	\$000	\$000	\$000	\$000	\$000
<b>GROUP</b>					
<b>1 July 2013</b>					
Cost	3,001	43,902	57,859	2,212	106,974
Accumulated depreciation	-	(31,466)	(41,220)	-	(72,686)
Carrying amount	3,001	12,436	16,639	2,212	34,288
<b>For the year ended 30 June 2014</b>					
Carrying amount at 1 July 2013	<b>3,001</b>	<b>12,436</b>	<b>16,639</b>	<b>2,212</b>	<b>34,288</b>
Additions	-	653	2,485	750	3,888
Transfers from capital work in progress	-	1,557	613	(2,170)	-
Disposals	-	(74)	(3,438)	-	(3,512)
Depreciation	-	(1,961)	(3,520)	-	(5,481)
<b>Carrying amount at 30 June 2014</b>	<b>3,001</b>	<b>12,611</b>	<b>12,779</b>	<b>792</b>	<b>29,183</b>
Cost	3,001	13,897	14,788	792	32,478
Accumulated depreciation	-	(1,286)	(2,009)	-	(3,295)
Carrying amount	<b>3,001</b>	<b>12,611</b>	<b>12,779</b>	<b>792</b>	<b>29,183</b>
<b>GROUP</b>					
<b>1 February 2013</b>					
Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Carrying amount	-	-	-	-	-
<b>For the five months ended 30 June 2013</b>					
Carrying amount at 1 February 2013	-	-	-	-	-
Acquisition of Industrial Research Limited assets 1 February 2013	3,001	12,651	15,107	2,079	32,838
Additions	-	460	2,639	1,204	4,303
Transfers from capital work in progress	-	140	412	(576)	(24)
Asset impairment	-	-	-	(495)	(495)
Disposals	-	-	(5)	-	(5)
Depreciation	-	(815)	(1,514)	-	(2,329)

	Land Assets	Buildings Assets	Plant Assets	Capital Work in Progress	Total Actual
	\$000	\$000	\$000	\$000	\$000
<b>Carrying amount at 30 June 2013</b>	<b>3,001</b>	<b>12,436</b>	<b>16,639</b>	<b>2,212</b>	<b>34,288</b>
Cost	3,001	43,902	57,859	2,212	106,974
Accumulated depreciation	-	(31,466)	(41,220)	-	(72,686)
Carrying amount	3,001	12,436	16,639	2,212	34,288

On 1 December 2013 subsidiary Callaghan Innovation Research Limited transferred to the Parent Company all fixed assets and intangible assets owned at that date. Assets transferred were acquired by the Parent at net book value. This has the effect of reducing Group cost by \$79,702,000 and accumulated depreciation by \$79,702,000.

#### **PARENT**

##### **1 July 2013**

Cost	-	194	738	-	932
Accumulated depreciation	-	(31)	(67)	-	(98)
Carrying amount	-	163	671	-	834

##### **For the year ended 30 June 2014**

Carrying amount at 1 February 2013	-	163	671	-	834
Additions	-	339	1,263	792	2,394
Transfers from subsidiary*	3,001	13,445	16,295	-	32,741
Disposals	-	(74)	(3,403)	-	(3,477)
Depreciation	-	(1,262)	(2,047)	-	(3,309)
<b>Carrying amount at 30 June 2014</b>	<b>3,001</b>	<b>12,611</b>	<b>12,779</b>	<b>792</b>	<b>29,183</b>
Cost	3,001	13,897	14,788	792	32,478
Accumulated depreciation	-	(1,286)	(2,009)	-	(3,295)
Carrying amount	<b>3,001</b>	<b>12,611</b>	<b>12,779</b>	<b>792</b>	<b>29,183</b>

	Land Assets	Buildings Assets	Plant Assets	Capital Work in Progress	Total Actual
	\$000	\$000	\$000	\$000	\$000
<b>PARENT</b>					
<b>1 February 2013</b>					
Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Carrying amount	-	-	-	-	-
<b>For the year five months ended 30 June 2013</b>					
Carrying amount at 1 February 2013	-	-	-	-	-
Additions	-	194	738	-	932
Depreciation	-	(31)	(67)	-	(98)
<b>Carrying amount at 30 June 2013</b>	<b>-</b>	<b>163</b>	<b>671</b>	<b>-</b>	<b>834</b>
Cost	-	194	738	-	932
Accumulated depreciation	-	(31)	(67)	-	(98)
Carrying amount	-	<b>163</b>	<b>671</b>	-	<b>834</b>

\*On 1 December 2013 all land, buildings, plant and equipment owned by subsidiary Callaghan Innovation Research Limited was transferred to Callaghan Innovation at net book value.

#### Insurable values of fixed assets

The Group has established, maintains and regularly reviews comprehensive cover for business insurance. As part of this cover, it insures its fixed assets at either demolition, indemnity or replacement values. In line with other businesses in the Wellington region, the Group faces higher rates of exclusions on the fixed asset replacement policies. The Group has total insurable assets of \$243 million, with an earthquake loss limit of \$100 million. The earthquake insurance deductible is \$10 million.

