



ANNUAL REPORT 2016

**WE'VE
GOT
GREAT
STORIES
TO TELL**

CallaghanInnovation

BUSINESSTECHNOLOGYSUCCESS

CUSTOMERS WHO WE HELPED

229 USED OUR PROGRAMMES

298 WORKED WITH A RESEARCH
AND TECHNICAL SERVICE TEAM

1,068 WORKED WITH US ON
GRANT APPLICATIONS

1,470 WORKED WITH US ON CORE
CALLAGHAN INNOVATION
SERVICES

IN ADDITION, we have supported customers through organising international missions, events, expert speakers, contributing to pilot plants, providing support for incubators and facilitating competitions and collaborations

64 NEW ZEALAND BUSINESSES



TOOK PART IN

5 INTERNATIONAL MISSIONS

Agritech - Silicon Valley and surrounds | **Biotech** - San Francisco |
Manufacturing trek - Shenzhen & Guangzhou | **Medtech** - Düsseldorf |
Wearable tech - Las Vegas & Silicon Valley

1,300

BUSINESS LEADERS & STUDENTS

ATTENDED OUR **INSPIRING INTERNATIONAL SPEAKER SESSIONS**



40 MÄORI ENTITIES

combined forces to invest collectively in a high-value berry initiative as part of the **Nuku ki te Puku cluster**



132 START-UPS WORKED WITH **FOUNDER INCUBATORS**

WHILE

TECHNOLOGY INCUBATORS

WORKED WITH

20 START-UPS



112

CUSTOMERS WORKED WITH OUR **GLOBAL EXPERT SERVICE**



49

CUSTOMERS TOOK PART IN **HIGH PERFORMANCE WORKING INITIATIVE**



126

NZ CUSTOMERS TOOK PART IN OUR **IP INNOVATION PROGRAMME**



238 PEOPLE



WENT THROUGH THE **BETTER BY LEAN PROGRAMME**

71

PARTICIPANTS RECEIVED METROLOGY TRAINING FROM THE MEASUREMENT STANDARDS LABORATORY (MSL)

ALONG WITH

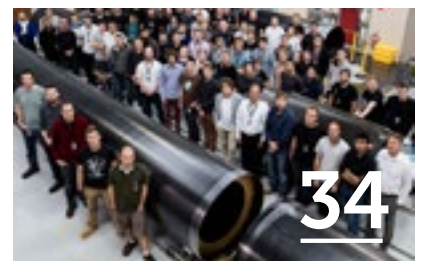
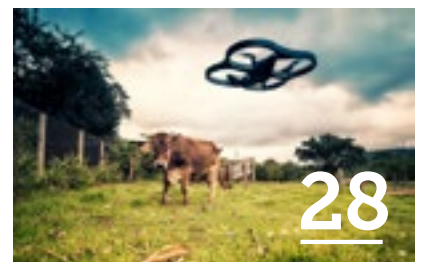
171 CALIBRATION JOBS TO CUSTOMERS



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**LONG STORY
SHORT, WE HELP
BUSINESSES
THAT USE
TECHNOLOGY
TO GROW AND
SUCCESSFULLY
COMMERCIALISE
THEIR IDEAS**



Report

From our Chair and Interim Chief Executive

The High-Value Manufacturing Sector in New Zealand continues to increase its size and importance to the New Zealand economy. Our goals and mission are aligned to the Government's Business Growth Agenda, with our specific aims contributing to a doubling of business investment in research and development (R&D) by 2018 and solid growth in high-value manufactured exports by 2025.

We are proud of the part we have played in the last 12 months in supporting some of New Zealand's most exciting and fastest growing companies in this sector. We seek feedback from our customers on how we have helped them. They report that with Callaghan Innovation's assistance, they have developed and commercialised their technology faster and with less risk through our support with technical and scientific expertise, innovation programmes, and funding.

Our services have helped to support our customers in creating efficiencies and helped them focus on what is most important to their business.

This Annual Report documents many of the highlights from our engagement with our customers and tells the stories and the successes of our customers. In this report you will hear about Matariki X, a Māori Inspire event that saw speakers give rapid-fire presentations on their business journeys to more than 300 ambitious Māori entrepreneurs from across the country, and our inaugural C-Prize, which encouraged dozens of innovators to develop cutting-edge UAV (unmanned aerial vehicle) technology for the screen industry.

In the past year we have worked with 1,470 customers, with 298 of those engaging the expertise of Research and Technical Services (RTS), 229

undertaking our innovation skills programmes, and 1,068 have worked with us on R&D grant applications. In addition our RTS Domestic Commercial revenue was at a 10 year high of \$8.1 million for the 2015/16 year. This was an increase of 42% from the previous year.

To help us improve the value we can deliver for our customers, in 2016 we have invested in looking at how we can improve our performance including listening to our customers and stakeholders, and developing a greater understanding of the impact we are having and can have, and undertaking a wide-reaching operational review.



New Zealand UAV Technology Pavilion at NAB Show in Las Vegas.



Ian Taylor speaking at the Marariki X event.

“This Annual Report documents many of the highlights from our engagement with our customers.”

We regularly partner with other organisations — universities, Crown research institutes and government agencies, in particular New Zealand Trade and Enterprise (NZTE), to deliver programmes, run events and broaden our reach domestically and internationally. In 2016 we collaborated with NZTE on several

international missions, including New Zealand AgriTech, through which a cluster of New Zealand agriculture businesses travelled to Silicon Valley to create connections, validate their technologies and source investment.

This year Dr Mary Quin, Callaghan Innovation’s inaugural Chief Executive, announced her resignation after three and a half years at the helm. Dr Quin provided the leadership and vision we needed during the establishment of Callaghan Innovation and has established an enduring foundation for its future.

Hēmi Rolleston has been appointed Interim Chief Executive from the Executive Leadership team at Callaghan Innovation. This gives the organisation continuity and leaves it well placed to keep up the momentum gained in delivering better results while we work through the process of making a permanent appointment. As we move into this next phase of our organisation, we are in a solid position to build on our existing foundations and help even more New Zealand businesses to succeed.

Sue Suckling
Chair

Hēmi Rolleston
Interim Chief Executive

Our strategy

To grow New Zealand's economy by helping businesses succeed through technology.

Callaghan Innovation helps businesses to develop and commercialise technology.

We provide technical and scientific expertise, impartial advice, skills development, access to industry networks, and grant funding.

This speeds up and strengthens product development, reduces risk and creates market advantage.

Callaghan Innovation's strategy is focused on:

- Delivering innovation services to businesses
- Building New Zealand's innovation capability.

Delivering innovation services to businesses currently includes:

Technology and product development

Helping businesses take an idea from concept to commercial reality.

Access to experts

Opening doors for New Zealand businesses seeking innovation advice, skills, support and technical expertise.

Innovation skills

Helping businesses to build in-house innovation skills and capability.

Business collaborations

Leading collaborative innovation projects and technology missions for businesses.

R&D grants

Adding scale to businesses' research and development (R&D) investment for greater impact.

Our strategy also includes:

Building New Zealand's innovation capability

Building and strengthening New Zealand's innovation capability through a strong innovation system.



Our whakatauāki (Māori proverb) captures Sir Paul Callaghan's legacy and enriches the identity of Callaghan Innovation:

Rukuhia te wāhi ngaro hei maunga tātai whetū

Explore the unknown, pursue excellence



Technology and product development



There are a myriad of paths available when it comes to taking an idea from concept to commercial reality. Our experienced advisors and specialist scientists and engineers have helped businesses to navigate each step and deliver tailored R&D solutions.



Callaghan Innovation provides end-to-end support by helping businesses to:

Over the past year

Identify the steps needed to commercialise their ideas.

RTS achieved \$8.1 million in domestic commercial revenue, the best result in ten years, and \$8.8 million in international commercial revenue. Total RTS commercial revenue was \$16.9 million (actual) versus \$17.3 million (budget). RTS contracted with 188 New Zealand businesses. This was an excellent result.

Develop components, products, processes and technology from proof of concept through to production.

Apply and adapt existing technology or develop their own ground-breaking research.

Access our equipment, facilities, workshops, pilot plants, labs and people for R&D.

Perform testing and measurement for specialised analysis of their products, materials, processes and calibration systems.

The Measurement Standards Laboratory (MSL) delivered metrology training to 71 participants and delivered 171 calibration jobs to customers. It also performed 32 laboratory assessments for International Accreditation New Zealand.



APPROX.

75,000

PEOPLE WORLDWIDE
SUFFER FROM CYSTIC
FIBROSIS

CITRAMEL

HAS THE POTENTIAL TO
RADICALLY IMPROVE THE
LONGEVITY AND QUALITY
OF PEOPLE'S LIVES

Cystic fibrosis is a genetic illness affecting the lungs and digestive systems of approximately 75,000 people worldwide. Citramel, a newly developed inhaled drug from New Zealand company Breathe Easy, has the potential to improve radically the longevity and quality of these people's lives.



BREATHE EASY



“With Callaghan’s assistance we have access to a wide team of skilled professionals supporting all areas of our business, not only in the usual business development areas, but also in the harder-to-access technical areas.”

**BREATHE EASY
CEO ANDREA MILLER**

Breathe Easy completed their first clinical trial of the drug in February 2016 and is now underway with Phase IIa trials, which began in June in Auckland and Christchurch. They have been moving fast since securing pilot funding in mid-2015, and Breathe Easy CEO Andrea Miller credits Callaghan Innovation with helping to get it to this point. “With Callaghan’s assistance we have access to a wide team of skilled professionals supporting all areas of our business, not only in the usual business development areas, but also in the harder-to-access technical areas.”

In particular, Callaghan Innovation’s Technology and Product Development team helped Breathe Easy to get over a key scientific hurdle. Miller explains: “We were circling around an in-vitro testing issue for some time. The Callaghan Innovation Protein Science and Engineering team helped us grip this area up and maximise our in-vitro testing programme.”

As well as supporting the science behind Citramel and providing a Project Grant to assist its development, Callaghan Innovation helped Breathe Easy to develop through making strategic connections and building networks. In fact Breathe Easy is now based in a biotech hub alongside Callaghan Innovation in Auckland. This move was a strategic decision to give the company proximity to research facilities and opportunities to mix with like-minded businesses.

Callaghan Innovation continues to be involved as Breathe Easy matures; most recently its International team co-funded Miller to attend the 2016 ARCS Scientific Congress in Australia, where she was able to learn about clinical trial project management, network with people who can assist the company (and potentially be recruited), and better understand the Australian market and its differences from New Zealand – in other words, arming Breathe Easy with resources it needs to take Citramel to market.

Chitogel

Chitogel has worked with Callaghan Innovation throughout its 18-month lifespan. Initially they engaged Callaghan Innovation to make small-scale batches of their product, which is a gel used in ear, nose and throat surgery. As the company progressed towards pilot-scale manufacturing, Chitogel Process Development Chemist Dr Smita Ghosh was seconded to work in the GlycoSyn lab at Callaghan Innovation's Gracefield Innovation Quarter, where the start-up received technical assistance, advice, labour, space and equipment to progress their high-value medical product.

In 2016 Chitogel set up their own production facility at Gracefield, with Callaghan Innovation assisting the young company with facility design and engineering, and health and safety requirements. The relationship between Chitogel and Callaghan Innovation shows Callaghan Innovation's commitment to developing custom solutions for its clients; as Dr Ghosh says,



“Callaghan’s flexible approach to working with us has been invaluable during this early stage – the secondment and setting us up as a Gracefield tenant have allowed us to access Callaghan Innovation’s research and technical services in a way that is perfect for our resources and stage of business.”





Access to experts

Callaghan Innovation opens doors for New Zealand businesses seeking innovation advice, skills, support and technical expertise – accessing both New Zealand and worldwide sources.

We offer businesses fast and easy access to experts who provide tailored solutions to meet their needs. We have leveraged our network connections and acted as an ‘innovation broker’ to ensure that businesses have access to the right advisors, partners, mentors and technology providers.

Through our national and international network connections we:

Over the past year

Offer 'Global Expert', our database of national and international innovation and R&D expertise, with sources that include business networks, universities and scientific institutes.

The Global Expert service worked with 112 customers this year, connecting New Zealand companies to the expertise they required.

Offer the services of our technology networks and our own team, who apply their deep knowledge of national and international scientific and research expertise.

The Callaghan Innovation MedTech Sector helped to establish a collaborative project between Auckland University of Technology (AUT), Rex Bionics and Healthvision NZ to establish a rehabilitation innovation centre for assessing new technologies. This collaboration has resulted in ongoing research within the wider MedTech CoRE involving AUT, Rex Bionics, Exsurgo Rehab and Callaghan Innovation.

Refer businesses to our partner organisations, including NZTE, regional economic development agencies and the venture capital community, so they have access to the full range of support available.

We use Regional Business Partners (RBP) innovation specialists as Callaghan Innovation account managers, where we do not have physical offices in New Zealand's regions. We have joint engagement plans with NZTE to ensure that we are closely aligned to create the optimal outcomes for customers.



Methven





Methven is a market-leading designer and manufacturer of showers, taps and valves. They are an international business operating in New Zealand, Australia, China, the United Kingdom, Europe and the Middle East. Methven celebrates 130 years of innovation in 2016 and has recently set out plans to grow the business to \$130 million revenue by June 2018.

In November 2015 Methven approached Callaghan Innovation for assistance with a project: they were investigating new technology to be used in manufacturing their products and engaged Callaghan Innovation's Global Expert programme which enabled them to speed up their development cycle and get to market faster.

Callaghan Innovation, through its international networks, was able to find a technology expert who was the perfect fit: someone with the right balance of technical knowledge and industry experience who was able to recommend the best options to Methven.

This enabled Methven to make informed decisions about future manufacturing processes which can be applied to many different processes, ensuring that Methven remains at the forefront of innovation in their industry.

Methven's Senior Technology Development Engineer Stephen McCutcheon says, "The Global Expert service allowed us to access specialist technical expertise quickly and effectively with minimal time and resources expended. Engaging with this expert gave us answers to our questions, led to a far greater knowledge of the topic at hand, and brought out valuable new knowledge in other associated areas. The value for us lies in both the quality and the speed of knowledge gained without allocating any significant internal resources." This has saved us 2-3 months by greatly reducing the need for in-house research and identifying technical risks early on.

