

ANNUAL REPORT

2017

DEFINE

DISRUPT ION

Callaghan **Innovation**

Supporting innovators to succeed...



2,473

**ORGANISATIONS
ENGAGED WITH US
IN 2016/17**

831

had grants to
power their R&D

788

attended events
to inspire and
improve innovation

474

enhanced their innovation
skills and capability
through programmes

222

had expert help from
our Research and
Technical Services

150

customers of our
Commercial Group

\$701.5m →

R&D BUSINESS
CLAIMS FOR PROJECT
AND GROWTH
GRANTS, OF WHICH

**CALLAGHAN
CONTRIBUTED**

→ **\$149.5m**

Making a difference for customers...



99%

WOULD RECOMMEND R&D STUDENT EXPERIENCE GRANTS



95%

SAID THEIR PROJECT GRANT IMPROVED THEIR R&D



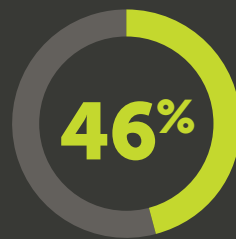
87%

RATED OUR PROGRAMMES, EVENTS AND MISSIONS 7/10 OR HIGHER

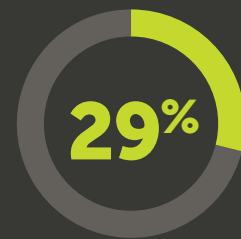


85%

WITH GROWTH GRANTS MAINTAINED OR INCREASED SPENDING ON R&D



VS



INCREASE

in R&D spending by Callaghan Innovation customers with grants from 2014 to 2016

INCREASE

in R&D spend for businesses from 2014 to 2016

CONTENTS

Report	6	Our people	36
From our Chair and Chief Executive		Our governance	42
Our strategy	8	Statement of Responsibility	45
Technology and product development	10	Statement of Performance	46
Access to experts	14	Financial Statements	53
Innovation skills	16	Notes to the Financial Statements	61
Business collaborations	20	Independent Auditor's Report	91
R&D grants	24	Statutory Reporting Requirements	95
Building New Zealand's innovation capability	26		



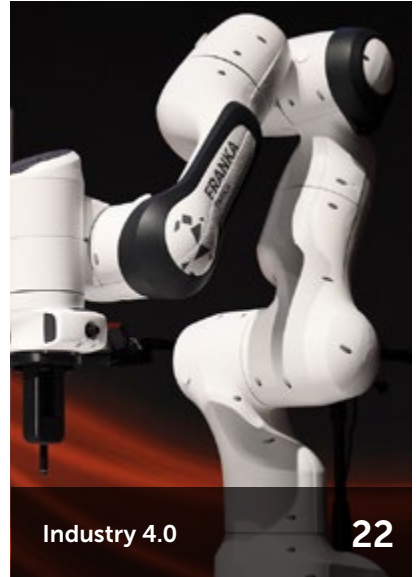
BuzzTech

12



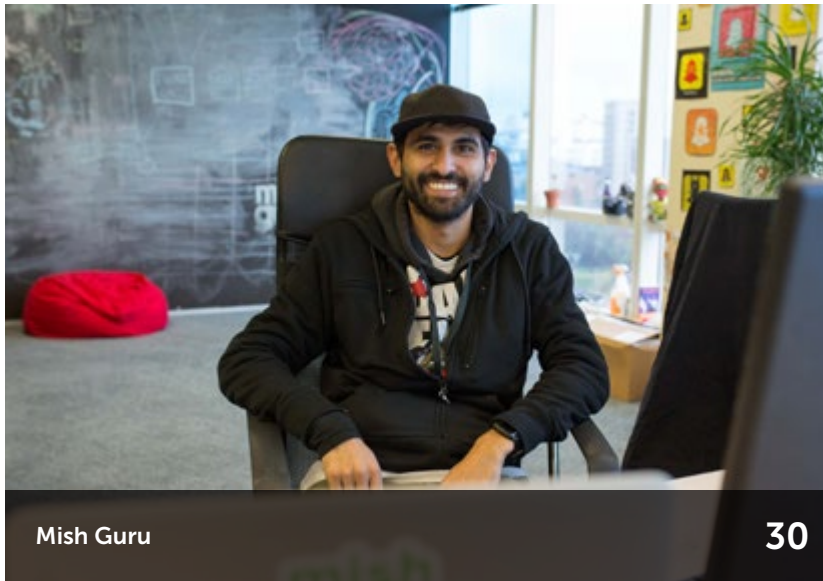
Rapid Advanced
Manufacturing

18



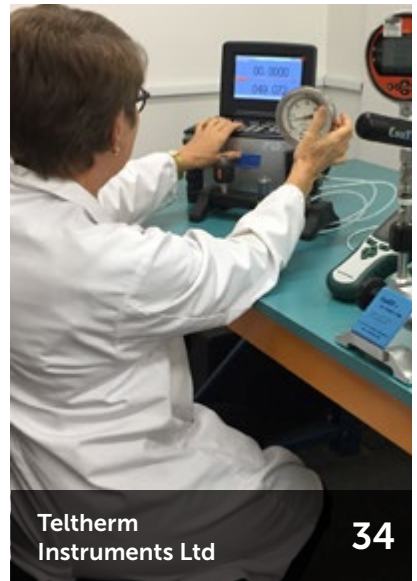
Industry 4.0

22



Mish Guru

30



Teltherm
Instruments Ltd

34

REPORT

From
our Chair
& Chief
Executive



If there's one constant in our world today it's change. As an innovation agency we must embrace these changes and evolve to take advantage of the opportunities that arise from them.

The pace and scale of change at Callaghan Innovation have been emblematic of those global shifts. In 2016/17 we farewelled our inaugural Chief Executive, Mary Quin, and welcomed her successor, Vic Crone, to head a refreshed Senior Leadership Team. In the interim we were ably guided by Hēmi Rolleston. We rolled out a new strategy for the year ahead and embedded a new operating model, which is helping us to work more closely with our customers across seven sectors. Hēmi is now leading our work with sectors, as well as continuing our great work with Māori innovators and businesses. New offices in Auckland and Christchurch, along with Wellington's floods and earthquakes, meant it was a busy year on all fronts!

Callaghan Innovation works in a fast-paced environment, with technologies emerging and converging, and new models of innovation appearing. Ultimately this means disruption not just for us and our customers, but also for how our country needs to use innovation to stay ahead. Our vision, inspired by Sir Paul Callaghan, is for innovation to deliver prosperity for all New Zealanders by 2040.

Fundamental to delivering on our vision is understanding our customers. In 2015/16 our focus has been on deepening that understanding. Vic made this a personal mission after starting with us in late February, meeting with

200 customers in her first three months. Delighting customers is one of the three pillars of our refreshed strategy, alongside making every connection matter and building one Callaghan Innovation with a digital first approach.

We are here to liberate our customers to innovate and not bog them down in paperwork. Our Net Promoter Score of +41, our customers' rating for our services, is a very strong base to further develop off.