The category of building assets leased by the group to third parties under operating leases with the following carrying amounts:

	Group 2014	Group 2013
	\$000	\$000
Cost	4,767	4,769
Accumulated depreciation	(2,123)	(1,998)
Depreciation charge for the year	(117)	(125)
Net book amount	2,527	2,646

## 11. INTANGIBLE ASSETS

	Software 2014	Software 2013
	\$000	\$000
<b>GROUP</b>		
<b>Balance at 1 July 2013</b>		
Cost	6,090	-
Accumulated amortisation	(4,960)	-
Opening carrying amount	1,130	-
<b>For the year ended 30 June 2014</b>		
Acquisition of Industrial Research Limited assets at 1 February 2013	-	1,177
Additions	203	142
Disposals	(13)	-
Amortisation charge	(350)	(189)
<b>Balance at 30 June 2014</b>		
Cost	1,143	6,090
Accumulated amortisation	(173)	(4,960)
Closing carrying amount	<b>970</b>	<b>1,130</b>
<b>PARENT</b>		
<b>Balance at 1 July 2013</b>		
Cost	35	-
Accumulated amortisation	(3)	-
Opening carrying amount	32	-
<b>For the five months ended 30 June 2013</b>		
Additions	59	35
Disposals	(14)	-
Transfer from subsidiary	1,066	-
Amortisation charge	(173)	(3)
<b>Balance at 30 June 2013</b>		
Cost	1,143	35
Accumulated amortisation	(173)	(3)
Closing carrying amount	<b>970</b>	<b>32</b>

## 12. INVESTMENT IN SUBSIDIARIES

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The Parent's investment in subsidiaries comprises shares at cost. Subsidiaries comprise:

Name of entity	Principal activities	Interest held by the Group 30 June 2014
		%
<b>NON-TRADING SUBSIDIARIES</b>		
Callaghan Innovation Research Limited	Research contracts – ceased trading 1 December 2013	100%
Measurement Standards Laboratory of New Zealand Limited	Non-operating – name protection	100%
Glycosyn Technologies Limited	Non-operating – name protection	100%
Bio-Sol Limited	Non-operating	100%

All subsidiaries have 30 June balance dates.

All subsidiary entities are incorporated in New Zealand.

Callaghan Innovation has impaired the carrying value of its investment in Callaghan Innovation Research Limited to reflect the transfer of assets to the Parent entity on 1 December 2013.

## 13. INVESTMENT IN JOINT VENTURES AND ASSOCIATES

		Group 2014	Group 2013
		%	%
<b>Details of associates</b>			
Associates comprise the following:			
<b>Name of entity</b>	<b>Principal activities</b>		
General Cable Superconductors Limited	High temperature superconductor cable manufacturer – non-trading	49.00%	49.00%

The Group investment in General Cable Superconductors Limited is nil as the investment is considered impaired – the company has made trading losses since its inception.

On 1 August 2013 Callaghan Innovation purchased a 67% shareholding in New Zealand Food Innovation Auckland Limited for \$1.00. While Callaghan Innovation is the majority owner of New Zealand Food Innovation Auckland Limited, the shareholder agreement requires the unanimous consent of all owners for strategic financial and operating decisions. As Callaghan Innovation does not control New Zealand Food Innovation Auckland Limited, its interest in the joint venture is accounted for via the equity method.

The fair value of the identifiable assets and liabilities of New Zealand Food Innovation Auckland Limited was determined via independent valuation on acquisition. A purchase gain of \$4,400,000 was recognised in the Statement of Comprehensive Income in the current year to recognise the difference between fair value and the purchase price of \$1.00.

	Actual 2014	Group 2014	Group 2013
<b><u>NEW ZEALAND FOOD INNOVATION AUCKLAND LIMITED</u></b>	\$000		
Total assets	8,567		
Total liabilities	(2,514)		
Total revenue	3,628		
Net surplus	324		
<b>Results of the joint venture</b>			
Share of surplus	217		
<b>Interest in joint venture</b>			
Carrying amount at beginning of year	-		
Acquisition at fair value	4,400		
Share of total recognised revenues and expenses	217		
	4,617		
<b><u>RESULTS OF ASSOCIATES</u></b>	\$000	\$000	
Investment write-down	-	(417)	
	-	(417)	

On 30 April 2014 Callaghan Innovation Research Limited's investment in associate company HTS-110 Limited was transferred to Scott Technology Limited at \$nil consideration. The Group investment value in HTS-110 Limited at the time of its disposal was \$nil.

All joint venture and associates have 30 June balance dates.



## 14. EMPLOYEE BENEFITS

	Group 2014	Group 2013	Parent 2014	Parent 2013
	\$000	\$000	\$000	\$000
<b>Current</b>				
Employee entitlements	1,231	1,512	1,231	172
Long service and retiring leave	146	187	146	10
Annual leave	2,072	2,460	2,071	155
Sick leave	75	82	75	-
	3,524	4,241	3,523	337
<b>Non-current</b>				
Long service and retiring leave	366	410	366	16

## 15. INCOME IN ADVANCE

Government and other revenue received in advance	3,071	3,704	2,716	-
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Income in advance represents income received from government and other customers for project work not completed at 30 June.