Methven was awarded a Callaghan Innovation Growth Grant, co-funding the company \$3 million to \$5 million over a maximum period of five years to increase its investment in R&D. According to Methven Group CEO David Banfield, investment in R&D is critical for Methven to deliver more ground-breaking products that drive value for the business and its shareholders.

"The Global Expert service allowed us to access specialist technical expertise quickly and effectively with minimal time and resources expended."

**METHVEN SENIOR TECHNOLOGY DEVELOPMENT ENGINEER
STEPHEN MCCUTCHEON**



Innovation skills



Callaghan Innovation helps businesses to build the in-house skills and capability they need to ensure they are innovation-ready.

We provide a range of programmes, training courses and workshops to improve business performance, eliminate inefficient processes and activities, and increase customer satisfaction. We are constantly improving our programme suite, responding to feedback and ensuring that we're catering to our customers' needs.



The programmes we currently offer include:
Over the past year

IMProve, which helps businesses to benchmark their innovation management capabilities against those of international cohorts of similar businesses.

We enabled 12 IMProve assessments of New Zealand customers, generated benchmarking reports and provided feedback to the customers on opportunities for improvement in innovation management.

Innovation IP, an extended programme that gives innovative and willing New Zealand businesses the knowledge, capability and confidence to leverage their intellectual property (IP) and intellectual assets for accelerated business growth.

We delivered a programme for 126 New Zealand customers, including Māori enterprises, to identify their valuable IP and put in place strategic IP management plans. The programme was broadened this year to capture some early-stage businesses being supported in technology incubators and companies collaborating.

Driving Innovation, which helps businesses to improve their innovation planning, risk management, and speed and measurement of product development.

This year four customers took part in the Driving Innovation programme, a 12-month-long skill development programme designed to help businesses to maximise value delivered, maximise return on innovation investment, accelerate the rate of innovation and reduce portfolio waste and risk. The feedback received from businesses engaged was extremely positive.

Better By Lean, which helps businesses to review their processes and management systems in order to improve productivity and reduce waste.

This year 40 customers comprising 238 people went through the Better By Lean programme. The programme has been refreshed, making it more applicable and relevant to New Zealand businesses. Our regional focus significantly boosted participant numbers this year.

The High Performance Working Initiative (HPWI), which helps businesses to achieve higher productivity through effective employee engagement and workplace practices.

In the past year 49 customers took part in HPWI. We transformed HPWI to a programme delivering tangible benefits with direct correlation to increased business expenditure on R&D, earnings before interest and taxes, revenue, and innovation role hires.

The Innovation Experts Series, which provides businesses with access to the world's leading innovation practitioners through targeted workshops.

This year Callaghan Innovation partnered with organisations around New Zealand to bring inspiring international speakers to more than 1,300 business leaders and students. A number of businesses directly engaged with Callaghan Innovation services as a result. The positive feedback received highlighted that this was encouraging more New Zealand businesses to take a more strategic, focused and integrated approach to innovation.

ARCHGOLA

" I learnt a huge amount, gaining confidence in discovering all the things I was doing well, and also understanding the areas I needed to work on."

ARCHGOLA
OWNER ANDREW TURNER

Archgola is the leading supplier of awnings and shade solutions in New Zealand; their unique selling proposition is being the first company to develop shade shelter strictly for New Zealand conditions. The Archgola manufacturing business is based in Auckland, and they have a network of agents and installers throughout New Zealand.



While the business has been steadily growing since they began in 1998, it is run by a solo owner-operator, Andrew Turner, whose expertise is in design and manufacturing and who has struggled to clarify his strategic direction. In August 2015 Turner engaged Callaghan Innovation's High Performance Working Initiative (HPWI) team and consulting firm Crowe Horwath to assist in boosting Archgola's innovation capability; HPWI helps businesses to achieve higher productivity through effective employee engagement and improved workplace practices.

Through the six-month-long programme Archgola clarified their strategic direction and established three key priorities: offshore expansion, increased technology within the manufacturing process, and confirming an engagement plan with its licensee network. Archgola are now experiencing over 25% growth in revenue and also a similar growth in profitability.

Turner says, "I'd recommend the HPWI course to any business owner in the country. I learnt a huge amount, gaining confidence in discovering all the things I was doing well, and also understanding the areas I needed to work on.

It was very well run, with Callaghan Innovation acting as the catalyst for business owners and facilitators to speak freely with one another, which is where the real learning takes place."

Archgola has now put in place an advisory board with an independent chair, which meets with Turner monthly to ensure he is well guided and sufficiently challenged. Archgola have applied for a project grant which Turner became aware of in the HPWI programme. Crucially, thanks to the HPWI 10 Types session, the Archgola team now has a deeper understanding of what innovation really means; as a result they have already identified and implemented new, innovative practices within their manufacturing process – a step that will go a long way to increasing their business's productivity.



Rex Bionics

Medical technology company Rex Bionics uses state-of-the-art robotics to help people with neurological disabilities get, quite literally, back on their feet. After seeing people close to him lose their mobility, Rex Bionics co-founder and Chief Technology Officer Richard Little created a pair of robotic legs, which eventually evolved into the complex robotic exoskeleton that the company produces today. In 2015, ready to progress towards clinical trials, Rex Bionics started discussions with Callaghan Innovation. Our MedTech Sector Manager facilitated collaboration with AUT, which partnered the Rex Bionics team with experienced clinicians, physiotherapists and researchers.

Rex Bionics also worked closely with its Business Innovation Advisor getting manufacturing and R&D support, including the Better By Lean programme, a workshop and coaching programme that applies a Lean Thinking lens to improve productivity, reduce waste and enhance customers' experiences. Participation in this programme has reduced inventories and improved delivery times for the company. Visits to a number of factories locally and abroad were organised to help them optimise their supply chain and they continue to receive R&D support via a Growth Grant and Student Fellowship Grants. As Tracey White, General Manager of Rex Bionics says,



“Our contacts at Callaghan Innovation have in-depth and first-hand knowledge of medical device technology and manufacturing. These relationships have meant we are well placed to take advantage of opportunities as they arise.”

The AUT clinical trials have already led to some rich insights, and thanks to ongoing involvement with us, Rex Bionics is continuing on its path to having a major presence in international medical technology markets.





Business collaborations



Callaghan Innovation has given New Zealand businesses opportunities to work with partners on shared technology-based engagements and to form mutually beneficial collaborations. The aim of these collaborative projects is to reduce the costs of R&D and promote the sharing of knowledge among partnering businesses.



We encourage and promote groups of businesses through:

Over the past year we have completed the following collaborative work

Collaborative innovation projects, where we invite businesses to tackle targeted technology projects jointly with other businesses, industry associations and research organisations.

In the aviation sector we brought together a group of avionics and communications companies to address industry challenges. We are also supporting the UAVNZ industry association to maximise the benefits of UAV technology and create an advanced industry in New Zealand.

Planning and facilitating technology-focused missions to international events and visits to exemplary innovation facilities.

Our missions have assisted New Zealand businesses to connect to international knowledge, expertise, innovation partners and facilities including the:

- Agritech mission to Silicon Valley and surrounds: 23 businesses
- Biotech mission to BIO International Convention in San Francisco: 13 businesses
- Manufacturing trek to Shenzhen and Guangzhou: 8 businesses.
- Medtech mission to MEDICA in Düsseldorf: 11 businesses
- Wearable tech mission to Consumer Electronics Show in Las Vegas and Silicon Valley: 9 businesses

Developing partnerships to help solve common innovation and technology problems.

Callaghan recognised an opportunity to target services to a group of similar companies facing similar challenges. We created a New Zealand biomedical cluster of companies in various stages of maturity. We facilitated networking, mentoring and communication between parties through events. Companies are now following up on potential collaborative projects and mentoring has developed useful connections that may result in new product co-development.

Establishing clusters of Māori businesses with a desire to innovate or create shared opportunities.

As part of the Nuku ki te Puku cluster, this year 40 Māori entities combined forces to invest collectively in a high-value berry initiative. Māori entities that own, grow and market berryfruit varieties will have greater collaboration. This particularly large collaboration is unique within Māoridom and offers a chance for those involved to shape their own business destiny.

Providing customised innovation services to address the unique needs of a specific industry.

We have identified several high-growth potential industry sectors and developed sector game plans for each of them. These sector game plans identify opportunities both nationally and globally for Callaghan Innovation to assist with the growth and development of companies within each sector (Agritech, Biotech, Medtech, Digital, Aviation, Energy, Food and Beverage).

New Zealand has had great success in developing agri-technologies thanks to a unique combination of geographic, human capital, regulatory and economic advantages. In April 2016, on a mission to promote this world-leading position, 23 New Zealand agritech businesses travelled to California on a week-long, Callaghan Innovation-led venture.

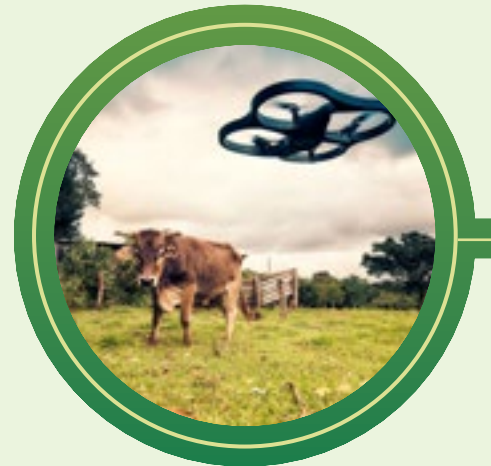
The week gave participants a solid insight into the state of agritech in California, to help them to validate the New Zealand technology and product offering, and better understand the needs of the US market.

The anchor event for the mission was a one-day conference called



'Transforming Agtech', developed by Callaghan Innovation for a US audience. Through a combination of the immersion programme and the conference, participants had excellent opportunities to make connections and meet potential partners, which was one of the key objectives of the mission.

Connections were made with venture capitalists and other investors, for example, large corporates interested in strategic partnerships such as Intel, Monsanto Growth Ventures and IBM Ventures, and potential innovation partners such as the THRIVE AgTech accelerator and the Innovation Center for US Dairy.



AGRITECH

“Most valuable was being able to interact with other New Zealand agritech companies on neutral territory where competitive barriers were not an obstacle.”

**GATEWAY DATA SERVICES
STEVE BROOKER**



Bridgit Hawkins from effluent management company ReGen reported that “the exposure to noteworthy US agritech businesses, such as Climate Corp, was really valuable and gave us a great benchmark for assessing our strengths and weaknesses”.

The participants deemed the mission a success, having an impact on their innovation and business strategies as a result of the connections they made that will help them to develop their products in the future. The event created momentum for the local agritech sector (including organisations that were not directly involved with the mission), a real sense of collaboration and an acknowledgement of Callaghan Innovation’s commitment to the sector.

Many participants reported gaining deeper connections with other players in the New Zealand agritech sector, as well as insights into how our businesses measure up against their US counterparts. As Steve Brooker of Gateway Data Services says, “Most valuable was being able to interact with other New Zealand agritech companies on neutral territory, where competitive barriers were not an obstacle to real discussions about how we can all benefit from working together to help the New Zealand agritech market grow and develop.” Of the 23 businesses that went on the mission, all have reported that they made new or stronger connections to help them develop their products. In addition, 14 businesses indicated that they had plans to do further R&D as a direct result of having participated in the mission.

Nuku ki te Puku

Since the Nuku ki te Puku cluster of food and beverage businesses was formed in 2014, the group has been on several international research missions and had regular meet-ups in New Zealand to form connections between businesses and explore how using technology can add value to their products. Some of the businesses have also worked closely with our RTS team. In the past 12 months two new products have come about as a direct result of this cluster.

Around 40 Māori entities have combined forces to invest collectively in a high-value berry product that could have a huge international market, similar to that of the gold kiwifruit. The berry start-up has secured its licence to grow, and is currently in an early market research phase. Steve Saunders of the Berry Project says,

“Being part of the Nukus has been the impetus for me to connect with significant Iwi, Trusts and investors for our high-value berry project. We are now at the point of working with our investors on a significant capital raise to take this project to the next level.”



Ngāti Porou’s fisheries division has partnered with New World Victoria Park in Auckland to take a new, high-value smoked fish product, Ahia, to fruition – the product is now in 14 stores across the country. The introduction through the Nuku programme led the two businesses to work together to integrate their product into the supply chain and provide a direct connection to retailers.





R&D grants



Our suite of R&D grants is designed to add scale to businesses' R&D investment for greater impact. These grants are structured to meet a range of business needs, whether those businesses are young start-ups or established R&D performers.

Our grants include:

Growth Grants – These grants support evolving, multi-year R&D programmes in businesses that are experienced R&D performers.

Project Grants – These grants help businesses to develop specific products, processes or services with the aim of growing their commitment to R&D.

Student Grants – These provide businesses with access to both undergraduate and postgraduate students who can assist in R&D projects and thereby gain commercial experience.



During 2015/16 our grants included:

Growth Grants

Our Growth Grants cover 20% of a business's R&D costs, up to \$5 million a year, and are available to businesses that invest over 1.5% of turnover in R&D. In the past year we approved 51 Growth Grants for a total contract value of \$85,853,820.