We worked with many brilliant businesses in 2016/17, with 1,982 customers engaging with our core services. Callaghan Innovation helps businesses build innovation capability, and we had 474 customers take part in our programmes over the past year to do just that. We have a wealth of smart, capable scientists in our organisation and 356 organisations worked with either our Research and Technical Services or Commercial Group teams to tap into our experts' capability to enhance innovation. 1,218 customers also worked with us on grant applications.

Many of these customers, and others, attended the events we held around New Zealand to inspire innovation, such as our Succeed in a Changing World series. Innovation and entrepreneurship are alive and well in the Māori economy, as seen in the 500 people who attended Matariki X, a day of sharing innovation success, overcoming failure and recognising the opportunities innovation can bring. In March we hosted Callaghan Connect, our first ever Customer Day, taking the opportunity to bring in international experts in innovation and challenge our customers to push the boundaries of innovation in their

businesses. Given the success of this event, we'll make it bigger next year.

Ultimately, we're here to inspire, challenge and support businesses to lift their spend in their R&D, which drives the creation of a more competitive and productive economy. It was great to see, finally, that the dial is moving. Over the past two years, businesses have increased R&D spend by 29%, and Callaghan Innovation customers with grants lifted spending by 46%. More of this is what we're after, as we're on the road to meeting our target of lifting business investment in R&D to 1% of GDP.

Our strategy, our commitments and the actions to realise them came about following a process of both internal and external evaluation through the Performance Improvement Framework (PIF) process mandated by the State Services Commission. For us, this was a timely exercise coming three years after our creation as a hybrid merger/start-up entity. It provided a useful map for the next phase of our journey.

We have seen a lot of change in the past year and are proud of our achievements. Being able to support and challenge businesses that are competing on the world stage, like Team New Zealand in the America's Cup and Rocket Lab's inaugural satellite launcher flight, brings an immense sense of motivation and pride to our team, inspiring us to continually be better as well. However, we're restless to continue to address the areas of improvement identified, bring in new innovation processes ourselves to better deliver for our customers and work more seamlessly as one organisation. Watch this space!



Sue Suckling
Chair



Vic Crone
Chief Executive

OUR STRATEGY

A microscopic image of a neuron, rendered in a vibrant green color. The neuron has a central cell body with several long, thin processes extending outwards, resembling a starburst or a complex network. The background is dark, making the green neuron stand out prominently.

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.

Technology and product development

There is a myriad of paths available when it comes to taking an idea from concept to commercial reality.

Our experienced advisors, specialist scientists and engineers have helped businesses to navigate each step and deliver tailored R&D solutions.

222

RTS contracts with New Zealand businesses and entities.

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

Identify the steps needed to commercialise their ideas.

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 superior 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.

Over the past year

Research and Technical Services (RTS) Technology and Commercial Group achieved \$7.4 million in domestic commercial revenue, and \$10.7 million in international commercial revenue. The total commercial revenue actuals at \$18.2 million was the best full year result since Callaghan Innovation was established.

The Measurement Standards Laboratory (MSL) delivered metrology training to 70 participants and provided 170 measurement, testing and calibration jobs to customers. It also performed 16 laboratory assessments for International Accreditation New Zealand (IANZ).



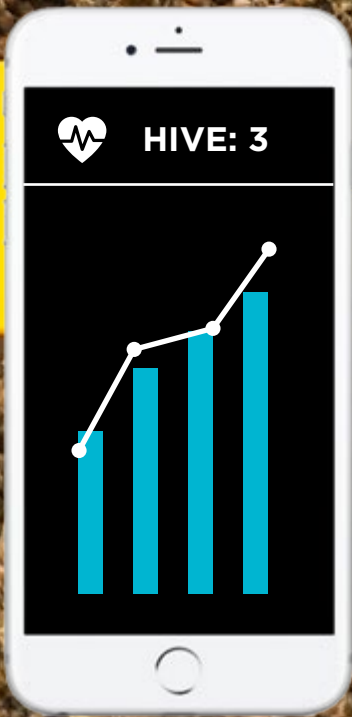
BuzzTech



BuzzTech creates management software for beekeeping companies that also tells beekeepers which hives need attention, based on the size and condition of the resident bees. The resulting bespoke software and sensing technology have turned the beehive rental company into the Xero of beekeeping, bringing this ancient art into the digital age.

Our world-class scientists and engineers can help deliver product development, and research and development, with specialists across a range of capabilities in advanced manufacturing, biotechnologies, data analytics and more. In 2016 our Sensing and Automation team started working with BuzzTech to develop algorithms, audio recordings and data from multiple temperature sensors to produce unique insights into the health of hives. This enhanced hive management provides prediction of important events such as swarming and colony condition alerts.

The resulting bespoke software and sensing technology have brought the ancient art of beekeeping into the digital age. BuzzTech creates management software for beekeeping companies that can also tell beekeepers which hives need attention, based on the size and condition of the resident bees.





The company uses two pieces of bespoke technology developed in part by Callaghan Innovation to provide beekeepers with the information they need. "Every single person who keeps beehives can do a better job with this system."

**BuzzTech CEO
Julian McCurdy**

This is incredibly useful to the industry, says BuzzTech CEO Julian McCurdy, because it can drastically improve the efficiency and effectiveness of hive management. "The medium size companies have 3,000 to 5,000 hives from Northland to Wairarapa, and the people managing those hives are living on the road and working extreme hours. Generally they keep track of everything using a system of spreadsheets, whiteboards, diaries and stickers, which leads to a range of problems. It's not unusual for hives in remote locations to be stolen, missed, or even forgotten by beekeepers."

BuzzTech gathers temperature and audio data from monitored hives, collecting five temperature readings and two seconds of audio at least once an hour from the centre of the colony. "We can see how strong a cluster of bees is because the temperature profile over time gives us the size, and audio gives us the condition. We run a classifier over that, which matches the sensor data with the inspection data from

the beekeeper." The company uses two pieces of bespoke technology developed by Callaghan Innovation to provide beekeepers with the information they need.

"It's actually a little bit scary to think how big BuzzTech could be. It could be used for colonisation of new hives right down to hobby beekeeping. Every single person who keeps bees can do a better job with this system. Even in countries like the Philippines, where their infrastructure is really basic – they burn trees to get honey – by using this system, even the most remote beekeepers can manage hives successfully."

BuzzTech is now working towards automatic detection of hive events, such as swarming and the presence of the queen in the hive. The next development phase will involve machine learning techniques to help classify the hive sound for particular events.

Access to experts

Callaghan Innovation opens doors for New Zealand businesses seeking innovation advice, skills, support and technical expertise, from New Zealand and worldwide.

We offer businesses fast and easy access to experts who provide tailored solutions to meet their needs. We act as 'innovation broker' to ensure that businesses have access to the right advisors, partners, mentors and technology providers.

56

companies were connected by Callaghan Innovation this year to the expertise they required.

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.

We connected 56 companies this year 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.

We worked with the European Union to bring three wearable tech experts to New Zealand to meet with various interest groups including: Hunter Safety Lab, the Human Interface Technology Lab New Zealand, University of Auckland, Auckland University of Technology, and wearable tech companies.

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

We reached businesses in the regions through the Regional Business Partner programme. We have integrated working relationships with NZTE to create optimal outcomes for joint customers.