## 16. DEFERRED TAX

### Deferred tax

#### Not recognised

Buildings tax depreciation	-	(1,842)
Work in progress	-	(117)
Tax depreciation – plant	-	700
Provisions and accruals	-	900
Intellectual property and other	-	582
	-	<b>223</b>

The analysis of deferred tax assets and deferred tax liabilities is as follows:

### Deferred tax liability

Deferred tax liability to be recovered after 12 months	-	(1,776)
Deferred tax liability to be recovered within 12 months	-	(183)

### Deferred tax asset

Deferred tax asset to be recovered after 12 months	-	1,444
Deferred tax asset to be recovered within 12 months	-	738

## 17. TRADE AND OTHER PAYABLES

	Group 2014	Group 2013	Parent 2014	Parent 2013
	Actual \$000	Actual \$000	Actual \$000	Actual \$000
Trade creditors	2,839	1,916	2,839	141
Goods and services tax (GST) payable	627	561	629	207
Other payables	5,395	2,636	5,277	513
<b>Total trade and other payables</b>	<b>8,861</b>	<b>5,113</b>	<b>8,745</b>	<b>861</b>

The carrying amounts of the above items are equivalent to the fair values.  
Trade payables includes amounts due to related parties (see note 23 for details).

## 18. RECONCILIATION OF PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

Surplus (loss) for the period	965	2,829	(5,883)	5,030
<i>Add/(less) non-cash items:</i>				
Joint venture acquisition gain	(4,400)	-	-	-
Depreciation	5,481	2,329	3,309	98
Amortisation of intangible assets	350	189	173	3
Impairment site redevelopment	-	495	-	-
Impairment in subsidiary	-	-	20,384	-
Movement in deferred tax	225	(352)	-	-
Science team transfer reclassify as investing activity	12,660	-	-	-
Share of surplus joint venture	(217)	-	-	-
Loss on sale of fixed assets	334	-	300	-
Property and equipment rental income	(1,110)	-	(755)	-
Impairment of investment in associate	-	417	-	-
<i>Add/(less) movements in working capital:</i>				
Trade and other receivables	(10,507)	(32,105)	(15,885)	(33,424)
Inventory	6	729	(254)	-
Work in progress	(107)	27	(523)	-
Income in advance	(633)	(1,282)	2,716	-
Employee benefits	(311)	1,486	3,585	278
Trade and other payables	14,952	33,975	19,272	34,252
Movement in inter-company account	-	-	727	-
Derivative financial instrument	268	(219)	79	-
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>17,956</b>	<b>8,518</b>	<b>27,245</b>	<b>6,237</b>

## 19. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. Estimates and adjustments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### (a) Fair value of long service and retiring leave

The fair value of long service and retiring leave liability is determined by use of estimates of retiring age, probability of meeting retirement criteria and discounting future estimated payments. The liability at 30 June 2014 was calculated internally using a discounted cash flow model reviewed by an external actuary. Using the discounted cash flow model, the liability was calculated for 2014 at \$512,000 (2013: \$571,000).

Adjusting the discount rate down/up 1.0% results in a decrease/increase of the 2014 retiring/long service leave liability balance and end of period surplus before tax of \$23,000 decrease/increase (2013: \$22,000 decrease/increase).

#### (b) Grant obligations

At balance date for each different grant type an assessment is made based on historical data of the probability of a grant recipient having incurred qualifying expenditure for which a claim has not yet been received and management's estimation of project progress.

Based upon this assessment, an accrual for grants obligations is made to the financial statements, 2014 \$44,834,000 (2013: \$33,365,000).

Payments against the 30 June 2014 accrual are expected to be made during the 2014/15 financial year.

	Group 2014	Group 2013	Parent 2014	Parent 2013
	\$000	\$000	\$000	\$000
Grant obligations	44,834	33,365	44,834	33,365
<b>Total grant obligations</b>	<b>44,834</b>	<b>33,365</b>	<b>44,834</b>	<b>33,365</b>

#### (c) Revenue

Some revenue for the Group is project-based. Revenue is recognised on an accruals basis; this involves posting revenue to the Statement of Comprehensive Income only when it is earned. Managers review projects and provide an assessment of project status. Based upon this assessment revenue, in-advance adjustments are made to the financial statements 2014: \$3,071,000 (2013: \$3,704,000).

#### (d) New Zealand Food Innovation Auckland Limited valuation

The acquisition gain of \$4.4 million was assessed based on the difference between \$1 consideration and fair value of net assets in New Zealand Food Innovation Auckland Limited on acquisition date. The valuation of \$6.5 million for fixed assets was assessed with the Optimised Depreciated Replacement Cost (ODRC) method by determining the estimated costs to replace the plant and equipment and depreciating this to a current value based on the remaining economic life. Value of net assets also considered the add back of deferred tax liability of \$2.1 million, based on an assumption that it is unlikely that any future cash tax liability will be triggered due to the forecast accounting loss position and a likely change in tax status of the entity.

## 20. FINANCIAL INSTRUMENTS BY CATEGORY

	Group		Parent	
	\$000	\$000	\$000	\$000
<b>AS AT 30 JUNE 2014</b>				
	Loans and receivables	Derivatives used for hedging	Loans and receivables	Derivatives used for hedging
<b>Financial assets</b>				
Cash and cash equivalents	17,280	-	16,959	-
Crown debtor – grants	44,834	-	44,834	-
Debtors and other receivables (including non-current)	6,207	-	6,206	-
Derivative financial instruments	-	79	-	79
	68,321	79	67,999	79
	Liabilities measured at amortised cost	Derivatives used for hedging	Liabilities measured at amortised cost	Derivatives used for hedging
<b>Financial liabilities</b>				
Creditors and other payables	8,861	-	8,745	-
Grant obligations	44,834	-	44,834	-
Employee leave benefits	3,378	-	3,377	-
	57,073	-	56,956	-
	Loans and receivables	Derivatives used for hedging	Loans and receivables	Derivatives used for hedging
<b>AS AT 30 JUNE 2013</b>				
<b>Financial assets</b>				
Cash and cash equivalents	14,629	-	5,723	-
Crown debtor – grants	33,365	-	33,365	-
Debtors and other receivables	4,173	-	50	-
	52,167	-	39,138	-
	Liabilities measured at amortised cost	Derivatives used for hedging	Liabilities measured at amortised cost	Derivatives used for hedging
<b>Financial liabilities</b>				
Creditors and other payables	4,552	-	861	-
Grant obligations	33,365	-	33,365	-
Employee leave benefits	4,054	-	327	-
Derivative financial instruments	-	189	-	-
	41,971	189	34,553	-