Project Grants

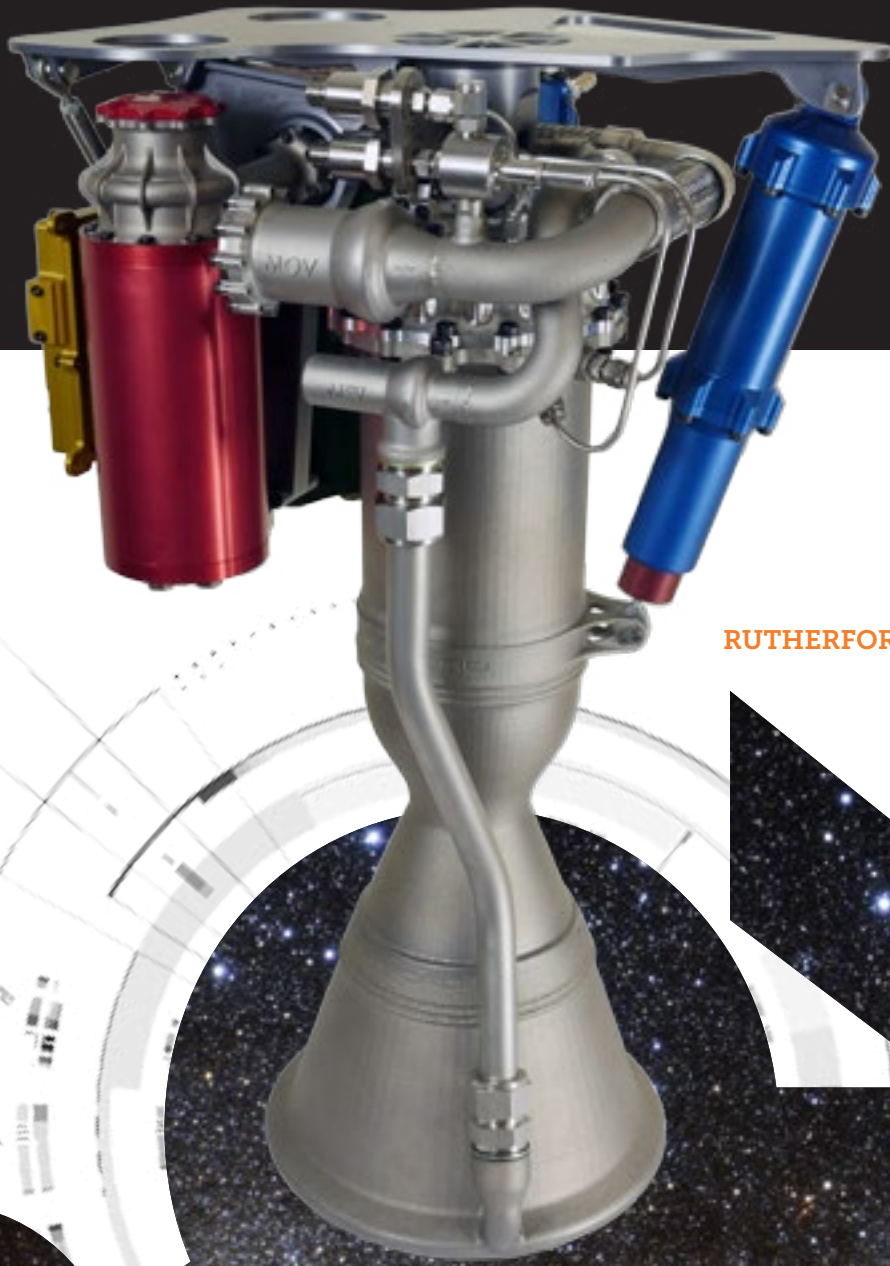
Project Grants can cover up to 40% of R&D costs and are awarded primarily to firms undertaking research for the first time. In 2015/16 we approved 218 Project Grants, at an average of 40% cover¹, for a total contract value of \$22,755,950.

Student Grants

These grants help businesses to access undergraduate and postgraduate students who can assist with R&D projects. In the past year we supported businesses by approving 177 Student Grants, for a total contract value of \$4,171,667.



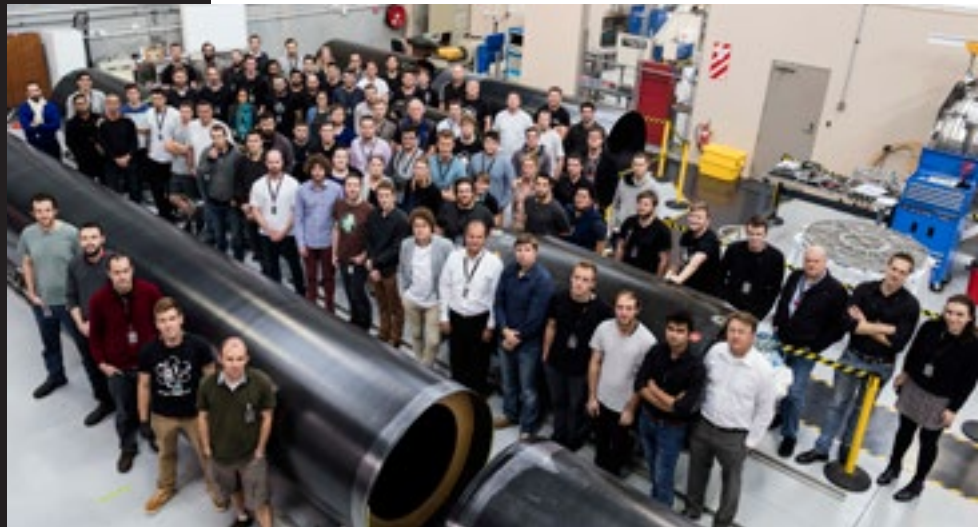
¹ There was a change in direction in November 2015; prior to that we provided 30-50% co-funding of R&D costs.



RUTHERFORD ENGINE

"The funding from Callaghan Innovation towards the development phase of our Electron launch vehicle was critical."

**ROCKET LAB
CEO PETER BECK**



ROCKET LAB

New Zealand aerospace company Rocket Lab was founded in Auckland in 2006 by Peter Beck. Although it was an unusual project, the team at Callaghan Innovation recognised a unique opportunity and provided help with the funding that Rocket Lab needed to not only get off the ground, but scale to the global launch service provider the company is fast becoming.

Since being awarded a Callaghan Innovation Growth Grant in 2013, Rocket Lab has grown into a team of more than 100 engineers in its Auckland headquarters, with offices, test sites and launch facilities around the world. A quarter of Rocket Lab's team have PhDs, and a Callaghan Innovation Student Grant has enabled Rocket Lab to support three aerospace students at the University of Canterbury to further their studies and complete specialised PhDs.

The past year was one of considerable technical achievements for Rocket Lab. They have designed, developed, tested and qualified large vehicle systems, including, most notably, qualifying the second stage of their Electron launch vehicle as well as the Rutherford engine. Qualifying the Rutherford engine was a major milestone for 3D printing; it was the first oxygen/hydrocarbon engine to use this technology for all the primary components of the combustor and propellant supply system.

CEO Peter Beck says, "The funding from Callaghan Innovation towards the development phase of our Electron launch vehicle was critical, allowing us to invest significant capital, time and expertise into developing all our systems in-house. The innovations that resulted mean that we now have a vehicle with an unprecedented low price, which is highly manufacturable."

During the year ahead Rocket Lab will complete full vehicle testing of the Electron vehicle, with commercial operations to follow in early 2017. The company recently announced that four customers have signed to fly satellites on the Electron launch vehicle: Moon Express, NASA, Spire and Planet.



Building New Zealand's innovation capability



**Business success relies on a strong innovation system,
and Callaghan Innovation plays a critical role in building
and strengthening New Zealand's innovation capability.**

We used our knowledge and understanding of business innovation needs to:

- Drive better integration across the component parts of the system
- Improve coordination and networking among the many players, in both the public and the private sectors
- Identify and understand the gaps and opportunities where key players, including ourselves, can add the most value.



Building our capability in this area includes:

Inspiring current and future innovators

We help encourage businesses and individuals to be excited by the possibilities that innovation holds and be ambitious about growth.

Over the past year

Inspired future innovators and entrepreneurs through the following programmes;

- *Futureintech* is a programme developed to generate interest in science and maths at school and encourage students to choose science, technology, engineering and maths at university and as a career. This year more than 57,000 school-aged students and over 3,000 teachers in more than 400 schools participated in a *Futureintech* intervention.
- *Venture Up* is a programme that provides entrepreneurship skills to rangatahi (young people) aged 16-24. Following a roadshow to more than 200 rangatahi, 40 were selected for a six-week intensive accelerator programme. Eight teams created a viable business. One of the teams has now secured three investors.
- *Chiasma* is a student-led, nationwide organisation that connects science students with industry and fosters innovation and commercialisation. *Chiasma* has grown its membership of students and industry members to more than 2,000.

Technology networks

We provide line-of-sight between research, technology and industry and ensure that businesses have access to a single front door to the innovation system.

We create bridging forums that connect industry and the R&D community, for example, the Callaghan Innovation workshop at NZBIO in September 2015. We organised an additive manufacturing networking event, promoting the connectivity of industry, researchers and technology providers across a number of sectors. Our Materials selection workshop series introduced New Zealand companies to technology capability that helps researchers, designers and engineers make better material selection decisions for their physical products.

International partnerships

We build and maintain strategic international partnerships to assist us, and the wider New Zealand innovation system, to be at the forefront of innovation best practice and to take advantage of technological trends and opportunities.

Callaghan Innovation is a partner in the Enterprise Europe Network (EEN), one of the world's largest innovation networks focused on supporting small and medium enterprises to grow internationally. This year we joined the Healthcare sector group, which brings New Zealand into contact with healthtech innovation specialists and clusters. We also used EEN business matchmaking tools to facilitate ongoing business partnerships between New Zealand and European companies in the medtech sector. As well, we built our innovation relationships through joint innovation forums, partnering with embassies, and leading workshops and groups of foreign companies visiting New Zealand.

Pilot plants, incubators and innovation precincts

We are part of a networked system of shared innovation facilities and pilot plant services for businesses. We also support two types of incubator that work with start-up businesses to speed their paths to market.

Pilot plants

We support the New Zealand Food Innovation Network of pilot plants. As part of this support we have been directly involved in the set-up and operation of two open-access food and beverage pilot plants: Food South at Lincoln University and FoodBowl in Auckland.

Incubators

In the past year founder incubators incubated 132 start-ups while technology incubators incubated 20 start-ups. Both types of incubator continued to contribute to the broader start-up ecosystem through activities such as:

	FOUNDER	TECH
Biotech	2	9
Energy	3	-
Medical devices	3	1
Agritech	12	3
Food & beverage	8	1
Digital	44	3
Financial services	10	-
Other	50	3
Total	132	20

- Increasing the pool of capable mentors and enabling access to specialist advice and expertise
- Raising investor funds
- Raising awareness of high-tech start-up ventures
- Hosting entrepreneurial capability development programmes.

Innovation precincts

We are following the Treasury guidelines in the development of the Business case for the Gracefield Innovation Precinct. We have provided funding and support for the creation of the Vodafone xone, a telecommunications focused innovation facility based at the Christchurch Innovation Precinct.

National Science Challenge: Science for Technological Innovation

Callaghan Innovation hosts the National Science Challenge: Science for Technological Innovation, which aims to enhance New Zealand's ability to use physical and engineering science for economic growth.

The National Science Challenge assembled some of New Zealand's world-leading scientists and engineers into five multidisciplinary, cross-institutional teams focused on taking advantage of global opportunities for innovation in areas of strength and competitive advantage.

From creating world-leading, next-generation, in-home medical systems to developing a revolutionary method for more accurate groundwater velocity mapping, these researchers have been collaborating to address some of New Zealand's and the world's biggest technological challenges. Researchers are becoming better informed about the changing shape of our economy to help support its future direction by providing science and innovation solutions that add value to firms. Four broad research themes – including Vision Mātauranga, which is unlocking the science and innovation potential of Māori knowledge – span industry sectors so that the Challenge can establish partnerships with businesses and Māori organisations in the right areas. The Challenge has established an ambitious programme of observational research to understand and overcome barriers to innovation that is already providing insights into industry-researcher relationships.

Measurement Standards Laboratory

Callaghan Innovation's Measurement Standards Laboratory (MSL) is responsible for providing national measurements, standards and related services in accordance with section 4 of the Measurement Standards Act 1992.

The measurement world is about to change. Currently the kilogram unit is defined solely by the International Prototype Kilogram, a platinum-iridium weight held triple-locked in a vault in Paris and accessible only to a privileged few. The kilogram is the last base unit of the International System of Units to be defined by a physical object, but not for much longer. From October 2018 the kilogram will be defined in terms of a fundamental constant of nature, known as the Planck constant, and accessible to all – for example via a Kibble (or watt) balance. A Kibble balance is an electromechanical instrument that measures the weight of an object in terms of precisely known standards of electric current and voltage, which together are linked to the Planck constant.

During 2015/16 MSL began developing a Kibble balance that is radically different from and much simpler than existing Kibble balances. Once completed, MSL's Kibble balance will allow the kilogram to be realised in New Zealand without the need to check its value regularly against a physical kilogram in Paris. MSL is one of only a handful of laboratories working on Kibble balances worldwide. This will help us measure mass in terms of the kilogram more easily and cheaply. Metrology plays a central role in scientific discovery and innovation, industrial manufacturing, international trade and protecting the global environment.



In 2015/16 MSL provided New Zealand with uniform units of measurement and maintained standards of measurement of physical quantities in the following areas:

- Electricity
- Temperature and humidity
- Time and frequency
- Length
- Mass and pressure
- Photometry and radiometry

MSL maintained 182 internationally recognised calibration and measurement capabilities. It also maintained signatory status of the Mutual Recognition Arrangement between international and national metrology institutes and participated in international measurement comparisons.

MSL supported the development and management of the International System of Units through research and collaborations in the following areas:

- Advancing the global redefinition of the kilogram.
- Working with the National Institute of Metrology in China on Johnson noise thermometry for the purpose of measuring Boltzmann's constant (a global redefinition of the kelvin).
- Developing a new definition of relative humidity.

06

CASE
STUDY

BUILDING NEW ZEALAND'S
INNOVATION CAPABILITY



*"Innovation is great ideas,
executed really well."*

BAILEY MACKEY



Matariki X

*"Innovation is bravery
in action."*

ROBBETT HOLLIS



As the seven stars of the Pleiades rose in the sky during Matariki 2016, fourteen stars of Māori innovation and business descended on Rotorua for Matariki X, a one-day Māori Inspire event that brought them together with more than 300 ambitious, innovation minded Māori entrepreneurs and selected rangatahi (young people) from across the country.



The Matariki X event had fourteen speakers giving presentations on their business journey (touching on successes and failures), and exploring the future for Māori businesses using technology and innovation. Panel sessions and short videos introducing speakers rounded out the event, which followed the theme of 'Innovation, Inspiration and Overcoming Failure'.