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.

301

businesses attended Better By Lean workshops, resulting in 66 co-funding agreements.

Our programmes
Over the past year

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

We supported 12 businesses to undergo IMProve benchmarking this year but noted diminished business interest in the programme as the year progressed. Following a review that included feedback from participants and internal and external programme facilitators, it was decided to withdraw IMProve from the core programme portfolio.

Innovation IP is 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.

A total of 68 businesses worked with us on the Innovation IP Programme. This year we moved from the pilot phase of the programme after an independent review, which recommended minor changes. Callaghan Innovation ran an open tender recruiting 11 providers to the panels and the programme was relaunched in March 2017.

Driving Innovation helps businesses to improve the pace of innovation through improved product development methods.

Three customers took part in a 12-month programme. Driving Innovation recently went to market via a Request for Proposal to introduce more providers for our customers.

Build for Speed helps businesses in the digital sector to accelerate software development and product delivery through the application of continuous delivery principles.

33 software development businesses took part in the Discovery phase of the programme and three in the Deep Dive phase. We commissioned a review of the pilot programme to measure the enduring impact of the programme on a selection of early participants. We are looking to extend the number of providers and increase our capacity to deliver more choice to businesses.

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

301 businesses attended workshops across New Zealand, resulting in 66 co-funding agreements. The programme was broadened out from the traditional manufacturing focus to include employee engagement and leadership. Our regional focus significantly boosted participant numbers, particularly in Hamilton, Napier, Palmerston North and Nelson. We commissioned an external evaluation surveying businesses that completed the programme over the last three years. 50 businesses responded, with 71% very satisfied or satisfied, 79% reporting improvements to their business within the first six months, and 60% reporting long-term improvements in the two years following the programme. Respondents made a number of suggestions for how the programme could have a more enduring impact on their businesses.

The High Performance Working Initiative (HPWI), helps businesses to create environments in which innovation can occur and thrive by focusing on governance, leadership, strategy and culture.

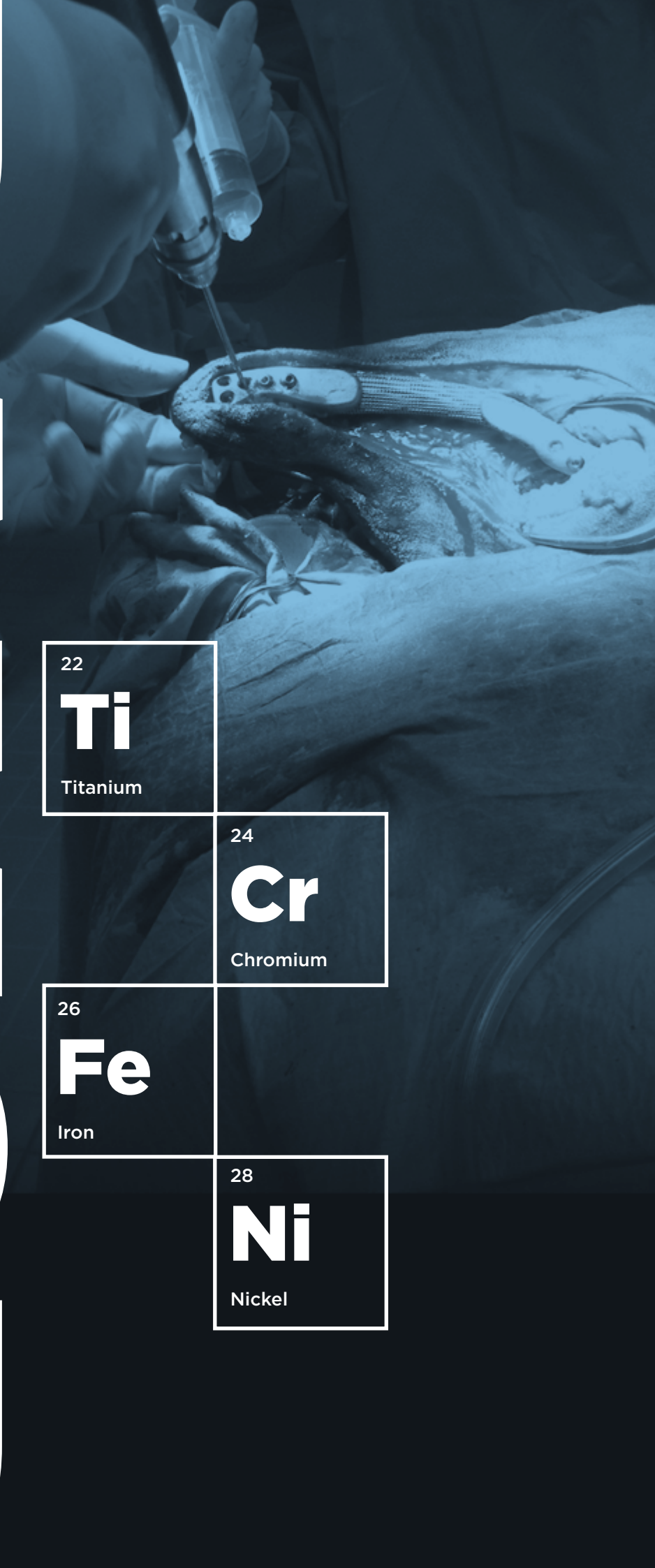
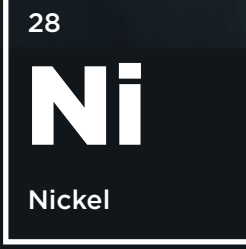
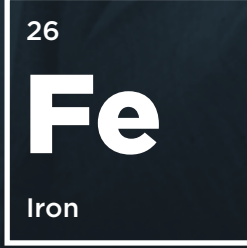
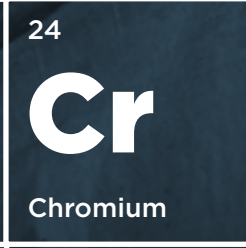
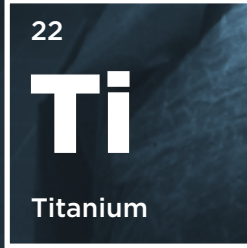
80 customers took part in HPWI across New Zealand. Through the pilot Rukuhia, we have increased the number of Māori enterprises to 15% of the total number of participating businesses. The programme continues to assist businesses to lay the foundations for innovation. We commissioned an external review of HPWI to assess its impact and explore how we can continuously improve its delivery.

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

We brought two innovation leaders to New Zealand: Roberto Verganti, author and Professor of Leadership and Innovation, Politecnico di Milano, and Phil McKinney, former Hewlett Packard Chief Technology Officer and now author, podcaster and CEO of CableLabs. They provided insights for businesses to enhance innovation skills, reaching an audience of 541 individuals from over 300 companies. Feedback was very positive, with more New Zealand businesses encouraged to take a more strategic, focused and integrated approach to innovation.

RAMP 3D

Rapid Advanced
Manufacturing





“The Callaghan Innovation workshops were really beneficial. They showed us the importance of focusing on IP, and looking at our whole business completely afresh. It’s been game-changing for us.”