The only financial liabilities held at fair value are foreign exchange contracts \$79,000 asset (2013: \$189,000 liability). These are Level 2 instruments in the fair value hierarchy and have been valued using balance date financial institution valuations.

## 21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in consultation with operational units.

The Board approves the overall risk management policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

### (a) Market risk

#### Foreign exchange risk

The Group operates and generates commercial revenue internationally and is exposed to foreign exchange risk arising from various currency exposure, primarily with respect to the US dollar and Australian dollar.

The Group's primary objective in managing foreign currency risk is to provide certainty of New Zealand dollar net cash flows. To manage the foreign exchange risk, the Group uses forward exchange contracts.

Group finance treasury policy is to hedge between 50% and 100% of anticipated cash flows (mainly overseas revenue receipts and purchase of materials). A process of natural hedge and forward cover contracts is used to hedge foreign currency risk.

Between 60% and 70% of foreign currency receipts is used to purchase goods payable in foreign currency. Forward cover contracts are utilised to repatriate remaining foreign currency balances.

Forward exchange contract volatility on designated hedged transactions is accounted for through the cash flow hedge reserve. For the period ended 30 June, the balance of the cash flow hedge reserve representing unexpired designated hedged foreign exchange contracts was \$79,000 (gain) (2013: \$189,000 loss).

At 30 June 2014, if the currency had strengthened/weakened by 10% against the US dollar with other variables held constant, post-tax profit for the period (Group) would have been strengthened \$112,000 lower, weakened \$136,000 higher (2013: strengthened \$24,000 lower, weakened \$29,000 higher) as the result of foreign exchange translation of US dollar-denominated trade receivables/payables.

At 30 June 2014, if the currency had strengthened/weakened by 10% against the Australian dollar with other variables held constant, post-tax profit for the period (Group) would have been strengthened \$nil lower, weakened \$1,000 higher (2013: strengthened \$17,000 lower, weakened \$21,000 higher) as the result of translation of Australian dollar-denominated trade receivables/payables.

At 30 June 2014, the Group has forward foreign exchange contracts for the sale and purchase of currencies to cover firm foreign currency-denominated receipts and payments. Details of forward foreign exchange contracts outstanding at balance date are:

	Group 2014		Group 2013	
	Currency (Thousands)	Contract value NZD \$'000	Currency (Thousands)	Contract value NZD \$'000
<b>Outstanding contracts</b>				
<b>Bank buys</b>				
United States dollar	2,027	2,382	2,516	3,039
British pound	15	32	51	102
Singapore dollar	395	412	691	709
Australian dollar	160	176	82	100

	Group 2014		Group 2013	
	Currency (Thousands)	Contract value NZD \$'000	Currency (Thousands)	Contract value NZD \$'000
<b>Bank sells</b>				
United States dollar	-	-	79	100
Euro	-	-	240	388
Australian dollar	-	-	45	57

All forward foreign exchange contracts are due for settlement within 12 months of balance date.

All forward foreign exchange contracts outstanding at 30 June 2014 in the Parent were the same as above Group disclosure (2013: nil).

**(b) Interest rate risk**

The Group has interest-bearing assets arising from short-term cash deposits. However, the Group's income and operating cash flows are substantially independent of changes in market interest rates. Excess funds are invested in New Zealand registered banks with a minimum Standard and Poor's rating of A- or better.

**(c) Credit risk**

Financial instruments which potentially subject the Parent and the Group to credit risk principally consist of bank deposits, trade and other receivables, and foreign exchange contracts.

Credit risk is minimised as a result of several key controls:

- maintaining maximum limits for each broad class of counterparty and individual counterparties
- limiting investments to organisations with a long term Standard & Poor's credit rating of A- or better and
- controlling the level and spread of trade and other receivables outstanding.

There are no significant concentrations of credit risk.

All cash and cash equivalents are held with four high quality counterparties, being trading banks with AA- grades. Apart from this, there are no other significant concentrations of credit risk.

**(d) Liquidity risk**

Liquidity risk is the risk that Callaghan Innovation cannot meet its financial obligations in full.

The Group maintains sufficient liquid bank deposits to conservatively manage its liquidity requirements without the requirement for bank credit facilities.