The impressive and diverse line-up of speakers, which included pioneering animator Ian Taylor, NASA engineer Mana Vautier and supermarket chain entrepreneur Jason Witehira, was tasked with four key objectives: motivating the audience to be more ambitious, inspiring rangatahi to become innovators, creating an appetite for risk, and encouraging business owners to recognise failure as a normal part of innovation.

Matariki X was the first regional Māori Inspire event and was truly a team effort: Callaghan Innovation partnered with three local enterprises, Poutama Trust; Takiwai, the Rotorua Māori Business Network; and GHA, a consultancy that works with many Māori enterprises. These partnerships provided logistical support on the ground and — crucially — provided a pipeline to reach the regional Māori business leaders who would attend the event.

Organisers and attendees deemed Matariki X a phenomenal success, with surveyed audience members reporting that they were highly likely to make changes to their businesses

“Matariki X inspired me by giving me confidence to validate my technology and provided me with significant connections to assist my project. I am now working with Callaghan Innovation who support and advise me on how to best develop my technology as well as through grant funding.”

DR LANCE O'SULLIVAN

as a result of attending, and half of the attendees saying they had made connections that would be useful for their businesses. In fact the speakers themselves have since reconvened to devise their own plans to support and drive Māori business innovation collectively — a wholly unexpected result. As well, the event reached people far beyond the venue itself: there was extensive coverage in print and broadcast media, we reached another 29,000 people through Twitter, and the Matariki X speaker videos on Callaghan Innovation's Facebook page have since been viewed more than 40,000 times.

Feedback from the event was extremely positive, with one attendee letting us know that, “This was as high a quality event as I'd ever been to both locally and internationally. There was a great balance of topics across the speakers from various industries. The value-packed talks motivated me to look up more detail later and the experience provided contacts to call on when the time comes. In particular it was encouraging to hear about the real world lessons to be learned and how solutions were put into practice.” As a result of the event 48 customers expressed a desire to know more about Callaghan Innovation and how we can help their business succeed through technology.

C-PRIZE

In April 2015, having spotted an opportunity to further boost New Zealand's position as a leading developer of unmanned aerial vehicle (UAV) technology, or drones, Callaghan Innovation launched its first C-Prize competition.

The competition invited New Zealand students, innovators and entrepreneurs to develop UAV technology for the screen industry, with challenges set in three specific areas: reducing UAV noise (the Pūrerehua challenge), increasing stability in high winds (the Marangai challenge) and improving automated object tracking (the Eagle Eye challenge).

Eighty entrants submitted initial concepts, which were judged by a panel of film and technology experts. Callaghan Innovation supported the six finalists with expert advice and coaching to build and test their prototypes, and in December 2016 Vortec UAV, a group of former University of Auckland students, was announced the winner of the inaugural C-Prize.

In April 2016, just a year after the C-Prize launched, Vortec UAV and C-Prize finalist Dotterel Technologies took their drone prototypes to the 2016 National Association of Broadcasters (NAB) show in Las Vegas.



300
REGISTERED

80
ENTRIES RECEIVED

SIX
FINALISTS

ONE
WINNER

"We were able to get in front of essentially every major UAV company in the cinematography industry."

**DOTTEREL TECHNOLOGIES
MATTHEW ROWE**

The NAB show is by far the largest media, broadcast and technology trade and consumer show in the world, with more than 100,000 people descending on Las Vegas each year to attend the week-long show.

Callaghan Innovation sponsored a New Zealand UAV Technology Pavilion within the broader NAB Aerial Robotics and Drone Pavilion, and UAV technology was a hot topic at NAB 2016. Vortec's thrust-vectoring technology was well received by NAB attendees, and the sales team made some excellent connections with major drone manufacturers as they progress their product towards commercialisation. Dotterel found themselves in the enviable position of being a true niche product, as the only company offering noise-cancellation systems for UAVs. The company received some incredible media and market interest, including being deemed "most innovative product" by industry publication *Newsshooter.com* – a phenomenal accolade for the New Zealand start-up considering the range of products on display.

Matthew Rowe of Dotterel says that being part of the New Zealand pavilion was significant for the young company. "We were able to get in front of essentially every major UAV company in the cinematography industry, and have one-on-one conversations with key senior staff at those companies. We also received a great deal of feedback from show attendees that the New Zealand booth was simply amazing; the Callaghan Innovation team did an outstanding job of establishing the New Zealand presence on the world stage."



Our connections and partnerships

Critical to our success is our close relationships with the key players in New Zealand's innovation system. We place a high importance on building and strengthening the connections we have with our stakeholders.

We help businesses to succeed by directing them to the best expertise, whether it is inside or outside Callaghan Innovation. Our National Technology Network Managers have built strong links with New Zealand R&D providers. Our understanding of the capabilities of other providers and good relationships with them are important for strengthening the whole New Zealand innovation ecosystem.

We work closely with other government agencies to be effective and well-coordinated when we are providing support for businesses.

- We partner with various regional bodies and economic development agencies (EDA's) to help us support regional businesses to develop and commercialise technology.
- Many EDAs and Chambers of Commerce are Regional Business Partners (RBPs), who our team are providing local access to our services. RBPs help customers to access directly the expertise they require and the RBP innovation specialists act as Callaghan Innovation account managers, where we do not have physical offices in New Zealand's regions.

- We also partner with incubators to help businesses start up and scale up. Our support for incubators ensures that good ideas and technologies can ultimately turn into New Zealand successes.

We meet regularly with our stakeholders and also benefit from the independent, expert advice of our Stakeholder Advisory Group, which includes business, research, incubation and angel investment leaders.

Callaghan Innovation and New Zealand Trade and Enterprise

Callaghan Innovation and New Zealand Trade and Enterprise (NZTE) work closely together. We have joint engagement plans in place which help us to be aligned and ensure we have the best support for customers. Our focus in the past year was on creating an effective foundation for this joint engagement. We intend to build on this, to provide end-to-end support collaboratively for a greater number of New Zealand businesses. We have continued to develop our relationship and have worked collaboratively to ensure that our joint customers have a seamless experience. This involves adopting a 'no wrong door' approach, sharing information through common data platforms and integrating our service suite.



Market insights

Products and services development



Multiple overseas markets

Go to market

Our people

Our people are our greatest asset. To meet the needs of our customers we continually work towards attracting and maintaining a high calibre of staff who come from many different, relevant sectors.

This diversity of experience and expertise in both private and public sectors ensures that our wide range of customers can receive the best support and advice they need.

Callaghan Innovation strives to have an open, inclusive and diverse workforce that attracts highly motivated people with a broad range of abilities and talent. We want to be an organisation in which all people, whatever their roles, gender or ethnic or social backgrounds, have the opportunity to be their best. An early focus was on improving our organisation's gender balance and actively increasing the number of Māori employees, and we will continue to prioritise this in 2016/17.

Leadership and Talent

Our mission is to attract and retain a talented and experienced workforce.

To meet this objective we provide our people with the support and development they need to help them excel in their roles, including learning and development in both technical and business domains.

Callaghan Innovation has a leadership framework that describes:

- Our values
- How we define leadership at Callaghan Innovation
- The skills, knowledge and behavior that will support the achievement of our strategic priorities
- The expectations of leaders at Callaghan Innovation.

Home safe every day

The safety of our staff is tantamount. In 2016 Callaghan Innovation established a Health, Safety and Environment Board Subcommittee to help guide the organisation in this area. Callaghan Innovation has a significant programme or work underway to improve health, safety and environment (HSE) participation and culture.

This includes: implementing new technology for incident reporting, inspections and risk assessments; reviewing all policies and procedures in order ultimately to produce an integrated health and safety manual; refreshing the HSE policy and mission; and establishing a broad-reaching safety goal of 'Home safe every day'. As well, Callaghan Innovation has invested in HSE training for all managers.



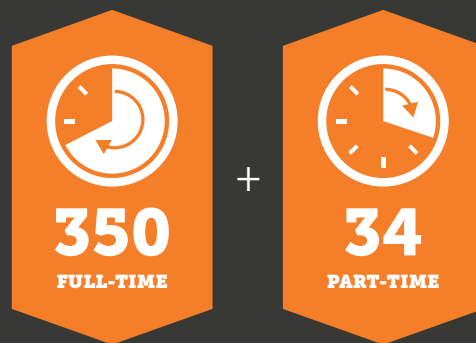
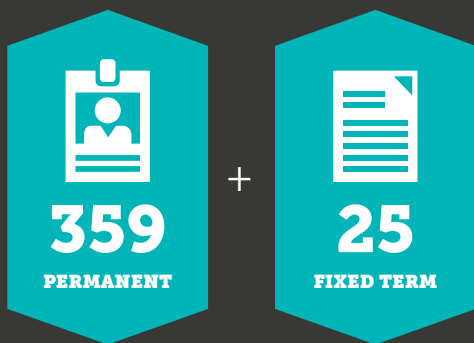
EXIT

EMERGENCY

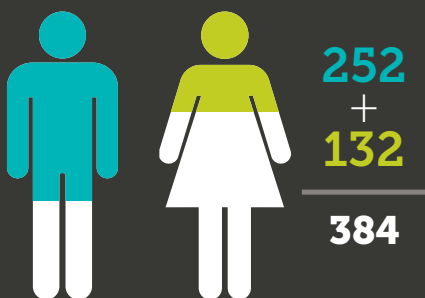
OUR PEOPLE



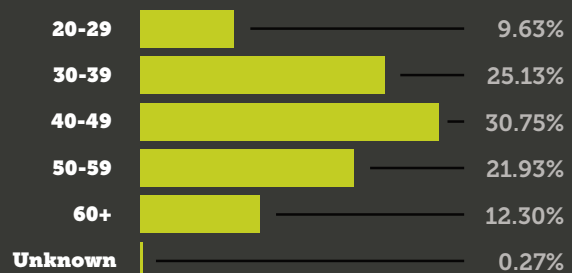
EMPLOYEES



GENDER



AGE in 10 year groupings



LOCATION

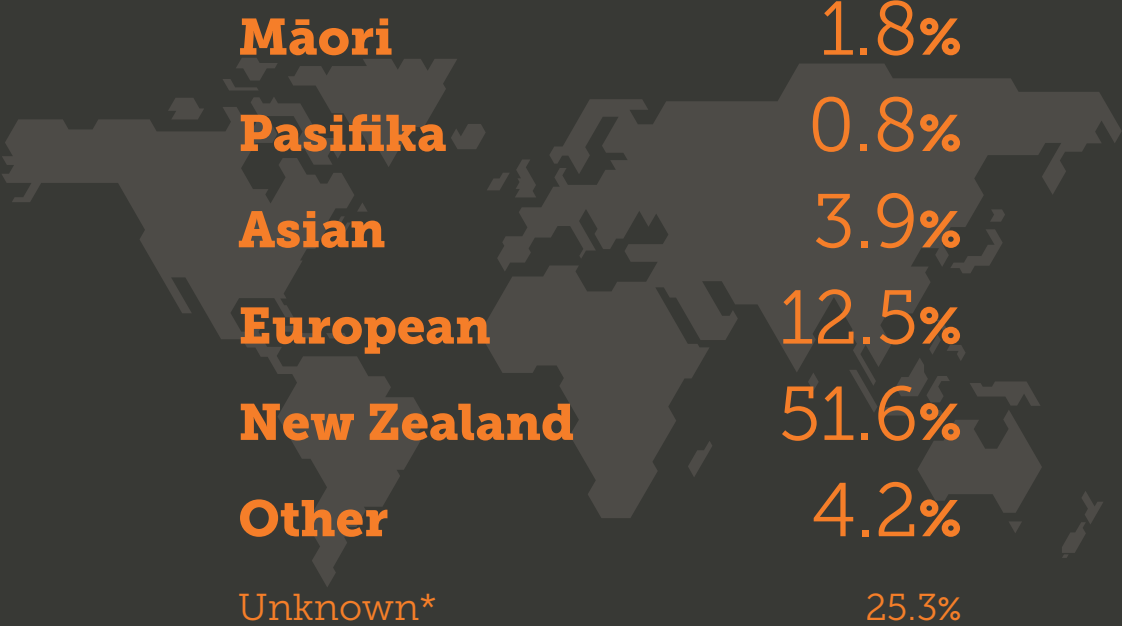


63 | AUCKLAND

287 | WELLINGTON

34 | CHRISTCHURCH

OUR EMPLOYEES IDENTIFY AS



*Due to individual choice not to report and unavailable information.

Our commitment to being a good employer

Organisational Health and Capability

Callaghan Innovation regularly reviews and develops policies and programmes to ensure with it's management is supporting the development of our peoples capability and reinforcing our organisational values.

The following gives an overview of Callaghan Innovation's activities and initiatives that support the seven good employer criteria.

1. Leadership, Accountability and Culture

- Ran Kia Maia, a Māori culture programme based on a marae; 18 staff participated
- Improved and reported on workforce demographic data
- Provided development opportunities for leaders
- Held quarterly staff roadshows run by the Executive Leadership team
- Involved staff in change management processes and provided multiple opportunities for feedback
- Involved staff in the design phase of a major organisational transformation programme
- Undertook the annual employee engagement survey
- Refocused our internal communications strategy to support culture and engagement, including the rollout of a new homepage that makes it easier for staff to connect, share and engage
- Successfully implemented a Women in Leadership mentoring programme
- Ran a intensive workshop to increase staff capability in the leadership of the Callaghan Innovation haka.

2. Recruitment, Selection and Induction

- Welcomed new staff through the executive-led orientation programme
- Analysed recruitment data to track the ethnicity and gender of applicants and target key areas
- Streamlined the onboarding process.