RAM3D CE
Warwick Downing

Rapid Advanced Manufacturing (RAM3D) is a market leader in additive manufacturing, focusing on selective laser melting (SLM) in titanium, stainless steel and inconel metal alloy powders. It offers one of the very few commercial SLM facilities in the Southern Hemisphere.

Tauranga-based Rapid Advanced Manufacturing (RAM3D) is a 3D metal printing and hi-tech manufacturing company aiming high: to establish a world-class 3D metals printing facility where production parts and prototypes are easily, efficiently and cost effectively produced – and where design engineers and research technicians work alongside clients.

3D printing is not only effective for rapid prototyping, it is highly cost effective for the production of complex parts. With fewer assembly parts, integrating parts is simple and economic with no or minimal manual assembly required on the end product.

Currently RAM3D operates four metal laser printers and will acquire more machines in 2017 to keep up with demand. The company is looking to have up to 20 3D metal printers on site by 2020, says Chief Executive Warwick Downing. “It will be a gradual ramp-up, but we have existing customers with potential to grow and we can see new customers that we can bring on board.”

“Callaghan Innovation’s IP workshops were really beneficial,” Warwick says. “They showed us the importance of focusing on IP, which for us is about

strategy, and looking at our whole business completely afresh. Prior to this we’d struggled to engage with others who were utilising the technology in a similar way, but we’re now better able to understand how we fit in the ecosystem and identify where we can monetarise the things we’ve done. Callaghan Innovation has helped bring more value to our IP, showing us how to identify the risks and manage them. It’s been game-changing for us.”

The parts that RAM3D manufactures range from inconel suppressors for the defence sector to customised handlebar extensions for the New Zealand Olympic cycling team and titanium lugs for high-end Australian custom bikemaker Bastion Cycles.

RAM3D will soon receive additional Callaghan Innovation support, through the Better By Lean programme. This workshop and coaching programme applies a Lean Thinking lens to the entire operational system of a business – development processes, workflows, supply chains, production lines, distribution channels and customer touchpoints – to boost its competitiveness and performance.

Business collaborations

Callaghan Innovation has given New Zealand businesses opportunities to work with partners on shared technology-based engagements and form mutually beneficial collaborations.

The aim is to reduce the costs of R&D and promote the sharing of knowledge among business partners.

76

businesses connected to international knowledge, expertise, ideas, innovation partners and facilities.

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.

We focused on wearable technology through the C-Prize technology challenge to address how people might live healthier, work safer and play smarter. Sponsors Southern Cross Health Insurance, Fuji Xerox, AUT Millennium and other supporting companies helped us connect people looking at wearable technology with potential industry application.

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

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

- SmartGrid energy mission to Minneapolis, Boston, New York and Washington DC: 12 businesses
- Technology start-up mission to Consumer Electronics Show in Las Vegas and Silicon Valley: 14 businesses
- Software as a Service Mission to SaaStr Annual 2017 in San Francisco: 20 businesses
- Biotech mission to BIO International Convention in San Diego: 6 businesses
- Industry 4.0 manufacturing mission to Hannover Messe expo and businesses and research institutes in Germany: 12 businesses
- Kai Rawa Māori economy mission to International Food Technology (IFT) conference and expo in Las Vegas and Silicon Valley: 12 businesses

Developing partnerships to help solve common innovation and technology problems.

We organised a workshop with MedTech Centre of Research Excellence, 'Productising Biomaterials', which offered the chance for attendees representing business, Crown Research Institutes and academia to network with international and local experts in the field, assisting them to turn their regenerative medicine idea or material into a product.

We held a workshop with aviation-related companies and research and development suppliers interested in working together on materials certification, a process that can be time and resource intensive. We explored common interests and technologies that can be exploited to minimise costs to individual companies and enhance the speed and depth of research and development.

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

We continued to support the Nuku ki te Puku Māori Food and Beverage Cluster to collaborate with individual innovation initiatives, supporting business growth through ongoing contact and communication.

The Māori Economy Team supported the establishment of the Māori Digital Cluster, Te Tira Toi Whakangao. The members of this cluster were selected as a result of the Māori Innovation Award sponsored by Callaghan Innovation for the New Zealand Hi-Tech Awards. We are an enabler for the cluster and partner closely with NZTE to support Māori digital business growth. The cluster is pursuing the establishment of Māori technology hubs in the regions and building global connections and opportunities.

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

We carried out work to understand how we can deliver greater value for our customers. We sought a wide range of feedback and ideas from customers, staff and other external stakeholders. One of the outcomes was the development of a new 'Sector Impact' operating model and approach, to give Callaghan Innovation a clear focus on a small number of high-priority, high-potential sectors and allowing us to organise resources to deliver maximum impact. These include Agritech, Digital, Food and Beverage, Health, Energy and Environment, Transport and Logistics, Diverse and Emerging.

INDUSTRY

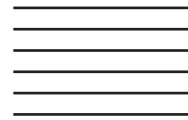


**In 2017
we visited the
world's largest
industrial
technology show
with some of
New Zealand's
future-focused
manufacturers.**

In April we were privileged to travel to Germany for the Hannover Messe with the New Zealand Manufacturers and Exporters Association and 12 very different, innovative New Zealand companies.

Hannover Messe is the world's largest industrial technology show. This year it featured products from 6,500 international companies, with the theme being Industry 4.0 – networked or digitalised manufacturing.

Robots and robotic manufacturing were a particular drawcard for Callaghan Innovation business advisor Nathan Stantiall. "I was keen to see what's new in Collaborative Robots, and in particular innovations that make robots safe to work alongside humans. One area that's new is the addition of

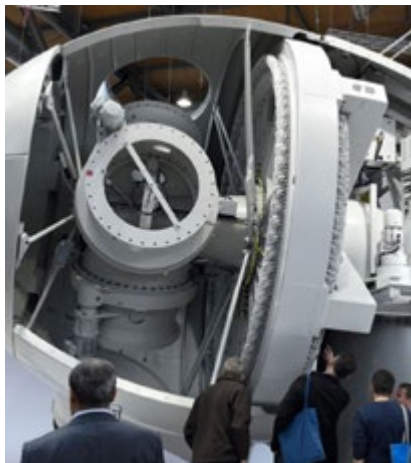


“Everyone in Germany is jumping on the Industry 4.0 bandwagon. This is great but doesn’t guarantee CEO and board support and signoff – you need to show that 4.0 technology is a must have, not merely a nice to have.”

skins to make traditional style robots safe. The AURA is one example. It can lift a payload of 160kg – most other collaborative robots can only lift up to 10kg.”

Augmented Reality – a visual overlay of video footage over a real-world situation, generally viewed through glasses or an iPad – also made an impression. “AR has been embraced by the manufacturing sector as a key technology pillar within Industry 4.0. That gives our small and medium-sized New Zealand manufacturers more affordable alternatives. There is a strong feeling that this technology will be seen in a wider number of New Zealand businesses within the next few years – firstly with maintenance and then in production.”

“Additive Manufacturing encompasses technologies that build 3D objects by adding layer-upon-layer of material. Large corporations such as Siemens, GE, Microsoft, SAP and others are now all partnering with 3D printing players to integrate additive manufacturing into their respective industrial platforms”, Callaghan Innovation’s Advanced Manufacturing team member Robert Blache says. “This shows that additive manufacturing is about to become the industrial mainstream.”