The table below shows the credit limit and balance of the one major counterparty at balance sheet date:

	Group 2014		Group 2013	
	Credit limit \$'000	Balance \$'000	Credit limit \$'000	Balance \$'000
ANZ Bank (Standard & Poor's AA-)	-	-	1,100	-

The Group's financial assets and liabilities and net settled derivative financial liabilities, as below, are due within 12 months of balance date. The receivable of \$2,344,000 are due beyond 12 months (Note 9). The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group		Parent	
	2014 Less than 12 months \$000	2013 Less than 12 months \$000	2014 Less than 12 months \$000	2013 Less than 12 months \$000
Cash and cash equivalents	17,280	14,629	16,959	5,723
Trade and other receivables	3,863	4,173	3,862	50
Crown debtor – grants	44,834	33,365	44,834	33,365
Derivatives used for hedging	79	(189)	79	-
Trade and other payables	(8,861)	(5,113)	(8,745)	(861)
Grant obligations	(44,834)	(33,365)	(44,834)	(33,365)
Employee benefits	(3,378)	(4,054)	(3,377)	(327)

The Group's derivative financial instruments which will be settled on a gross basis within 12 months of balance date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

	2014	2013	2014	2013
Forward foreign exchange contracts – cash flow hedges				
Inflow	3,002	3,950	-	-
Outflow	-	(545)	-	-

The Group holds no forward foreign exchange contracts for trading purposes.

## 22. CAPITAL RISK MANAGEMENT

The Group's capital comprises general funds that represent capital invested by the Crown and accumulated funds. Equity is represented by net assets.

There has been no material change in the management of capital during the period.

Callaghan Innovation manages its net assets to ensure that the entity achieves its objectives and purpose while remaining a going concern.

## 23. RELATED PARTY DISCLOSURES

	Group 2014	Group 2013
<b>KEY MANAGEMENT PERSONNEL COSTS</b>	<b>Year</b> \$000	<b>5 months</b> \$000
Remuneration and other short-term benefits	1,918	1,042
Termination benefits	91	-
Directors' fees (non-executive directors)	254	194
Other benefits other than remuneration and other short-term cash benefits	-	-
	<b>2,263</b>	<b>1,236</b>

The table above includes the remuneration of the chief executive and members of the executive leadership team.

The key management personnel costs of the Parent in 2014 were the same as the above Group disclosure. (2013: nil).

### General

The Crown is the 100% owner of Callaghan Innovation. All transactions with other state-owned enterprises and government departments and agencies are agreed independently.

There were no significant related party transactions during the year, other than those disclosed in these financial statements. No related party debts have been written off or forgiven during the period.

All members of the Group are considered to be related parties of Callaghan Innovation. These include the subsidiaries identified in Note 12 and joint ventures and associated entities in Note 13.

### Group

During the period, with entities associated with directors or entities associated with directors' close family members.

Transactions were:

Sales of services and general recoveries	3,413	383
Purchase of services	3,406	184
Amounts due from related parties	33	58
Amounts owed to related parties	-	23

Goods are sold based on prices and terms that would be available to third parties.

Goods and services are purchased from other related parties on normal commercial terms and conditions.

### Transactions with subsidiary companies

During the period, the Parent company recorded expenditure of \$124,000 (2013: \$865,000) being reimbursement for expenses to Callaghan Innovation Research Limited. The Parent company recorded revenue of \$2,434,000 (2013: \$nil) from Callaghan Innovation Research Limited, being recovery of overhead expenses from Callaghan Innovation Research Limited.

Amount due to Callaghan Innovation Research Limited at 30 June 2014 was \$20,339,000 (2013: \$453,000).

### Transactions with joint ventures

	Group/Parent
	<b>Actual</b> \$000
All trading transactions with New Zealand Food Innovation Auckland Limited are on a commercial basis.	
Sales of services and general recoveries	12
Operational and capital funding	2,236
Amounts owed to New Zealand Food Innovation Auckland Limited	416



## 24. COMMITMENTS AND CONTINGENCIES

	Group		Parent	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
<b>CAPITAL COMMITMENTS</b>				
Commitments for capital expenditure contracted	3,788	2,188	3,788	-
<b>TOTAL CAPITAL COMMITMENTS</b>	<b>3,788</b>	<b>2,188</b>	<b>3,788</b>	<b>-</b>

Capital commitments are items of buildings, plant and equipment capital expenditure authorised by the Board, but not spent at 30 June.

### **OPERATING COMMITMENTS**

Commitments for non-cancellable operating leases, grant contractual obligations and other operating commitments:

Not later than 1 year	2,100	1,518	2,100	172
Later than 1 year and not later than 5 years	4,639	3,131	4,639	101
Later than 5 years	2,354	-	2,354	-
<b>TOTAL OPERATING COMMITMENTS</b>	<b>9,093</b>	<b>4,649</b>	<b>9,093</b>	<b>273</b>

Leased assets comprise computer hardware, computer software, office equipment and property.

### **Operating leases rental receivables – group company as lessor**

Not later than 1 year	1,447	384	1,447	-
Later than 1 year and no later than 5 years	1,872	331	1,872	-
Later than 5 years	-	-	-	-
	<b>3,319</b>	<b>715</b>	<b>3,319</b>	<b>-</b>

The company leases property under various agreements which terminate between 2014 and 2017.

	Group/Parent	Group/Parent
	2014 \$000	2013 \$000
<b>Grant commitments</b>		
Grant commitments for those grant contracts awarded but yet to be drawn down.	216,566	104,969

### **CONTINGENCIES**

There were no known contingent liabilities at balance date.

## 25. MAJOR BUDGET VARIANCE

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Explanation of major budget variations in the Statement of Comprehensive Income, Statement of Financial Position, and Statement of Cash Flows.

The budget is from the Callaghan Innovation Group Statement of Corporate Intent for the 12 months ended 30 June 2014.