3. Flexibility and Work Design

- Maintained flexible work practices and policies, including providing for flexible working arrangements for employees with child and elder care responsibilities. This includes the ability to work from different locations.
-

4. Employee Development, Promotion and Exit

- Introduced an improved performance development system
 - Introduced the 70:20:10 principles of learning
 - Provided development opportunities in areas including:
 - Management Bootcamp
 - Te reo Māori sessions
 - Women in Leadership mentoring pilot
 - 360 feedback
 - Analysed and reported on exit survey responses
 - Developed a Competency Framework that outlines the behaviour expected of our people and guides individual performance, career development, team performance and recruitment.
-

5. Reward and Recognition

- Undertook the annual remuneration review process
 - Implemented an employee recognition programme
 - Presented 16 Callaghan Innovation awards to employees who had consistently demonstrated Callaghan Innovation values in their work
 - Recognised employees who had completed 20, 30 and 50 years' loyal service at Callaghan Innovation (and its predecessor organisations)
 - Reviewed the job evaluation framework to ensure relativities and fairness in our remuneration structures.
-

6. Harassment and Bullying Prevention

- Reviewed our Preventing and Responding to Bullying, Harassment and Unlawful Discrimination Policy to ensure that it was fit for purpose
 - Had no formal complaints about bullying.
-

7. Healthy and Safe Environment

- Established an HSE Board Subcommittee to provide effective governance of our HSE strategy, plan, programmes and activities
 - Provided training on HSE responsibilities, requirements and processes
 - Implemented a new HSE online system
 - Maintained an active Health and Safety Committee, trained floor wardens and ensured first aid training was up to date
 - Provided a range of support to promote health and wellbeing, including an employee assistance programme, flu vaccinations, wellbeing and fitness programmes and standing desks
 - Undertook regular reviews and management of sick leave and high annual leave balances
 - Promoted safety in the workplace through reminders about emergency preparedness
 - Reported regularly on HSE matters and actions
 - Reported the following health and safety rates:
 - Lost Time Injury Frequency Rate: 0 per 200,000 worker hours
 - Total Recordable Injury Frequency Rate: 1.64 per 200,000 worker hours
 - Medical treatment injury frequency rate: 1.64 per 200,000 worker hours
-

Governance

The Board is Callaghan Innovation's governing body; all decisions relating to the organisation's operation are made by, or under the authority of, the Board in accordance with the Callaghan Innovation Act 2012 and the Crown Entities Act 2004.

During the 2015/16 year there were a number of changes to the Board membership. Sue Suckling (Chairperson), Robin Hapi and Richard Janes were reappointed for further terms, and Robin Hapi was appointed Deputy Chairperson. Michele Allan, Craig Richardson, Paul Lockey and Peter Hunter completed their terms during the year. Al Monro, Alison Barrass, Simon Botherway, Frances Valentine and Kate McGrath were appointed to the Board during this year.

The Minister of Science and Innovation appointed the Chief Executive of the Ministry of Business, Innovation and Employment as an advisor to the Board. This role was delegated to Paul Stocks, Deputy Chief Executive – Science, Skills and Innovation.

The Board meets monthly and at other times as 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 their direct reports.

Grants

The Grants Committee supports the Callaghan Innovation Board in its decision-making on proposals, including operational policy-setting and consideration of the impacts of grants for business-led R&D. In addition to the Board members, this committee includes two external members.

Health, Safety and Environment

The purpose of the HSE Committee is to assist the Board with its responsibilities with respect to the HSE practices of Callaghan Innovation.

Board terms and committee membership

Board Members	Board Term	Audit and Risk	Appointments and Remuneration	HSE	Grants
Sue Suckling (Board Chair)	31/01/2018	Ex-officio member	Chair	Ex-officio member	Ex-officio member
Paul Lockey	01/03/2016 <i>Term ended</i>	Chair	-	-	-
Robin Hapi (Deputy Chair)	30/06/2018	-	-	Chair	Member
Michele Allan	22/09/2015 <i>Term ended</i>	-	Member	-	-
Richard Janes	31/01/2018	-	-	Member	Chair
Peter Hunter	01/03/2016 <i>Term ended</i>	-	Member	-	-
Craig Richardson	22/09/2015 <i>Term ended</i>	Member	-	-	Member
Al Monro	30/06/2018	Member	-	-	Member
Alison Barrass	30/06/2018	Member	-	Member	-
Frances Valintine	27/02/2019	-	Member	-	-
Simon Botherway	27/02/2019	Chair	-	-	-
Kate McGrath	27/02/2019	-	Member	-	-

Note: A member continues in office despite the expiry of their term in accordance with section 32(3) of the Crown Entities Act.

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

Stakeholder advisory group

Our Stakeholder Advisory Group members come from the business and science communities, and between the nine members have expertise in the manufacturing, research and services sectors. They are all appointed on a voluntary basis for two or three-year terms. Accountable to the Board, the group provides candid wisdom and insights to guide our strategy and design programmes.

Members	Role	Organisation
Dr Andrew Coy (Chairperson)	Chief Executive Officer	Magritek
Paul Adams (term ended 31/03/16)	Chairman and Chief Executive Officer	EverEdge IP
Tom Grealley	Consultant	Independent
Brett Hewlett	Company Director	Priority One
Frank Owen (term ended 31/03/16)	Independent director and innovation advisor	Independent
Suse Reynolds	Executive Director	Angel Association of New Zealand
Charlotte Walshe	Chief Executive Officer	Dynamic Controls
Peter Landon-Lane	Chief Executive Officer	Plant and Food Research
Professor Claire Robinson	Pro Vice-Chancellor	Massey University
Andrew Hamilton (from 01/04/16)	Chief Executive Officer	Icehouse
Stefan Korn (from 01/04/16)	Chief Executive Officer	Creative HQ

Statement of Responsibility

The Callaghan Innovation Board is responsible for the preparation of the financial statements and the statement of service performance for the period 1 July 2015 to 30 June 2016, 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 performance for the period from 1 July 2015 to 30 June 2016 fairly reflect the financial position and operations of Callaghan Innovation.



Sue Suckling
Chair



Simon Botherway
Board member

Statement of Performance

This statement of performance reports on progress against the performance measures contained in Callaghan Innovation's Statement of Performance Expectations 1 July 2015 – 30 June 2016.

We continued to make steady progress against the key performance measures set out in our Statement of Intent 2015–2019 and the Statement of Performance Expectations in the year ending 30 June 2016.

This year for 2016/17 we merged three of our output classes into the Callaghan Innovation Operations Multi-Category Appropriation to align better with our activities. We achieved 84% of our key performance measures and further information has been provided for the three measures that we have not met. With the core building blocks in place we focused on further developing our suite of products and services in order to deliver value to our customers.

We continued to improve core systems and infrastructure to ensure we are a highly effective and efficient organisation. We have a strong focus on strengthening our information collection so that we can monitor the impacts of our services down to an individual business level.

OUTPUT CLASS

1. Building Business Innovation

This appropriation is limited to activities that raise awareness of and increase business investment in R&D. Raising awareness of and increasing business investment in R&D is a core function for Callaghan Innovation. We accelerate the growth of innovative companies and build the effectiveness and skills of New Zealand's innovation system. The services we provide support New Zealand's high-value manufacturing and services (HVMS) businesses in overcoming information problems and transaction costs in sourcing advice, technical expertise and training.

Financial Performance

	Budget Revenue 2015/16 – \$000	Business Case Revenue 2015/16 – \$000	Actual Revenue 2015/16 – \$000	Actual Expenditure 2015/16 – \$000	Actual Surplus 2015/16 – \$000
Appropriation	32,378	32,378	24,095	-	-
Other	1,475	-	1,835	-	-
Total	33,853	32,378	25,930	23,768	2,162

Performance measures

Quantity	Performance Standard	Result
Percentage of surveyed customers who agree or strongly agree that Callaghan Innovation has added value to their business	Establish baseline	60%
Number of business-related contacts to Customer Engagement Centre (CEC) seeking access to business services	>200 average per month	Achieved 347 business contacts per month were directed by the CEC ('direct transfers') ²
Total number of customers using each innovation service	Establish baseline	Global Expert – 112 Better By Lean – 40 Build for Speed – 9 Driving Innovation – 4 HPWI – 49 IMProve – 12 Innovation IP – 126
Number of business engagement plans agreed with customers	130	154

² Within the average of the 347 business contacts directed by the CEC, an average of 162 business-related contacts were further assisted by the CEC each month.

OUTPUT CLASS

2. **Research and Development Services and Facilities for Business and Industry**

This appropriation is limited to providing research and technical expertise and facilities to businesses and industry. We meet the R&D needs of businesses and industry to help them grow. Our R&D services provide New Zealand HVMS businesses with outsourced access to product development expertise, open labs, engineering workshops and pilot plants. We have specialist equipment, facilities and technological expertise to assist business and industry to increase their R&D activity. Our staff work diligently to find solutions that solve our customers' R&D challenges. We also facilitate interactions with other research providers when they have complementary technical expertise.

Financial Performance

	Budget Revenue 2015/16 – \$000	Business Case Revenue 2015/16 – \$000	Actual Revenue 2015/16 – \$000	Actual Expenditure 2015/16 – \$000	Actual Surplus 2015/16 – \$000
Appropriation	19,523	21,658	23,375	-	-
Other	26,341	27,247	25,128	-	-
Total	45,864	48,905	48,503	48,247	256

Performance Measures

Quantity	Performance Standard	Result
10 R&D subcontracts between Callaghan Innovation and other R&D providers totaling more than \$2 million	Achieved	Achieved
Number of New Zealand businesses with research and technical service contracts	150	188
Commercial revenue from domestic customers	\$6 million	\$8 million

OUTPUT CLASS

3. **Business Research and Development Contract Management**

This appropriation is limited to the selection of businesses or individuals for either the provision of research, science and technology output or the award of grants, and to negotiating, managing and monitoring appropriate contracts with these businesses or individuals.

Callaghan Innovation currently manages three R&D grant funds on behalf of the Ministry of Business, Innovation and Employment. We provide robust, transparent and efficient grant allocation and monitoring services to businesses. See page 32 for further detail on the three R&D grant funds.

Financial Performance

	Budget Revenue 2015/16 – \$000	Business Case Revenue 2015/16 – \$000	Actual Revenue 2015/16 – \$000	Actual Expenditure 2015/16 – \$000	Actual Surplus 2015/16 – \$000
Appropriation	7,751	6,256	12,863	-	-
Other	265	-	507	-	-
Total	8,016	6,256	13,370	13,187	183

Performance Measures

Quantity	Performance Standard	Result
Contracts are monitored and managed to maximise the likelihood of delivering on the contract outcomes	100%	100%
Percentage of growth, project and student ³ fellowship applications approved within 30 working days of receipt of the completed applications	90%	84.5% (377 of 446 approved) ⁴
Percentage of repayable grant applications processed within five working days	90%	85% (17 of 20 approved) ⁵

3 To ensure representative reporting of this measure, the student grants included are student fellowship grants, R&D experience grants and student career grants.

4 The processes that were in place during the 2015/16 year were not appropriate to achieve this measure. The grants enhancement project was underway in 2015/16 and is now being implemented to improve our customers' experiences and processing times.

5 The processes that were in place during the 2015/16 year were not appropriate to achieve this measure. The repayable grants process review was completed in 2015/16 and a new process is now being implemented to improve our customers' experiences and processing times.

OUTPUT CLASS

4. **National Measurement Standards**

This appropriation is limited to providing specified standards to satisfy the needs for traceable physical measurement in New Zealand. What does this mean? We contribute to the global success of businesses selling products and services that are dependent on accurate and internationally accepted traceable physical measurements. Our Measurements Standards Laboratory (MSL) is New Zealand's national metrology institute, ensuring that New Zealand's units of measurement are consistent with the International System of Units. The delivery of services is provided by MSL in accordance with its role assigned under the Measurement Standards Act 1992.

Financial performance

	Budget Revenue 2015/16 – \$000	Business Case Revenue 2015/16 – \$000	Actual Revenue 2015/16 – \$000	Actual Expenditure 2015/16 – \$000	Actual Surplus 2015/16 – \$000
Appropriation	5,764	5,764	5,082	-	-
Other	874	-	676	-	-
Total	6,638	5,764	5,758	5,624	134

Performance measures

Quantity	Performance Standard	Result
The provision of national measurements and standards and related services in accordance with statutory obligations under section 4 of the Measurement Standards Act 1992, reported annually to the Minister and accepted	Achieved	Achieved
All technical procedures related to the maintenance of national measurement standards (in accordance with the resolutions and recommendations of the Metre Convention) are independently reviewed and validated, with all external review actions completed by 30 June 2016	Achieved	Achieved

Business Research and Development Grants

In addition to our four output classes, Callaghan Innovation administers three funding programmes aimed at helping businesses to invest more in R&D. We administer a range of R&D grants to add scale to businesses' own R&D investments for greater impact. Our R&D grants are structured to meet a range of business needs, whether those businesses are young start-ups or established R&D performers.

Business Research and Development Growth Grants

Growth Grants are designed to increase R&D investment by businesses that have strong track records of 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. Growth Grants are funded by the Crown through a multi-year appropriation.

Quantity	Performance Standard	Result
Percentage of businesses receiving Growth Grants that maintain or increase their R&D expenditure over the grant period	70%	83% (138 of 167 Growth Grants)

Targeted Business Research and Development Funding

R&D Project Grants support greater investment by businesses in R&D, especially those with less-established R&D programmes. We provide up to 40% co-funding of R&D costs.

Our R&D experience, career and fellowship grants support undergraduate and graduate students to work in commercial R&D environments as interns in New Zealand's excellent commercial R&D facilities; this is a win-win solution for both industry and the students. These grants are funded by the Crown through a multi-year appropriation.

Quantity	Performance Standard	Result
Percentage of businesses completing R&D Project Grants that positively rate Callaghan Innovation's assistance as valuable in their final reports ⁶	80%	90% (81 of 90 Project Grants)
Percentage of surveyed recipients who would recommend the R&D experience grants to others	80%	95% (219 of 229 responses)

6 This performance measure is in relation to the value that the customer perceives from Callaghan Innovation's assistance and service, not the value of the grants received.

Repayable Grants for Start-ups

Our Incubator Support Programme accelerates the growth and success of high-value New Zealand start-up businesses through a range of services and funding. We intend to support the development and growth of new technology-focused business start-ups.

Quantity	Performance Standard	Result
Percentage of incubator contracts that are assessed as delivering as required (founder focused and technology focused)	90%	90%
Percentage of businesses from technology-focused incubators entering into repayable loan agreements	90%	50% ⁷

Non-departmental Capital Expenditure

This appropriation is limited to capital expenditure to support the establishment and development of an advanced technology institute.