Fairfax journalist Madison Reidy was sponsored on the trip by Callaghan Innovation, who also provided co-funding support for some of the manufacturers who joined the delegation. “Some saw the trip as an opportunity to validate and sell their new product developments,” Nathan says. “Others went with a shopping list to buy. But I think the overall theme for us all was to go and learn – see what these latest technologies are, and just how relevant they are for New Zealand.”



Images sourced from Deutsche Messe

R&D grants

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

Our grants include:

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

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

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

57

businesses were approved for a two-year extension to their Growth Grant contract, with an estimated value of \$137,272,946.

During 2016/17 our grants included

Growth Grants

Co-fund 20% of a business's R&D costs, up to \$5 million a year, available to businesses that invest over 1.5% of revenue in R&D. In the past year we approved 53 new Growth Grants, with an estimated value of \$95,115,549.

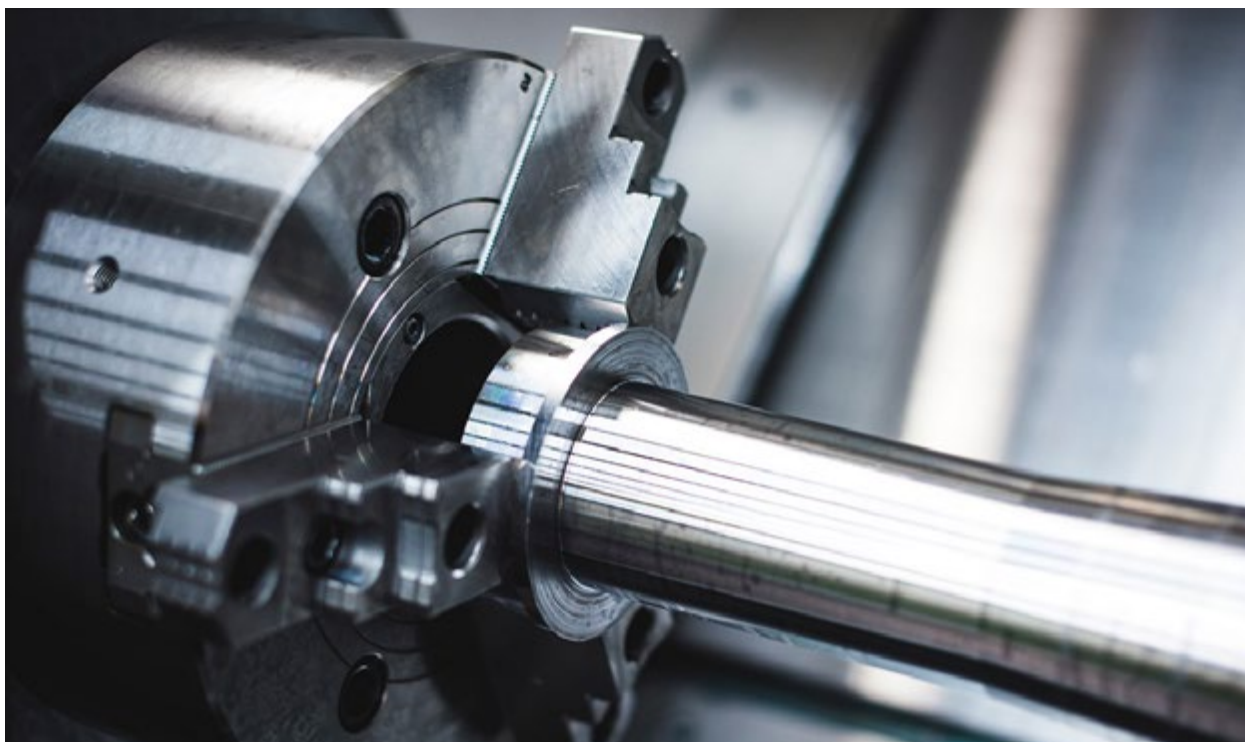
In the past year, 57 businesses were approved for a two year extension to their Growth Grant contract, with an estimated value of \$137,272,946.

Project Grants

Co-fund up to 40% of R&D costs of an R&D project. Targeted towards companies that have less well-established R&D programmes, with the goal of developing them into stable and substantial R&D performers. In 2016/17 we approved 252 Project Grants, at a maximum of 40% cover¹, for a total contract value of \$15,743,500.

Student Grants

Support New Zealand students to gain and develop their technical skills in commercial R&D environments. In the past year we supported the development of students by approving 188 Student Grants for 309 student placements, for a total contract value of \$4,984,032.



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

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 private sectors
- Identify and understand the gaps and opportunities where key players, including ourselves, can add the most value.

40,000

School students engaged with technologists, engineers and scientists through Futureintech.

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

We held or supported a wide range of inspirational events across New Zealand, including:

- Callaghan Connect. Our first customer day attracted 319 people to hear from international experts and build connections.
- Matariki X. More than 300 people heard about inspiration, innovation and overcoming failure from successful Māori.
- Succeed in a Changing World. Around 600 people attended eight regional discussions on technology change and opportunities for New Zealand businesses, centred on insights from our Chief Technology Officer.
- Futureintech is a programme developed to generate interest in technology, science and maths (STEM) at school and encourage students to choose STEM subjects at university and as a career. This year there were nearly 2,500 school visits by technologists, engineers and scientists, engaging over 40,000 students. There are over 900 Futureintech industry ambassadors and 618 industry partners.
- Venture Up is a programme that provides entrepreneurship skills to young people aged 16-24. Following a roadshow to more than 300 young people in 11 centres across New Zealand, 35 were selected for a six-week intensive accelerator programme to work on their business ideas. After three years of the programme, there are now 100 alumni and 13 ventures are continuing.
- Chiasma is a student-led, nationwide organisation that connects science students with industry and fosters innovation and commercialisation. This year Chiasma has increased the number of participating universities and grown its membership of students and industry members to more than 4,000. Nearly 2,000 students and industry members attended Chiasma events and initiatives including the annual Synapse events. Twenty-five percent of Chiasma alumni have founded their own companies, been part of a start-up, or won innovation and entrepreneurship awards.

Technology networks

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

Our National Technology Networks team connected industry and other organisations across the New Zealand R&D ecosystem. The team specialises in key technology platforms that benefit businesses, including biotechnology, advanced materials, advanced manufacturing, data and the internet of things. Their work included leading a delegation to the Bio conference in San Diego, and collaborating and contributing to initiatives focused on artificial intelligence, Industry 4.0, additive manufacturing and material processing.

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.

We developed our innovation relationships with a number of countries through joint innovation forums, partnering with embassies, and leading workshops and groups of foreign companies visiting New Zealand. 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.

Pilot plants, incubators, accelerators 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 incubators, which work with start-up businesses to speed their paths to market, and four accelerator programmes.