### Statement of Comprehensive Income

Revenue from the Crown is above budget due to unbudgeted Crown funding received for Better by Lean and High Performance Work Initiative programmes that were transferred to Callaghan Innovation during the year.

Revenue from the Crown – Crown grants funding was below budget due to lower than planned Research and Development grants expenditure.

Commercial revenue is below budget due to demand, both domestically and overseas, for Callaghan Innovation research services and products.

Direct operating costs are below budget due to lower Crown contestable funding and reduced KiwiStar business.

Other expenses are below budget due to the delay in the rollout of several programmes within Accelerator Services, including innovation initiatives that have been delayed until next year.

Depreciation is below budget due to lower than budgeted capital expenditure.

Finance income is above budget due to higher than planned cash balances resulting from lower than planned capital expenditure and interest income from finance lease.

Income tax expense was not budgeted and reflects the reversal of timing differences due to subsidiary company Callaghan Innovation Research Limited no longer trading.

### Statement of Financial Position

Cash and cash equivalents is above budget due to lower than planned capital expenditure.

Crown debtor – represents the grants funding owed by the Ministry of Business, Innovation and Employment for grants owing to third parties at balance date.

Fixed assets are below budget due to lower than planned capital expenditure and transfer of fixed assets to finance leases.

Income in advance is below budget due to the lower demand for Callaghan Innovation research services.

Equity is higher than budget due to an above budget after tax surplus for 2014.

### Statement of Cash Flows

Cash flows from operating activities is above budget due to below budget payments to suppliers and employees.

Lower operating payments are due to below budget expenditure on personnel and science operating costs.

Higher investing cash outflow is due to payment on transferring fundamental science teams to Victoria University.

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**RECONCILIATION: STATEMENT OF SERVICE PERFORMANCE TO STATEMENT OF COMPREHENSIVE INCOME**

		<b>2014 Year</b>
<b>For the 12 months ended 30 June 2014</b>		<b>\$000</b>
<b>Statement of Service Performance: Outputs</b>	Output class	
Building innovation potential	1	4,678
Realising the benefits of innovation	2	10,500
Callaghan Innovation strategic investment	3	30,863
Business research and development contract management	4	7,567
National measurement standards	5	5,764
<b>Total output revenue</b>		<b>59,372</b>
Revenue from the Crown – grants income		108,871
Other contestable grants		15,017
Crown incubator funding		2,220
Other revenue, including interest		17,867
<b>Total revenue per Statement of Comprehensive Income</b>		<b>203,347</b>
Minus:		
Personnel costs		(40,809)
Direct operating costs		(23,444)
Other expenses		(16,004)
Depreciation and amortisation expense		(5,831)
Grant expense		(108,871)
<b>Total expenses per Statement of Comprehensive Income</b>		<b>(194,959)</b>
Financial income		845
Restructuring and transition costs		(12,660)
Acquisition gain		4,400
Share of surplus from joint venture		217
Income tax expense		(225)
<b>Surplus</b>		<b>965</b>

## 26. EVENTS AFTER THE BALANCE SHEET DATE

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There were no significant events after the balance sheet date.

# INDEPENDENT AUDITOR'S REPORT

To the readers of Callaghan Innovation and Group's financial statements and non-financial performance information for the year ended 30 June 2014.

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The Auditor-General is the auditor of Callaghan Innovation and Group. The Auditor-General has appointed me, Karen Shires, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and non-financial performance information of Callaghan Innovation and Group on her behalf.

We have audited:

- the financial statements of Callaghan Innovation and Group on pages 34 to 69 that comprise the statements of financial position as at 30 June 2014, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the Group on pages 24 to 33 that comprises the statement of service performance, and which includes outcomes.

## OPINION

In our opinion:

- the financial statements of Callaghan Innovation and Group on pages 34 to 69:
  - comply with generally accepted accounting practice in New Zealand; and
  - fairly reflect Callaghan Innovation and Group's:
    - financial position as at 30 June 2014; and
    - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the Group on pages 24 to 33:
  - complies with generally accepted accounting practice in New Zealand; and
  - fairly reflects the Group's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
    - the service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
    - the actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 27 August 2014. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board and our responsibilities, and we explain our independence.

## **BASIS OF OPINION**

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error.

In making those risk assessments, we consider internal control relevant to the preparation of Callaghan Innovation and Group's financial statements and non-financial performance information that fairly reflect the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Callaghan Innovation and Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied
- the reasonableness of the significant accounting estimates and judgements made by the Board
- the appropriateness of the reported non-financial performance information within the Group's framework for reporting performance
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.



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## RESPONSIBILITIES OF THE BOARD

The Board is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand
- fairly reflect Callaghan Innovation and Group's financial position, financial performance and cash flows; and
- fairly reflect the Group's service performance and outcomes.

The Board is also responsible for such internal control as is determined is necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board's responsibilities arise from the Crown Entities Act 2004 and the Callaghan Innovation Act 2012.

## RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from Section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

## INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit and providers of business process review services, we have no relationship with, or interests in, Callaghan Innovation or any of its subsidiaries.