This capital expenditure is to support the purchase or development of assets by and for the use of Callaghan Innovation to ensure that we have the appropriate infrastructure to enable us to provide the best possible services to businesses.

Quantity	Performance Standard	Result
Any physical and virtual infrastructure investment is aligned with the overall strategy, mix of services and business engagement model	Achieved	Achieved
Any major capital project proposal is developed in accordance with published Treasury business case guidance	Achieved	Achieved

⁷ This measurement was inappropriate for the programme. The performance measure and standard were both updated for the 2016/17 year to reflect the realities of this programme. This measure reflects the percentage of pre-incubation projects that are entering into repayable loan contracts. The total number of pre-incubation projects was 40, and the total number of repayable loans from these was 20. Note that the decision to proceed to a repayable loan agreement from the approval of a pre-incubation project may not occur in the same year financial year and remaining pre-incubation projects may enter into repayable loan agreements for the next financial year.

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STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2016

		GROUP 2016 ACTUAL	GROUP 2016 BUDGET	GROUP 2015 ACTUAL
	<i>Notes</i>	\$000	<i>Unaudited</i> \$000	\$000
Revenue				
Funding from the Crown	2	68,749	74,874	73,636
Funding from the Crown - grants		154,126	195,496	138,477
Commercial and other revenue	2	20,319	19,497	18,990
Interest revenue		1,432	907	1,423
Total revenue		244,626	290,774	232,526
Expenditure				
Personnel costs	3	(44,426)	(44,379)	(41,599)
Science project and subcontract costs		(15,684)	(21,609)	(21,546)
Other expenses	3	(23,482)	(22,719)	(22,893)
Depreciation and amortisation expense	8,9	(5,968)	(6,314)	(5,171)
Grant expense	4	(154,126)	(195,496)	(138,477)
Interest expense		(81)	-	-
Total operating expenditure		(243,767)	(290,517)	(229,686)
Acquisition (loss) gain	11	-	-	(700)
Joint venture impairment	11	(533)	-	-
Share of surplus from joint venture and associate	11	732	-	281
Surplus for the period		1,058	257	2,421
Other comprehensive revenue and expense				
Cash flow hedges (net of tax)		731	-	(453)
Total comprehensive revenue and expenses		1,789	257	1,968

Explanations of major variances against budget are provided in note 23.

The accompanying accounting policies and notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

GROUP	Notes	Contributed capital \$000	Accumulated surplus \$000	Hedge reserve \$000	Total equity \$000
Balance as at 1 July 2014		40,573	3,764	79	44,416
Surplus for the year		-	2,421	-	2,421
Other comprehensive revenue					
Cash flow hedge reserve		-	-	(453)	(453)
Total comprehensive revenue and expense for the year		40,573	6,185	(374)	46,384
Other transactions					
Capital contribution		8,000	-	-	8,000
Balance as at 30 June 2015		48,573	6,185	(374)	54,384
Balance as at 1 July 2015		48,573	6,185	(374)	54,384
Surplus for the year		-	1,058	-	1,058
Other comprehensive revenue					
Cash flow hedge reserve		-	-	731	731
Total comprehensive revenue and expense for the year		48,573	7,243	357	56,173
Other transactions					
Capital contribution		4,300	-	-	4,300
Balance as at 30 June 2016	6	52,873	7,243	357	60,473

Explanations of major variances against budget are provided in note 23.

The accompanying accounting policies and notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 30 June 2016

GROUP BUDGET (unaudited)	Notes	Contributed capital \$000	Accumulated surplus \$000	Hedge reserve \$000	Total equity \$000
Balance as at 1 July 2014		40,573	9,461	(36)	49,998
Surplus for the year		-	880	-	880
Other comprehensive revenue					
Cash flow hedge reserve		-	-	-	-
Other transactions					
Capital contribution		9,000	-	-	9,000
Total comprehensive revenue and expense for the year		49,573	10,341	(36)	59,878
Balance as at 30 June 2015		49,573	10,341	(36)	59,878
Balance as at 1 July 2015		49,573	10,341	(36)	59,878
Surplus for the year		-	257	-	257
Other comprehensive revenue					
Cash flow hedge reserve		-	-	-	-
Total comprehensive revenue and expense for the year		49,573	10,598	(36)	60,135
Other transactions					
Capital contribution		4,344	-	-	4,344
Balance as at 30 June 2016	6	53,917	10,598	(36)	64,479

STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		GROUP 2016 ACTUAL	GROUP 2016 BUDGET <i>Unaudited</i>	GROUP 2015 ACTUAL
	<i>Notes</i>	\$000	\$000	\$000
EQUITY				
Contributed capital	6	52,873	53,917	48,573
Accumulated surplus	6	7,243	10,598	6,185
Hedge reserve	6	357	(36)	(374)
TOTAL EQUITY		60,473	64,479	54,384
<i>Represented by:</i>				
CURRENT ASSETS				
Cash and term deposits	5	29,740	16,823	24,716
Trade and other receivables	7	6,251	6,343	6,152
Crown debtor - grants	7	69,311	48,472	65,668
Derivative financial instruments	19	357	-	-
Work in progress		819	323	621
Inventories		258	153	237
Total current assets		106,736	72,114	97,394
NON-CURRENT ASSETS				
Trade and other receivables	7	1,128	-	1,773
Investment in joint ventures and associates	11	7,397	7,460	7,198
Property plant and equipment	8	33,766	42,284	32,216
Intangible assets	9	1,878	5,441	1,773
Total non-current assets		44,169	55,185	42,960
TOTAL ASSETS		150,905	127,299	140,354

Explanations of major variances against budget are provided in note 23.

The accompanying accounting policies and notes form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION CONTINUED

As at 30 June 2016

		GROUP 2016 ACTUAL	GROUP 2016 BUDGET	GROUP 2015 ACTUAL
	<i>Notes</i>	\$000	<i>Unaudited</i> \$000	\$000
CURRENT LIABILITIES				
Trade creditors and other payables	14	10,055	7,521	11,749
Derivative financial instruments	19	-	-	374
Employee benefits	12	3,386	3,652	3,141
Provisions	15	692	-	108
Grant obligations	17	69,311	48,472	65,668
Funds received in advance	13	6,732	2,635	4,601
Total current liabilities		90,176	62,280	85,641
NON-CURRENT LIABILITIES				
Employee benefits	12	256	540	329
Total non-current liabilities		256	540	329
TOTAL LIABILITIES		90,432	62,820	85,970
NET ASSETS		60,473	64,479	54,384

For and on behalf of the members of the Board, which authorised the issue of the financial statements on 1 September 2016.



Sue Suckling
Chair, Callaghan Innovation Board



Simon Botherway
Callaghan Innovation Board

STATEMENT OF CASH FLOWS

For the year ended 30 June 2016

	Notes	GROUP 2016 ACTUAL \$000	GROUP 2016 BUDGET Unaudited \$000	GROUP 2015 ACTUAL \$000
CASH FLOW FROM OPERATING ACTIVITIES				
<i>Cash was provided from:</i>				
Receipts from the Crown - operating		75,500	73,134	74,391
Receipts from the Crown - grants		150,483	195,500	117,644
Receipts from commercial customers		18,659	19,351	17,445
Interest received		1,432	907	1,423
		246,074	288,892	210,903
<i>Cash was applied to:</i>				
Payments to suppliers		(45,354)	(43,545)	(41,173)
Payments to employees		(43,472)	(43,210)	(42,165)
Payments to grant recipients		(150,483)	(195,500)	(117,644)
		(239,309)	(282,255)	(200,982)
Net cash flow from operating activities	16	6,765	6,637	9,921
CASH FLOW FROM INVESTING ACTIVITIES				
<i>Cash was provided from:</i>				
Sale of property, plant and equipment		39	-	34
Term deposit maturities		46,000	10,000	40,600
Finance lease receivables		1,830	-	1,701
		47,869	10,000	42,335
<i>Cash was applied to:</i>				
Purchase of property, plant and equipment		(7,213)	(16,629)	(8,013)
Purchase of intangible assets		(697)	-	(1,207)
Investment in term deposits		(53,500)	(4,500)	(48,600)
Investment in associate		-	-	(3,000)
		(61,410)	(21,129)	(60,820)
Net cash flow from investing activities		(13,541)	(11,129)	(18,485)

Explanations of major variances against budget are provided in note 23.

The accompanying accounting policies and notes form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS CONTINUED

For the year ended 30 June 2016

	<i>Notes</i>	GROUP 2016 ACTUAL \$000	GROUP 2016 BUDGET <i>Unaudited</i> \$000	GROUP 2015 ACTUAL \$000
CASH FLOW FROM FINANCING ACTIVITIES				
<i>Cash was provided from:</i>				
Capital contribution		4,300	4,344	8,000
		4,300	4,344	8,000
		4,300	4,344	8,000
Net increase/(decrease) in cash and cash equivalents		(2,476)	(148)	(564)
Cash and cash equivalents at the beginning of the year		4,216	1,971	4,780
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<i>5</i>	1,740	1,823	4,216

Explanations of major variances against budget are provided in note 23.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

1. Statement of accounting policies

Reporting entity

Callaghan Innovation is a Crown Entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. The relevant legislation governing Callaghan Innovation's operations include the Crown Entities Act 2004, Crown Service Enterprise Act 2002 and Callaghan Innovation Act 2012.

Callaghan Innovation's parent is the New Zealand Crown. The consolidated financial statements of the Group comprise Callaghan Innovation and its controlled entities, associates and joint ventures.

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

Callaghan Innovation does not operate to make a financial return.

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

Basis of preparation

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

Statement of compliance

The financial statements of 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 Public Sector PBE accounting standards.

Functional presentation currency and rounding

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).

Standards issued and not yet effective and early adopted

There are no new standards currently issued not yet effective that would impact the current year financial statements.

Summary of significant accounting policies

Revenue

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

Revenue from the Crown - operational funding

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

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

Grants (Crown revenue)

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

Provision of goods and services (commercial revenue)

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

Revenue from research contract services is recognised by reference to the stage of completion. The stage of completion is measured by reference to project milestones or costs incurred to date as a percentage of the total cost for each contract. Where the contract outcome cannot 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Rental revenue and other income

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

Grants expenditure

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

Grant expenditure is recognised in the Statement of Comprehensive Revenue and Expense 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 either in full or in part.

Basis of consolidation

The consolidated financial statements combine the financial statements of Callaghan Innovation and its controlled entities, associates and joint ventures as at 30 June 2016 ("the Group").

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

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

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

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

Investment in joint ventures

A joint venture is the agreed sharing of control over an activity by a binding arrangement 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 surplus or deficit 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 surpluses or deficits and movements in other comprehensive revenue. 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.

Foreign currency

Transactions in foreign currencies are initially recorded in the New Zealand dollar using the spot rates ruling at the date of the transaction.

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 surplus or deficit.

All other foreign currency translation differences in the consolidated financial statements are taken to the Statement of Comprehensive Revenue and Expense.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Non-monetary items that are measured in terms of historical cost in foreign currencies are translated to the New Zealand dollar using the exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in foreign currencies are translated to the New Zealand dollar using the exchange rate at the date when the fair value was determined.

Property, plant and equipment

Property, plant and equipment 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.

In most instances an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

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 Revenue and Expense.

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 Revenue and Expense.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the costs of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes have been estimated as follows:

	Estimated useful life	Rate
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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Patents

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

Impairment of property, plant, and equipment and intangible assets

The Group held both cash-generating assets and non-cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return.

Property, plant, and equipment and intangible assets held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

Cash-generating assets

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

Non-cash-generating assets

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

Financial assets

The Group classifies its financial assets in two categories: at fair value through surplus or deficit, 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 surplus or deficit

Financial assets at fair value through surplus or deficit are financial assets held for trading and those designated at fair value through surplus or deficit 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 surplus or deficit 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 which 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 assess whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance date.

De-recognition of financial instruments

The de-recognition 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).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedge reserve.

The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Revenue and Expense. Amounts accumulated in equity are recycled in the Statement of Comprehensive Revenue and Expense in the periods when the hedged items will affect surplus or deficit (for instance when a forecast sale that is hedged takes place). However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability. When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Revenue and Expense. When a forecast transaction is no longer expected to occur the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Comprehensive Revenue and Expense.

Derivatives that do not qualify for hedge accounting

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

Inventories

Inventories held for use in the provision of goods and services on a commercial basis are valued at the lower 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 Revenue and Expense. 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

Short-term payables are recorded at their face value.

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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

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. An estimate of the average increase in remuneration for employees over the discount period is included in the calculation.

Superannuation schemes

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

Income tax

Callaghan Innovation is a Crown Agent and is consequently exempt from paying 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 then it is recognised as part of the related asset or expense. The net amount of GST recoverable from or payable to the Inland Revenue Department is included as part 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. REVENUE

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Crown revenue - exchange transactions		
Ministry of Business Innovation and Employment - Other operational funding including Research and Development	68,749	73,636
Crown revenue - non-exchange transactions		
Ministry of Business Innovation and Employment - Research and Development Grants	154,126	138,477
Total Crown and other revenue	222,875	212,113
Commercial and other revenue - exchange transactions		
Commercial - domestic	8,077	5,703
Commercial - overseas	8,831	10,241
Royalty and licensing income	387	324
Property and equipment rental	1,259	1,192
Other revenue	1,765	1,530
Interest revenue	1,432	1,423
Total commercial and other revenue	21,751	20,413
Total revenue	244,626	232,526

Callaghan Innovation received operational 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 grant funding from the Crown to pay Research and Development grants to New Zealand businesses as set out in the Statement of Intent and the scope of the relevant Government appropriations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. EXPENDITURE

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Personnel costs include:		
Salary and wages	41,241	38,062
Defined contribution plan employer contributions	1,119	1,045
	<hr/> 42,360	<hr/> 39,107
Severance payments		
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	912	744
Number of employees	9	20
Other expenses include:		
Repairs and maintenance	2,370	3,042
Premises and utility expenses	3,253	2,975
Auditors' fees		
- For auditing the financial statements	129	136
- Other services tax	5	29
Bad and doubtful debts	(62)	35
Directors' fees	241	249
Rent and lease expenses	2,950	2,786
Donations	4	3
Loss on disposal of fixed assets	208	180
Foreign exchange losses	116	30
Intellectual property (patents)	229	209

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. GRANT EXPENSE

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Grants approved for which recipients can demonstrate they have met grant conditions.	154,126	138,477
Total grants expense	154,126	138,477

5. CASH AND TERM DEPOSITS

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Cash at bank	1,740	4,216
Term deposits	28,000	20,500
	29,740	24,716

Various term deposits were held at 30 June 2016 for periods of between 190 and 299 days.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. EQUITY

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
CONTRIBUTED CAPITAL		
Balance at 1 July 2015	48,573	40,573
Capital contribution	4,300	8,000
BALANCE AT 30 JUNE 2016	52,873	48,573
ACCUMULATED SURPLUS		
Balance at 1 July 2015	6,185	3,764
Surplus for the period	1,058	2,421
BALANCE AT 30 JUNE 2016	7,243	6,185
HEDGE RESERVE		
Balance at 1 July 2015	(374)	79
Fair value gain (loss) for the period	731	(453)
BALANCE AT 30 JUNE 2016	357	(374)
TOTAL EQUITY AT 30 JUNE 2016	60,473	54,384

A capital contribution of \$4,300,000 was received on 31 December 2015.