Pilot plants

As part of a collaboration with Scion, Plant & Food Research and AgResearch, Callaghan Innovation led the establishment of the Virtual Pilot Plant Network as an infrastructure project within the Bioresource Processing Alliance (BPA). This is a free-to-access service for the New Zealand bioprocessing community that showcases pilot scale facilities hosted by the New Zealand-based BPA partners, universities, research providers and private businesses relevant to biological materials processing. The network currently has 58 registered plants and 250 registered users, including more than 100 from the private sector.

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

Incubators

Founder incubators worked with 122 start-ups, of which 72 joined the scheme in 2016/17. Technology incubators worked with 43 start-ups, with 14 new to the scheme in 2016/17. We worked with incubators in the following sectors:

	FOUNDER	TECH
Agritech	9	6
Digital	54	6
Diverse & Emerging	37	14
Energy & Environment	5	4
Food & Beverage	7	5
Health	8	8
Transport & Logistics	2	-
Total	122	43

Both types of incubator continued to contribute to the broader start-up ecosystem through activities such as:

- 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.

Accelerator Programmes

Accelerator Programmes focus on rapid and intensive product development to establish an investment-ready start-up business.

Callaghan Innovation funded four Accelerator Programmes in 2016/17: The Icehouse Flux Accelerator; two Creative HQ Lightning Lab Accelerators (Kiwibank FinTech Accelerator, Lightning Lab Electric); and the BCC's (Building Clever Companies) Sprout Agritech Accelerator.

Innovation Precincts

We are following Treasury guidelines in the development of a Better Business Case for the Gracefield Innovation Precinct. We 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.

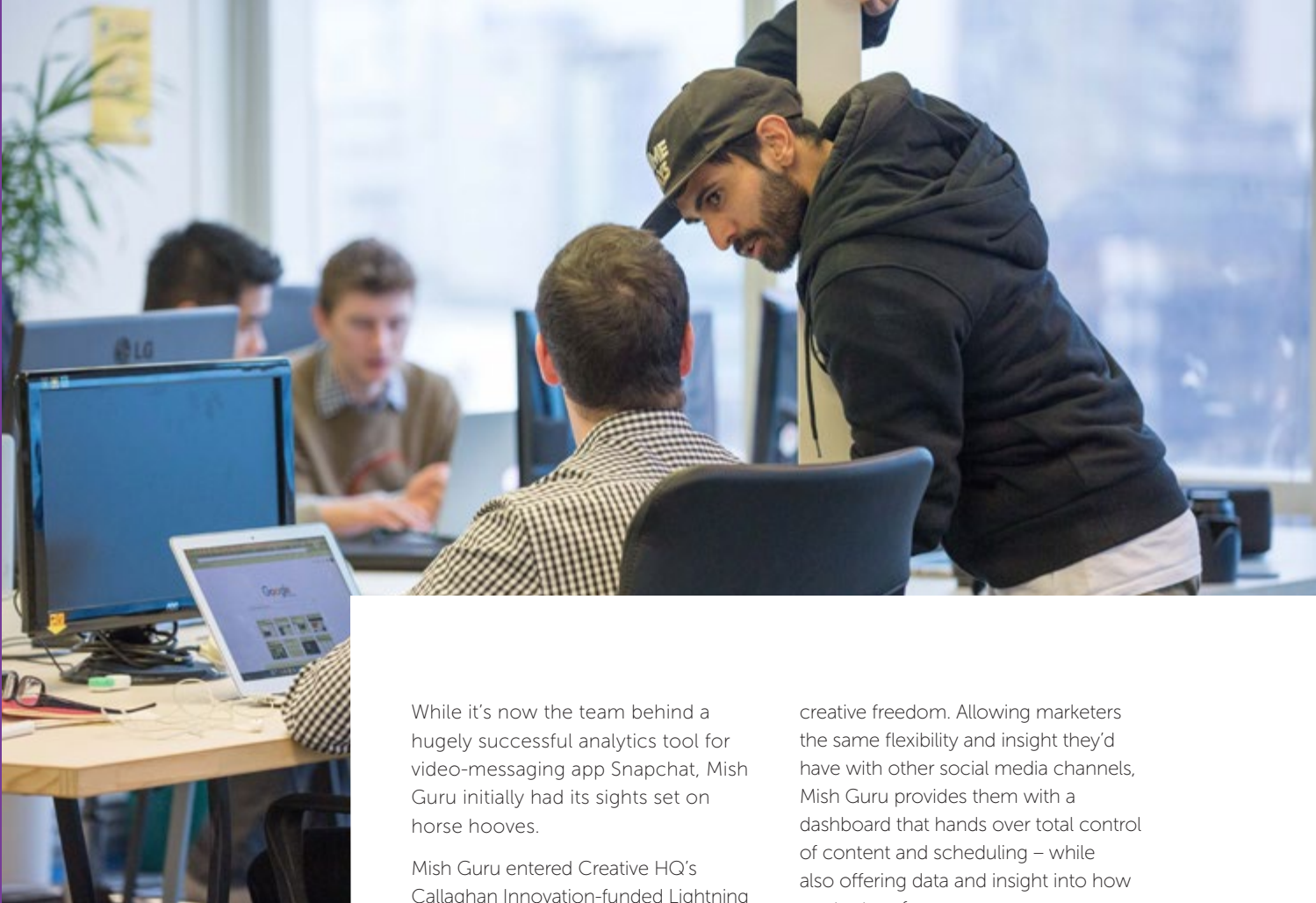
The National Science Challenge science portfolio projects made good progress, including:

- In-home medical systems research progressing to clinical trial
 - The Groundwater velocity mapping team approaching testing stage for a lab-scale model
 - The Bio-fibre 3D printing project successfully printing with cellulose
 - The Analytics team forming a relationship with Parininihi ki Waitotara Trust to use algorithmic approaches in locating their Māori shareholders
 - The Innovation team developing draft best practice models for enhancing co-innovation capacity, based on observation and surveys of the Challenge, especially regarding Vision Mātauranga (VM)
 - The trialling of two additional approaches to contestable funding. 28 'seed projects' have been funded (>20% aligned with VM) which are smaller, higher-risk projects
 - Experimenting with new co-innovation approaches to mission-led research. Workshops with industry and Māori leaders (in partnership with the Federation of Māori Authorities) developed high-level research directions aligned with the Challenge mission ('the digital marae', 'intelligent oceans', 'rugged/flexible robots' and 'personalised value chains'). Researchers have been asked to build full proposals, three of which (at least one VM) will be funded from 1 July 2017.
-





Start-ups play a critical role in increasing innovation, diversifying the economy and creating high-value jobs. Government funding aims to support the start-up ecosystem through working with Programme Partners to create a pipeline of high-growth start-ups and talented entrepreneurs. Callaghan Innovation currently administers government funding to three key start-up support programmes: Founder Incubators; Technology Incubators; and Accelerators.



Mish Guru

“We have a product we know solves a very real problem. For us, it’s a case of how we get this into the hands of as many people as possible.”

**Tom Harding,
Mish Guru
co-founder**

While it’s now the team behind a hugely successful analytics tool for video-messaging app Snapchat, Mish Guru initially had its sights set on horse hooves.