KAREN SHIRES  
On behalf of the Auditor-General  
Wellington, New Zealand

PricewaterhouseCoopers

# STATUTORY REPORTING REQUIREMENTS

## MINISTERIAL DIRECTIONS (SECTION 151(1)(f) CROWN ENTITIES ACT 2004)

Callaghan Innovation received three ministerial directions during the financial year ended 30 June 2014. Two directions updating Government policy on the criteria for assessing proposals for funding were gazetted on 25 July 2013 and 31 October 2013 respectively, with the October 2013 direction revoking the earlier direction. A further direction gazetted 12 December 2013 set co-funding guidelines for Callaghan Innovation to apply when determining how to charge for its services.

## SYSTEMS AND PROCEDURES FOR ADMINISTRATION OF GOVERNMENT GRANTS

Section 15 of the Callaghan Innovation Act requires that we report on the systems and procedures that provide fairness and transparency around the administration of government research, science and technology (RS&T) grants.

We have developed systems and procedures to adhere to these requirements and thus ensure fairness and transparency in the process. These measures were reviewed and updated when the grants were restructured and these were re-published on the Callaghan Innovation website in December 2013.

One of our procedures is for our Grants Committee members to maintain a conflicts register which is updated regularly at the Grants Committee meetings. Any conflict between grant recipients and committee members requires the committee member to recuse themselves from the decision-making process. A further procedure is the maintenance of a projects register in which our Callaghan Innovation Research Technical Services group is a beneficiary of Business R&D grants.

In the period 1 July 2013 to 30 June 2014, Callaghan Innovation administered four business-led R&D funds. Across the four schemes eight applications were approved where our Research Technical Services group was identified as being contracted to provide R&D services to the company applying, to a total value of \$564,100.

More details on the individual funding streams are:

### R&D Growth Grants

Designed to increase R&D investment in businesses with a strong track record for R&D spending in New Zealand.

### R&D Project Grants

Designed to support greater investment by businesses in R&D activities, especially those with less established R&D programmes.

### R&D Student Grants

Designed to support New Zealand undergraduate and postgraduate students to gain and develop their technical skills in a commercial research environment, while bringing capability into New Zealand businesses.

### Incubators

The Incubator Support Programme accelerates the growth and success of New Zealand start-up businesses through a range of services and funding.

## ENFORCEMENTS OF ACTS (SECTION 20(3) CROWN ENTITIES ACT 2004)

No natural person acts were enforced against Callaghan Innovation in reliance of section 20 of the Crown Entities Act 2004 for the financial year ended 30 June 2014.

## EMPLOYEE REMUNERATION

The table below shows the number of Callaghan Innovation employees who received remuneration and/or benefits (excluding redundancy and cessations payments) of \$100,000 or more for the financial year ended 30 June 2014.

SALARY BANDS	FY14 Staff
\$520,000 – \$539,999	1
\$360,000 – \$369,999	1
\$230,000 – \$239,999	1
\$220,000 – \$229,999	3
\$200,000 – \$209,999	2
\$190,000 – \$199,999	2
\$180,000 – \$189,999	3
\$170,000 – \$179,999	5
\$160,000 – \$169,999	5
\$150,000 – \$159,999	4
\$140,000 – \$149,999	9
\$130,000 – \$139,999	12
\$120,000 – \$129,999	11
\$110,000 – \$119,999	28
\$100,000 – \$109,999	41

## BOARD OF DIRECTORS REMUNERATION

CALLAGHAN INNOVATION BOARD OF DIRECTORS	FY14 (\$)¹¹
Sue Suckling – Board Chair	\$58,000
Paul Lockey	\$28,000
Robin Hapi	\$28,000
Michele Allan	\$28,000
Richard Janes	\$28,000
Peter Hunter	\$28,000
Craig Richardson	\$28,000
Peter Maire	\$28,000

## GRANTS COMMITTEE (NON-BOARD MEMBERS) REMUNERATION

CALLAGHAN INNOVATION NON-BOARD MEMBERS	FY14 (\$)
Peter Townsend	\$8,625
Dr Alastair MacCormick	\$6,978

¹¹ Due to the significant workload of the Board during the first five months of the implementation phase, Board members received a daily fee rate in recognition of the additional responsibilities through the establishment phase. This changed to a fixed annual remuneration fee for the new period 1 July 2013 – 30 June 2014.



# BUSINESS CASE ACHIEVEMENTS

During our establishment phase, an implementation plan was produced mapping out our top ten outcomes for 2013 to 2016.

While our mission has not changed and the top ten outcomes are still very relevant to our business model, some key actions have been reprioritised as we continue to adapt our organisation to meet the needs of businesses.

1.

## CALLAGHAN INNOVATION IS DELIVERING A PORTFOLIO OF ACCELERATOR SERVICES TO FIRMS

Key Actions	Progress
Sponsorships delivered	Achieved In accordance with the project plan
First module of Avatar defined	Achieved A modular approach has been adopted for achieving Avatar objectives, and the original Avatar concept has been discontinued. Three smaller data base portal initiatives collectively known as the Innovation Portal are underway
Framework for joint venture/ collaborative projects developed	Achieved Callaghan Innovation has commenced discussions with partners for joint venture/collaborative projects
Existing and new incubator programme transitioned	Achieved The incubator support programme was successfully migrated from NZTE during Q3 of the 2013/14 financial year. A request for proposals for founder-focused and technology-focused incubators was released in March 2014. Five founder-focused and three new technology-focused incubators have been approved