The capital appropriation funded from the Ministry of Business Innovation and Employment was used to fund the purchase and development of assets by and for the use of Callaghan Innovation.

The hedge reserve is used to record gains or losses on foreign exchange forward contracts in a cash flow hedge. The amounts accumulated in the hedge reserve are reclassified to the Statement of Comprehensive Revenue and Expense when the associated hedge transaction affects surplus or deficit.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. TRADE AND OTHER RECEIVABLES

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Current		
Debtors	4,053	3,977
Less: Provision for impairment	(115)	(177)
	3,938	3,800
Goods and services tax (GST) receivable	6	-
Accrued income	616	626
Other receivables	233	162
Prepayments	813	992
Finance leases - gross receivables	831	831
Unearned finance income	(186)	(259)
	645	572
	6,251	6,152
Crown debtor grants (non-exchange)		
Ministry of Business Innovation and Employment - grants receivable	69,311	65,668
Total current and non-current Government grants receivable	69,311	65,668
Non current receivables		
Finance leases - gross receivables	1,246	2,076
Unearned finance income	(118)	(303)
	1,128	1,773
Gross receivables from finance leases		
- Less than 1 year	831	831
- Greater than 1 year but less than 5 years	1,246	2,076
- Greater than 5 years	-	-
	2,077	2,907
Unearned finance income	(304)	(562)
Net investment in finance leases	1,773	2,345

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Net investment in finance leases:		
- Less than 1 year	645	572
- Greater than 1 year but less than 5 years	1,128	1,773
- Greater than 5 years	-	-
	1,773	2,345

The carrying amount of trade receivables are equivalent to fair values.

Trade receivables includes amounts due from related parties – see note 21 for details.

(a) Provision for impairment

At 30 June 2016 trade receivables of \$115,000 were considered impaired.

The impaired receivables were from a number of customers.

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Opening balance	177	142
Released	(177)	-
Recognised during the period	115	35
CLOSING BALANCE	115	177

(b) Past due but not impaired

At 30 June 2016 trade receivables of \$677,000 (2015: \$1,146,000) 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:

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Within 1 month	361	700
Within 1 to 3 months	186	200
Beyond 3 months	130	246
	677	1,146

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. PROPERTY, PLANT AND EQUIPMENT

GROUP	Land Assets \$000	Buildings Assets \$000	Plant Assets \$000	Capital Work In Progress \$000	Total Actual \$000
1 July 2015					
Cost	3,001	16,789	19,381	1,110	40,281
Accumulated depreciation	-	(2,707)	(5,358)	-	(8,065)
Carrying amount	3,001	14,082	14,023	1,110	32,216
For the year ended 30 June 2016					
Carrying amount at 1 July 2015	3,001	14,082	14,023	1,110	32,216
Additions	-	1,215	3,216	2,916	7,347
Transfers from capital work in progress	-	1,650	1,196	(2,981)	(135)
Disposals	-	(97)	(113)	-	(210)
Depreciation	-	(1,857)	(3,595)	-	(5,452)
Carrying amount at 30 June 2016	3,001	14,993	14,727	1,045	33,766
Cost	3,001	19,521	23,603	1,045	47,170
Accumulated depreciation	-	(4,528)	(8,876)	-	(13,404)
Carrying amount	3,001	14,993	14,727	1,045	33,766

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

GROUP	Land Assets \$000	Buildings Assets \$000	Plant Assets \$000	Capital Work In Progress \$000	Total Actual \$000
1 July 2014					
Cost	3,001	13,897	14,788	792	32,478
Accumulated depreciation	-	(1,286)	(2,009)	-	(3,295)
Carrying amount	3,001	12,611	12,779	792	29,183
For the year ended 30 June 2015					
Carrying amount at 1 July 2014	3,001	12,611	12,779	792	29,183
Additions	-	1,119	4,165	2,736	8,020
Transfers from capital work in progress	-	1,790	621	(2,418)	(7)
Disposals	-	(16)	(147)	-	(163)
Depreciation	-	(1,422)	(3,395)	-	(4,817)
Carrying amount at 30 June 2015	3,001	14,082	14,023	1,110	32,216
Cost	3,001	16,789	19,381	1,110	40,281
Accumulated depreciation	-	(2,707)	(5,358)	-	(8,065)
Carrying amount	3,001	14,082	14,023	1,110	32,216

Capital work in progress

The majority of assets under capital work in progress are buildings which is \$582,000 (2015: plant \$950,000)

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 \$248 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 2016 \$000	GROUP 2015 \$000
Cost	4,895	5,310
Accumulated depreciation	(2,135)	(2,533)
Depreciation charge for the year	(405)	(125)
Net book amount	2,355	2,652

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. INTANGIBLE ASSETS

	GROUP 2016 Software \$000	GROUP 2015 Software \$000
Balance at 1 July 2015		
Cost	2,303	1,143
Accumulated amortisation	(530)	(173)
Opening carrying amount	1,773	970
For the year ended 30 June 2016		
Additions	562	1,200
Transfers from capital work in progress	135	7
Disposals	(76)	(50)
Amortisation charge	(516)	(354)
Balance at 30 June 2016		
Cost	2,832	2,303
Accumulated amortisation	(954)	(530)
Closing carrying amount	1,878	1,773

Intangible assets consists of computer software acquired from third parties.

10. INVESTMENT IN CONTROLLED ENTITIES

The Parent's investment in controlled entities comprises shares at cost. Controlled entities comprise:

Name of entity	Principal activities	Interest held by the Group 30 June 2016
Non trading controlled entities		
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%

All controlled entities have 30 June balance dates.

All controlled entities are incorporated in New Zealand.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. INVESTMENT IN JOINT VENTURES AND ASSOCIATES

		GROUP 2016	GROUP 2015
Details of associates			
Associates comprise the following:			
Name of entity	Principal Activities		
General Cable Superconductors Limited	High Temperature superconductor cable manufacturer - non trading	49.00%	49.00%
New Zealand Food Innovation (Waikato) Limited	Food innovation company	30.00%	30.00%
New Zealand Food Innovation (South Island) Limited	Food innovation company	49.90%	49.90%

Investment in associates

On 13 October 2014 Callaghan Innovation purchased a 30% shareholding in New Zealand Food Innovation (Waikato) Limited for \$3,000,000. As Callaghan Innovation does not control but has significant influence over New Zealand Food Innovation (Waikato) Limited, its interest in the associate is accounted for via the equity method. The fair value of the identifiable assets and liabilities of New Zealand Food Innovation (Waikato) Limited was determined via independent valuation on acquisition.

A purchase impairment of \$700,000 was recognised in the Statement of Comprehensive Revenue and Expense for the year ended 30 June 2015 to recognise the difference between fair value and the purchase price of \$3,000,000.

New Zealand Food Innovation (Waikato) Limited

	ACTUAL 2016 \$000	ACTUAL 2015 \$000
Current assets	1,520	413
Non current assets	18,629	19,311
Current liabilities	(990)	(1,206)
Non current liabilities	(14,159)	(14,169)
Total revenue	6,466	3,708
Total expenditure	(5,718)	(3,744)
Net surplus/(deficit)	748	(36)
Results of the associate		
Share of surplus/(deficit)	224	(11)
Interest in associate		
Carrying amount at beginning of year	2,289	-
Acquisition at fair value	-	3,000
Impairment of acquisition value	-	(700)
Share of surplus/(deficit)	224	(11)
Carrying value at the end of the year	2,513	2,289

On 30 November 2014 Callaghan Innovation purchased a 49.9% shareholding in New Zealand Food Innovation (South Island) Limited for \$1.00. As Callaghan Innovation does not control but has significant influence over New Zealand Food Innovation (South Island) Limited, its interest in the associate is accounted for via the equity method.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**New Zealand Food Innovation (South Island) Limited**

	ACTUAL 2016 \$000	ACTUAL 2015 \$000
Current assets	2,187	2,957
Non current assets	1,310	16
Current liabilities	(2,097)	(2,578)
Total revenue	1,873	911
Expenditure	(889)	(518)
Net surplus	984	393
Results of the associate		
Share of surplus	491	196
Interest in associate		
Carrying amount at beginning of year	196	-
Acquisition at fair value	-	-
Share of surplus	491	196
Carrying value at the end of the year	687	196

Investment in joint venture

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. Callaghan Innovation jointly controls New Zealand Food Innovation (Auckland) Limited and 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 Revenue and Expense in the 2014 financial year to recognise the difference between fair value and the purchase price of \$1.00.

Management reviewed its investment in joint venture New Zealand Food Innovation (Auckland) Limited at 30 June 2016. The review consisted of a formal impairment review. The investment value at 30 June 2016 was assessed at \$4,197,000 using a net assets basis. This value was \$533,000 below the investment value. The subsequent impairment has been recognised in the Statement of Comprehensive Revenue and Expense.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

New Zealand Food Innovation (Auckland) Limited

	ACTUAL 2016 \$000	ACTUAL 2015 \$000
Total		
Current assets	1,291	1,275
Non current assets	7,496	7,405
Current liabilities	443	448
Non current liabilities	2,101	2,031
Results of the joint venture		
Revenue	3,788	3,808
Expenditure	(3,762)	(3,665)
Net surplus	26	143
Share of surplus	17	96
Interest in joint venture		
Carrying amount at beginning of year Impairment	4,713	4,617
Share of total recognised revenues and expenses	(533)	-
Carrying value at the end of the year	17	96
	4,197	4,713

All joint venture and associates have 30 June balance dates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. EMPLOYEE BENEFITS

	GROUP 2016 \$000	GROUP 2015 \$000
Current		
Employee entitlements	336	208
Long service and retiring leave	254	191
Annual leave	2,654	2,533
Sick leave	142	209
	3,386	3,141
Non current		
Long service and retiring leave	256	329

The retiring leave provision was calculated based on risk-free discount rates published by the New Zealand Treasury. The risk-free discount rates range from 2.12% in 2017 to 3.81% in 2036. The inflation factor is based on the expected long-term increase in remuneration for employees currently forecast at 3%.

13. FUNDS RECEIVED IN ADVANCE

	GROUP 2016 \$000	GROUP 2015 \$000
Payable under exchange transactions		
Government and other revenue received in advance	2,457	2,917
Funds held on behalf of third parties	4,275	1,684
	6,732	4,601

Funds received in advance represent funding received on behalf of third parties for agency activities and revenue received from government and other customers for project work not completed at 30 June.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. TRADE AND OTHER PAYABLES

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Payables under exchange transactions		
Trade creditors	3,633	3,872
Other payables	6,422	7,586
Total payables under exchange transactions	10,055	11,458
Payables under non-exchange transactions		
Goods and services tax (GST) payable	-	291
Total payables under non-exchange transactions	-	291
	10,055	11,749

Total trade and other payables

The carrying amounts of the above items are equivalent to the fair values.

Trade payables includes amounts due to related parties (see note 21 for details).

15. PROVISIONS

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Breakdown of provisions		
Current portion		
Restructuring and severance	692	108
	692	108

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. RECONCILIATION OF SURPLUS WITH
CASHFLOW FROM OPERATING ACTIVITIES

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Net surplus for the period	1,058	2,421
<i>Add/(less) non-cash items:</i>		
Depreciation	5,452	4,817
Amortisation of intangible assets	516	354
Impairment in associate	533	700
Share of surplus joint venture and associate	(733)	(281)
Loss on sale of fixed assets	208	180
Property and equipment rental income	(1,259)	(1,192)
Proceeds on sale of fixed assets classified as investing activity	39	-
<i>Add/(less) movements in working capital:</i>		
Trade and other receivables	(3,810)	(21,936)
Inventory	(21)	17
Work in progress	(198)	(97)
Funds received in advance	2,131	1,530
Employee benefits	172	(420)
Trade and other payables	1,946	24,281
Derivative financial instrument	731	(453)
NET CASH FLOWS FROM OPERATING ACTIVITIES	6,765	9,921

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. 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 2016 was calculated internally using a discounted cash flow model. Using the discounted cash flow model the liability was calculated for 2016 at \$510,000 (2015: \$520,000).

Adjusting the discount rate down/up 1.0% results in a decrease/increase of the 2016 retiring/long service leave liability balance and end of period surplus of \$16,000 decrease/increase (2015: \$10,000 decrease/increase).

(b) Grant obligations and debtor

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.

Based upon this assessment an accrual for grants obligations is made and a receivable is recognised in the financial statements of \$69,311,000 (2015: \$65,668,000). Payments against the 30 June 2016 accrual are expected to be made during the 2016/17 financial year.

	GROUP 2016 ACTUAL \$000	GROUP 2015 ACTUAL \$000
Payable under non-exchange transactions		
Grant obligations and debtor	69,311	65,668
Total grant obligations	69,311	65,668

(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 Revenue and Expense 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 2016: \$2,457,000 (2015: \$2,917,000).