Mish Guru entered Creative HQ’s Callaghan Innovation-funded Lightning Lab in 2014 – an intensive, four-month business acceleration programme that provides support and resources to tech start-ups trying to enter the global market. The Mish Guru team’s original concept was for automated horseshoeing technology, but after middling feedback and a failed practical experiment, it was forced to lick its wounds and start from scratch.

Co-founder Tom Harding describes what followed as “a complete rebirth of a business”. Moving into developing concepts for a video depository platform and then to studying existing video platforms, the team noticed the void for analytics with Snapchat and hasn’t looked back since.

While scepticism was rife at first, very few marketers will now dismiss the power and reach of Snapchat. A platform boasting approximately 10 billion daily video views, it is a social media success (worth an estimated \$20 billion) that’s quite literally changing the way people communicate.

The catch for marketers is that Snapchat doesn’t offer analytics, making it difficult to evaluate how any of their content performs. Mish Guru solves this problem, as well as expanding the user’s

creative freedom. Allowing marketers the same flexibility and insight they’d have with other social media channels, Mish Guru provides them with a dashboard that hands over total control of content and scheduling – while also offering data and insight into how content performs.

Mish Guru emerged from the Lightning Lab accelerator winning over investors and clients alike, and quickly joined Creative HQ’s incubator programme, based in Wellington. Creative HQ looks for radical, exciting ideas and provides world-class support and development services to turn business concepts into viable, high-growth companies. It was here that Mish Guru really refined its product and proposition. The company has since grown into a team of 18 and is now based in New York, which has the highest concentration of marketers and advertising agencies in the United States.

Tom acknowledges the roles of Creative HQ and the Lightning Lab accelerator as integral in getting it to where it is. “The reality is that starting a business is really hard, and during that critical initial stage you want to surround yourself with smart advisors to guide you through that stage.”

The company plans to keep building upwards, all the while making sure it is malleable and well aligned with the platform its tool supports. The rapid growth of Mish Guru speaks for itself – and unlike the 10-second snaps it makes its living from, there’s no limit in sight.

Founder Incubators

Supporting the growth of start-ups and entrepreneurs requires a different skill-set from providing support to established businesses. Founder incubators are one of the main channels to generate high-growth start-ups and build the capability of entrepreneurs.

They support and connect less experienced entrepreneurs with great ideas to mentors, advisors and the investment community. They provide services to build the business capability of the founders so that they are capable of growing their business to the point that they are sustainable through revenues or attractive to investors.

Callaghan Innovation funded 5 founder incubators: The Icehouse; Creative HQ; BCC (Building Clever Companies); SODA Inc and ecentre.

DURING 2016/17

21

start-ups participated in accelerator programmes.

DURING 2016/17

14

repayable grants were allocated to technology incubated start-ups.

Technology Incubators

Callaghan Innovation's technology incubators help more innovative, technology-based start-ups get off the ground and provide a route for the commercialisation of deep, complex technologies.

Technology incubators provide start-up businesses with services such as market validation, business planning and development, capability development, investment, governance and advisory board advice. In addition, they have access to Callaghan Innovation's repayable loan scheme, used by the start-up business to fund the costs associated with further developing or commercialising its technology. Callaghan Innovation contributes up to three-quarters of the total amount (up to \$450,000) and the incubator the remaining quarter (up to \$150,000). The start-up business repays the loan when it begins to generate revenue, in the form of a 3% royalty on its gross revenue from sales, at 3% interest per annum.

Callaghan Innovation funded three technology incubators: WNT Ventures, Powerhouse Ventures and Astrolab.

Accelerator Programmes

Accelerator programmes assist start-ups to understand the potential of their business ideas and provide mentoring, coaching and business support.

Callaghan Innovation funded 4 accelerator programmes in 2016/17: The Icehouse Flux Accelerator; Creative HQ Lightning Lab Accelerator (Kiwibank FinTech Accelerator, Lightning Lab Electric); and the BCC's (Building Clever Companies) Sprout Agritech Accelerator.

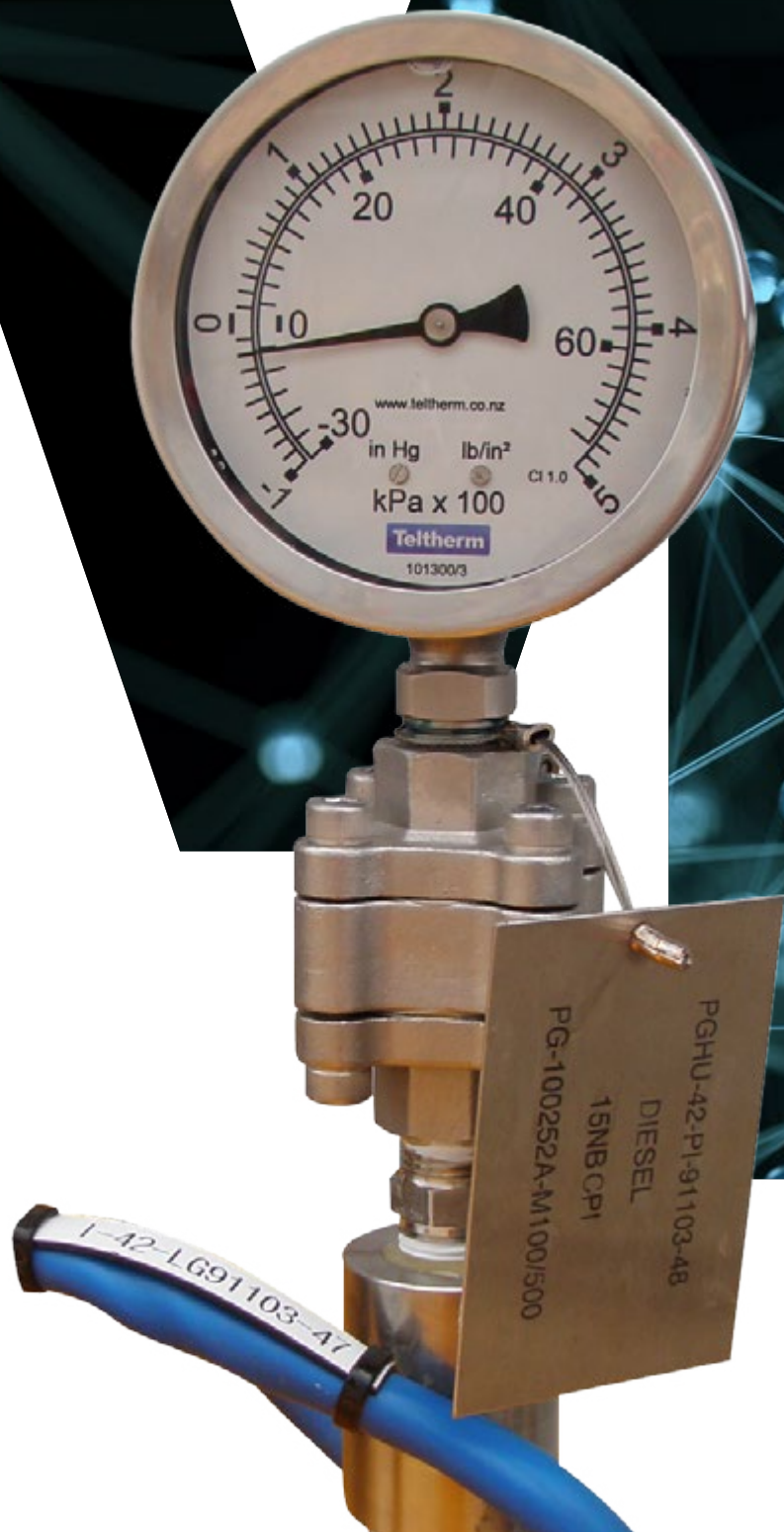
In May 2017 Flux company 1Centre closed a huge capital raise while still in incubation. Intense interest in the company convinced the 1Centre board to accept investment before the end of the programme, and this funding round is one of the largest ever investments into a New Zealand company during an accelerator programme.