## 2.

### NEW ZEALAND FIRMS ARE ENGAGING MORE INTENSIVELY AND PRODUCTIVELY WITH RESEARCH AND TECHNICAL SERVICE PROVIDERS

Key Actions	Progress
\$16.9 million commercial R&D projects delivered	Not achieved Commercial revenue for Callaghan Innovation's research and technical services was \$14.2 million; \$0.3 million ahead of estimates
Three joint projects in place with firms and R&D partners	Achieved Joint projects are underway
Pilot plant activity increased	Achieved For the 2013/14 financial year, the FOODBOWL reported engagement with 282 companies and facilitation of 175 projects
Business R&D Grants delivery	Achieved The pipeline for grants is in excess of \$110 million and the new grants policy has been operationalised

## 3.

### ESTABLISHMENT OF A TEAM OF CLIENT SOLUTIONS MANAGERS WHO WORK WITH FIRMS TO HELP THEM ACCESS THE RTS AND ACCELERATOR SERVICES

Key Actions	Progress
Recruit GM Accelerator Services	Achieved
Internal and external recruitment process for first 15 Client Solutions Managers (CSM)	Achieved CSMs are now known as Business Innovation Advisers (BIA) and the recruitment process is underway with a number of BIAs already in place
Implement client engagement processes and tools (based on NZTE)	Achieved In Q3 of the 2013/14 financial year, Callaghan Innovation and NZTE established joint engagement principles when working with businesses in common
Pilot development of joint client engagement plans with NZTE	Achieved Pilot project with NZTE for joint client engagement completed in Q2 of the 2013/14 financial year. Work continues with NZTE to develop joint engagement plans

# 4.

## A NUMBER OF TECHNOLOGY NETWORKS HAVE BEEN ESTABLISHED

Key Actions	Progress
Model for National Technology Network established	Achieved This is discussed in Strategic Initiative Three of our recently published 2014–2018 Statement of Intent
Food and Sensing networks established	Achieved National Technology Managers positions for the Food and Sensing networks have been filled and these managers are currently establishing their networks
Software network set up in alignment with the NZTE Digital High Impact Programme	Achieved Software expertise is included in the ICT National Technology Network which has been established

# 5.

## CALLAGHAN INNOVATION HAS TRANSFORMED ITS INTERNAL R&D CAPABILITIES

Key Actions	Progress
Establish process for rolling reviews of research and technical services	Achieved
Define initial portfolio of new services for research and technical services	Achieved Research and technical services has been aligned with the seven enabling technologies of the National Technology Networks. Its services include those listed on page 10
Map capability requirements for new services against existing skills	Achieved Completed in February 2013

# 6.

## NEW ZEALAND RESEARCH CAPABILITIES HAVE BEEN STRENGTHENED BY TRANSFER TO APPROPRIATE UNIVERSITIES/CRIS OF SOME CALLAGHAN INNOVATION RESEARCH PERSONNEL

Key Actions	Progress
Potential capability transfers identified	Achieved
Negotiations commenced with relevant institutions	Achieved The Callaghan Innovation Carbohydrate Chemistry and Superconductivity teams were transferred to Victoria University of Wellington, respectively now known as the Ferrier Research Institute and the Robinson Research Institute
Staff transfers 100% completed	Achieved Completed by February 2013

# 7.

## THE GRACEFIELD SITE HAS BEEN REVITALISED

Key Actions	Progress
Concept design and development	Achieved High-level analysis of options has been presented to the Minister
Site investigation	Achieved High-level analysis of options has been presented to the Minister
Feasibility study undertaken	Partially achieved Feasibility study is in progress. Two high-level options have been explored and a business case is now being prepared

## 8.

## MĀORI-OWNED BUSINESSES ARE WELL-REPRESENTED AMONG THE FIRMS THE CLIENT SOLUTION MANAGERS ARE WORKING WITH

Key Actions	Progress
Recruit General Manager Māori Economy and team	Achieved The general manager position has been filled along with one Māori Business Innovation Advisor
Engage with priority Iwi/Trusts/ Māori organisations	Achieved Our team has engaged with approximately 15 different Iwi/Trusts or Māori organisations
Develop memoranda of understanding	Achieved Four memoranda of understandings are under development, one has been signed
Initiate two projects, including one focused on food	Achieved Four projects are currently underway and two are focused on the food industry

## 9.

## OTHER COUNTRIES ARE STARTING TO NOTICE THE NEW ZEALAND MODEL OF ACCELERATING COMMERCIALISATION

Key Actions	Progress
Establish firm linkages into two international networks	Achieved Callaghan Innovation has started building connections with representatives of the Enterprise Europe Network (EEN) and key organisations within the UK innovation system
Participate in missions, workshops and round table discussions with international delegations	Achieved Callaghan Innovation has hosted a number of international delegations interested in Callaghan Innovation's business model. Callaghan Innovation has also participated in workshops and conferences internationally
Develop strategy for international relationships	Achieved The international relationships draft strategy has been completed

# 10.

## CALLAGHAN INNOVATION WORKS IN PARTNERSHIP ACROSS ALL NEW ZEALAND STAKEHOLDER ORGANISATIONS

Key Actions	Progress
Pilot project with Products Accelerator	Achieved Product Accelerator has agreed to collaborate with Callaghan Innovation on a National Testing and Fabrication Instrumentation database and scheduling tool
Role in National Science Challenge established	Achieved Callaghan Innovation is being considered as the host of National Science Challenge: Science for Technological Innovation
Deliver against memoranda of understanding with key stakeholders	Achieved Action is underway in accordance with memoranda of understanding

# CONTACT US

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