Critical judgement in applying the Group's accounting policy

(a) Grants (Crown revenue)

The Group receives funding for grants which it then distributes to businesses in order to support science and technology based innovation. The Group's view is that it is acting as principal in the transaction given it is the Group's responsibility to allocate the funding, manage the contracts and deal directly with the grant recipients.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. FINANCIAL INSTRUMENTS BY CATEGORY

	GROUP \$000	GROUP \$000
As at 30 June 2016		
Financial assets		
Cash and cash equivalents	29,740	-
Crown debtor - grants	69,311	-
Debtors and other receivables	6,566	-
Derivative financial instruments	-	357
	105,617	357
	GROUP \$000	GROUP \$000
	Liabilities measured at amortised cost	Derivatives used for hedging
Financial liabilities		
Creditors and other payables	10,055	-
Grant obligations	69,311	-
Employee benefits	3,132	-
	82,498	-
	GROUP \$000	GROUP \$000
	Loans and Receivables	Derivatives used for hedging
As at 30 June 2015		
Financial assets		
Cash and cash equivalents	24,716	-
Crown debtor - grants	65,668	-
Debtors and other receivables	6,933	-
	97,317	-
	GROUP \$000	GROUP \$000
	Liabilities measured at amortised cost	Derivatives used for hedging
Financial liabilities		
Creditors and other payables	11,458	-
Grant obligations	65,668	-
Provisions	108	-
Employee leave benefits	2,950	-
Derivative financial instruments	-	374
	80,184	374

The only financial liabilities held at fair value are foreign exchange contracts \$357,000 asset (2015: \$374,000 liability). These are level 2 instruments in the fair value hierarchy and have been valued using balance date financial institution valuations.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. 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 use 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 are used to hedge foreign currency risk.

Between 60% and 70% of foreign currency receipts are 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 \$357,000 (gain) (2015: \$374,000 loss).

At 30 June 2016, if the currency had strengthened/weakened by 10% against the US dollar with other variables held constant, surplus for the period (Group) would have been: strengthened \$154,000 lower, weakened \$188,000 higher (2015: strengthened \$207,000 lower, weakened \$253,000 higher) as the result of foreign exchange translation of US dollar denominated trade receivables/payables.

At 30 June 2016, if the currency had strengthened/weakened by 10% against the Australian dollar with other variables held constant, surplus for the period (Group) would have been: strengthened \$28,000 lower, weakened \$35,000 lower (2015: strengthened \$2,000 lower, weakened \$3,000 lower) as the result of translation of Australian dollar denominated trade receivables/payables.

At 30 June 2016, 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:

Outstanding contracts	GROUP 2016		GROUP 2015	
	Currency (Thousands)	Contract value NZD\$000	Currency (Thousands)	Contract value NZD\$000
Bank buys				
United States dollar	3,828	5,748	3,651	5,035
Euro	-	-	62	103
Australian dollar	562	617	136	147
Bank sells				
United States dollar	75	102	95	123

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**(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 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 other than the receivables from MBIE in respect of grants.

(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 Group's financial assets and liabilities and net settled derivative financial liabilities are all due within 12 months of balance date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	GROUP 2016 Less than One Year \$000	GROUP 2015 Less than One Year \$000
Cash and cash equivalents	29,740	24,716
Trade and other receivables	6,251	6,152
Crown debtor - grants	69,311	65,668
Derivatives used for hedging	357	(374)
Trade and other payables	(10,055)	(11,749)
Grant obligations	(69,311)	(65,668)
Provisions	(692)	(108)
Employee benefits	(3,386)	(3,141)

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.

	GROUP 2016 Less than One Year	GROUP 2015 Less than One Year
Forward foreign exchange contracts		
– cash flow hedges		
Inflow	6,365	5,285
Outflow	(102)	(123)

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. CAPITAL RISK MANAGEMENT

The Group capital comprises general funds which represents 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 year.

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

21. RELATED PARTY DISCLOSURES

General

Callaghan Innovation is a wholly owned entity of the Crown.

Transactions with other government agencies (for example, Government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Transactions with Joint Ventures and Associates

	GROUP 2016 \$000	GROUP 2015 \$000
Sales of services and general recoveries		
- New Zealand Food Innovation Auckland Limited	20	-
- New Zealand Food Innovation (South Island) Limited	10	-
- New Zealand Food Innovation (Waikato) Limited	26	-
	56	-
Operational and project funding		
- New Zealand Food Innovation Auckland Limited	2,083	2,157
- New Zealand Food Innovation (South Island) Limited	1,100	2,400
- New Zealand Food Innovation (Waikato) Limited	9	-
	3,192	4,557

All trading transactions with the above entities are on a commercial basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	GROUP 2016 \$000	GROUP 2015 \$000
KEY MANAGEMENT PERSONNEL COSTS		
Board members		
Remuneration	241	249
Full-time equivalent members	1.0	1.0
Leadership team		
Remuneration	2,575	2,293
Termination benefits	717	-
Other benefits other than remuneration and other short-term cash benefits	-	-
Total full-time equivalent personnel	6.7	6.9
	3,533	2,542

22. COMMITMENTS AND CONTINGENCIES

	GROUP 2016 \$000	GROUP 2015 \$000
CAPITAL COMMITMENTS		
Commitments for capital expenditure budgeted and approved		
Buildings	945	833
Plant	6,866	6,570
TOTAL CAPITAL COMMITMENTS	7,811	7,403

Capital commitments are items of buildings, plant and equipment that represent capital expenditure budgeted and approved by the Board, but not spent at 30 June 2016.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

OPERATING COMMITMENTS

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

	GROUP 2016 \$000	GROUP 2015 \$000
Not later than 1 year	2,083	2,493
Later than 1 year and not later than 5 years	5,663	4,365
Later than 5 years	1,238	1,667
TOTAL OPERATING COMMITMENTS	8,984	8,525

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

Grant commitments

	GROUP 2016 \$000	GROUP 2015 \$000
Grant commitments for those grant contracts awarded but yet to be drawn down	170,154	193,723

Operating leases rental receivables – group company as lessor

	2016 \$000	2015 \$000
No later than 1 year	561	1,142
Later than 1 year and no later than 5 years	-	596
Later than 5 years	-	-
	561	1,738

The Group leases property under various agreements which terminate in 2017.

CONTINGENCIES

Contingent liability

On the 12 August 2015 Callaghan Innovation received a Statement of Defence and Counterclaim from a grants recipient in respect of which Callaghan Innovation has terminated a funding agreement. The defence addresses a challenge Callaghan Innovation is making to an arrangement the company has made with its creditors and the counterclaim addresses termination of the funding agreement and defamation. The amount of the counterclaim is still unknown however Callaghan Innovation intends to strongly contest the counterclaim on the grounds that the termination was justified. Callaghan Innovation is preparing a response to the counterclaim which is set down for hearing in the High Court in Auckland in November 2016. Callaghan Innovation has professional indemnity insurance cover that will respond to any potential future loss arising from this litigation.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Contingent asset	GROUP 2016 \$000	GROUP 2015 \$000
Repayable incubator grants	7,197	2,040

Incubator grants are repayable once the grant recipients product produces commercial revenue. A percentage of the commercial revenue generated is payable to Callaghan Innovation as repayment of the outstanding loan.

23. MAJOR BUDGET VARIANCE

Explanation of major budget variations are provided below for the Statement of Comprehensive Revenue and Expense, Statement of Financial Position and Statement of Cash Flows. The budget is published in the Callaghan Innovation Group Statement of Intent and Statement of Performance Expectations for the 12 months ended 30 June 2016. The budget figures have been prepared in accordance with NZ GAAP using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

Statement of Comprehensive Revenue and Expense

Revenue from the Crown is below budget due to the treatment of National Science Challenge and Bioresource Processing Alliance Crown funding received in the capacity of an agent. This is directly offset by lower Science project and subcontract costs.

Revenue from the Crown - Crown grants funding was below budget due to lower than planned Research and Development grants expenditure paid to New Zealand businesses.

Commercial and other revenue is above budget due to higher revenue from property rentals and one-off insurance recoveries. Finance income is above budget due to higher than planned opening cash balances.

Depreciation is below budget due to later than planned capital expenditure in the current year.

Statement of Financial Position and Statement of Changes in Equity

Cash and term deposits is above budget due to a higher than planned opening cash balance and lower than planned capital expenditure.

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

Crown debtor grants increased due to a greater number and value of grant obligations outstanding at 30 June 2016.

Fixed assets are below budget due to later than planned capital expenditure.

Intangible assets are lower than budget due to later implementation of the Information Services Strategic plan.

Funds received in advance is above budget due to higher than planned unspent agency funding held on behalf of third parties.

Equity is lower than budget due to lower than budgeted surplus brought forward from the prior year.

Statement of Cash Flows

Lower operating receipts are due to lower receipts from the Crown for grant payments.

Lower operating payments are due to lower grant payments.

Lower investing payments due to lower purchases of property plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Reconciliation: Statement of Performance Expectations to Statement of Comprehensive Revenue and Expense

For the 12 months ended 30 June 2016

	<i>Output class</i>	2016 Year \$000
Statement of Performance Expectations: Outputs		
Building business innovation	1	24,095
Research and development and facilities for business and industry	2	23,375
Business Research and Development contract management	3	12,863
National measurement standards	4	5,082
Total output revenue		65,415
Revenue from the Crown - Grants income		142,466
Revenue from the Crown - Incubator funding		11,660
Revenue from the Crown - Science contestable funding and other		7,834
Other revenue, including interest		21,751
Funds received in the capacity of an agent		(4,500)
Total revenue per Statement of Comprehensive Revenue and Expense		244,626
Minus:		
Personnel costs		(44,426)
Science project and subcontract costs		(15,684)
Other expenses including interest		(23,563)
Depreciation and amortisation expense		(5,968)
Grant expense		(154,126)
Total expenses per Statement of Comprehensive Revenue and Expense		(243,767)
Joint venture impairment		(533)
Share of surplus from joint venture and associate		732
Surplus for the year		1,058

24. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events arising after balance date requiring adjustment or disclosure in these financial statements.



Independent Auditor's report

to the readers of Callaghan Innovation's Financial Statements and Performance Information for the year ended 30 June 2016

The Auditor-General is the auditor of Callaghan Innovation. 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 the performance information of the Group consisting of Callaghan Innovation and its subsidiaries and other controlled entities, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 64 to 100, that comprise the statement of financial position as at 30 June 2016, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on pages 56 to 62.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2016; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Sector Public Benefit Entity Standards.



- the performance information:
 - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2016, including for each class of reportable outputs:
 - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 2 September 2016. 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 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 the 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 the 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 the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error.

In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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 performance information within the Callaghan Innovation's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

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

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

Responsibilities of the Board

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

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

The Board's responsibilities arise from the Crown Entities Act 2004.

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and 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 the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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.

In addition to the audit we have carried out an assignment on classification of research and development expenditure which is compatible with those independence requirements. Other than the audit and this assignment we have no relationship with or interests in the Group.



Karen Shires
PricewaterhouseCoopers
On behalf of the Auditor-General
Wellington, New Zealand

Statutory Reporting Requirements

Ministerial directions (section 151[1][f] Crown Entities Act 2004)

Callaghan Innovation received an updated Ministerial Direction in December 2015. Current Ministerial Directions applicable to Callaghan Innovation can be found on our website.

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. Callaghan Innovation undertook a grants enhancement programme in the 2015/16 financial year, which reviewed all the procedures for RS&T grants. This review updated systems and procedures to provide further clarity and transparency and to ensure that current processes were in accordance with the revised Ministerial Direction. The review streamlined processes across the four schemes where feasible and simplified the application process for customers.

The four schemes are:

- **Growth Grants**
Designed to increase R&D investment in businesses with strong track records of R&D spending in New Zealand
- **Project Grants**
Designed to support greater investment by businesses in R&D activities, especially those with less-established R&D programmes
- **Student Grants**
Designed to support New Zealand undergraduate and postgraduate students in gaining and developing 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)

Callaghan Innovation did not enter into any transaction that was invalid under section 19 of the Crown Entities Act 2004, and therefore was not required under section 20 of the Crown Entities Act to perform any such transaction.

A transaction would be invalid under section 19 if:

- Callaghan Innovation breached the Crown Entities Act by entering into it
- Callaghan Innovation was acting outside its authority under the Crown Entities Act by entering into it, or
- Callaghan Innovation did not enter into it for the purpose of performing its functions.

Employee remuneration

The table below shows the number of Callaghan Innovation employees who received remuneration and/or benefits (excluding redundancy and cessation payments) of \$100,000 or more for the financial year ended 30 June 2016.

Band	Number of Employees
\$570,000 - \$579,999	1
\$380,000 - \$389,999	0
\$370,000 - \$379,999	1
\$360,000 - \$369,999	0
\$350,000 - \$359,000	0
\$340,000 - \$349,999	0
\$330,000 - \$339,999	1
\$320,000 - \$329,999	0
\$310,000 - \$319,999	0
\$300,000 - \$309,999	1
\$290,000 - \$299,999	0
\$280,000 - \$289,999	0
\$270,000 - \$279,999	2
\$260,000 - \$269,999	0
\$250,000 - \$259,999	1
\$240,000 - \$249,999	0
\$230,000 - \$239,999	1
\$220,000 - \$229,999	1
\$210,000 - \$219,999	1
\$200,000 - \$209,999	0
\$190,000 - \$199,999	0
\$180,000 - \$189,999	3
\$170,000 - \$179,999	11
\$160,000 - \$169,999	7
\$150,000 - \$159,999	7
\$140,000 - \$149,999	13
\$130,000 - \$139,999	13
\$120,000 - \$129,999	13
\$110,000 - \$119,999	34
\$100,000 - \$109,999	36

Board of directors' remuneration

Callaghan Innovation Board of Directors	2015/16 (\$)
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Sue Suckling – Board Chair	\$58,000
Paul Lockey	\$19,000
Robin Hapi	\$30,000
Michele Allan	\$7,000
Richard Janes	\$29,000
Peter Hunter	\$19,000
Craig Richardson	\$7,000
Al Monro	\$23,000
Alison Barrass	\$21,000
Frances Valintine	\$9,000
Simon Botherway	\$9,000
Kate McGrath	\$9,000

Grants committee (non-board members) remuneration

Callaghan Innovation Non-Board Members	FY16 (\$)
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Peter Townsend	\$4,500
Dr Alastair MacCormick	\$5,204



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