"It's a huge validation to have had the interest in investing in the company," says founder Miriana Lowrie. "While traditionally start-ups wait until the end of a programme to fundraise, the intense interest we fielded, along with the opportunity it gives us to accelerate our growth, meant it was a logical move to make. We look forward to growing the company in the months ahead."

Teltherm Instruments Limited

MEASUREMENT STANDARDS LABORATORY

At the core of Teltherm Instruments' business is the science of metrology. Measurement instruments are essential to keeping production lines, workers and businesses online, running and profitable. And that's where Callaghan Innovation's Measurement Standards Laboratory comes in.





"Accurate measurement supports industrial success across all sectors of our economy. If our measurements in the field of pressure, temperature, humidity, infrared and gas detection are not sound, then our work impacts the entire spectrum of the New Zealand economy."

Teltherm Laboratory Manager
Anne Evans

From modest beginnings in colonial New Zealand 65 years ago, Teltherm-manufactured or sourced instruments can now be found in industries throughout Australasia and around the world. As the only manufacturer of industrial gauges in New Zealand, Teltherm has developed into a market-oriented and innovative manufacturing company distributing its products to Australia, the Pacific Islands, Europe and beyond. At the core of its business is the science of metrology. Measurement instruments are essential to keeping production lines, workers and businesses online, running and profitable. And that's where Callaghan Innovation's Measurement Standards Laboratory (MSL) comes in.

"We lean on MSL to guide us and ensure the manufacturing and calibration work we do and the measurements we report are world class," says Teltherm Laboratory Manager Anne Evans. The knowledge within MSL among the technical experts is invaluable in supporting New Zealand laboratories and manufacturers. Our Teltherm and Homershams laboratories invoice in excess of \$1 million of measurement results per year to all fields of New Zealand's economy covering

agriculture, dairy, pharmaceutical, aviation, manufacturing, health, food, beverage and more. If our measurements in the field of pressure, temperature, humidity, infrared and gas detection are not sound, then our work impacts the entire spectrum of the New Zealand economy."

Teltherm's metrology laboratory is now International Accreditation New Zealand (IANZ) accredited in pressure, gas detection, temperature and infrared, while the Christchurch lab is also accredited in humidity. The company's strength is in the flexibility of the manufacturing arm of its business. The factory is capable of small or large batches, custom designed to meet the client's requirements. It is this flexibility coupled with short lead times that enables Teltherm to successfully market its brand globally. It has also acquired distributor rights to an extensive range of industrial instruments.

"Calibrations apart, the instruments we manufacture here in New Zealand plus the instruments we import for our end users are all checked traceable to MSL – we can have confidence in the products we make and sell because the products are traceable

to a reputable and local facility," Anne says. Accurate measurement supports industrial success across all sectors of our economy. It is therefore essential to preserve and grow New Zealand's metrology infrastructure and intelligence.

"MSL meets this demand with facilities and staff ready and willing to provide first-rate metrology advice and capabilities to New Zealand organisations."

Teltherm offers a multitude of customised instrument options including pressure, temperature, calibration equipment, relief valves, flow, gas detection, level, and burner safety. It exports, imports, supplies, manufactures, calibrates, certifies and repairs industrial instruments.

The downstream effect of what the MSL team achieves is probably not easily visible," Anne says. "MSL is near the apex of New Zealand's measurement pyramid but its tentacles reach from the likes of Fonterra to the supermarket scales – every part of our society is impacted by the measurements we make. It is without reservation that I thank MSL for their guidance and I look forward to many years of growth ahead aided and fostered by our relationship with MSL."

OUR PEOPLE



Our people are our greatest asset.



About Business. Bold. Connected. Delivering Results. By nature, our people personify our values. They come from diverse backgrounds and experiences, each bringing unique expertise, drive and passion to help New Zealand businesses succeed through technology.

The focus this year has been to build and strengthen our people's alignment with our mission and vision, enhance our culture, connect our teams, develop leadership capability and invigorate performance. To do this we have focused on ensuring that Callaghan Innovation has the frameworks, tools and systems in place that can support our strategy and grow NZ Inc.

We want to be an organisation that is an exemplar for Equal Employment Opportunities – embracing the concept that great minds don't think alike – where all people can be their best and play to their strengths.

Leadership and Talent

We have a vision of being a place where talent wants to work.

To meet this goal, we offer a range of learning and development opportunities, coaching and mentoring. We have also begun a career pathway project to enable us to be agile in the way we think about and build our people's skills and careers in the science and research area.

We have refreshed our Leadership Framework to include self-knowledge as a critical component of leadership at Callaghan Innovation. Underpinned by our values and whakataukī our Leadership Framework serves as the foundation for leadership development, recruitment, talent and performance management.

Home Safe Every Day

Callaghan Innovation has continued to build on its Home Safe Every Day programme, which was launched last year. This year has seen another significant Health, Safety and Environment (HSE) improvement programme delivered. Our online HSE information management system (HSE online) has been further developed to incorporate risk assessments and workplace inspections. All information in HSE online is accessible to all employees, making HSE more transparent and improving connectivity across the business.

HSE online is now firmly embedded within Callaghan Innovation and is used for reporting incidents, hazards and near-misses via the HSE risk register, tracking all HSE actions, carrying out workplace inspections, undertaking risk assessments, and recording equipment that may pose an HSE risk to employees.

Our People

HEADCOUNT = 386



LOCATION

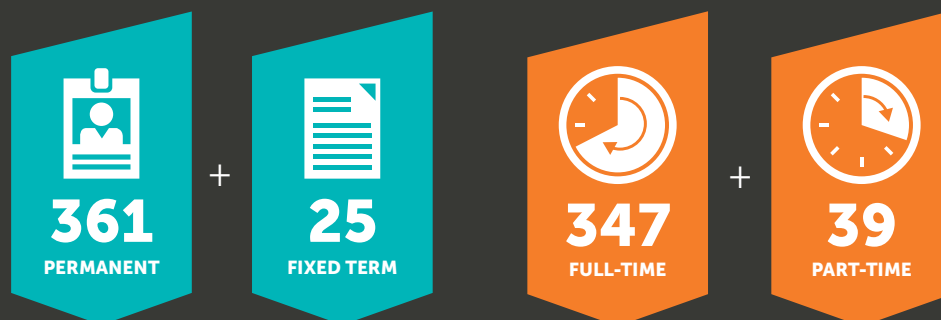


62 | AUCKLAND

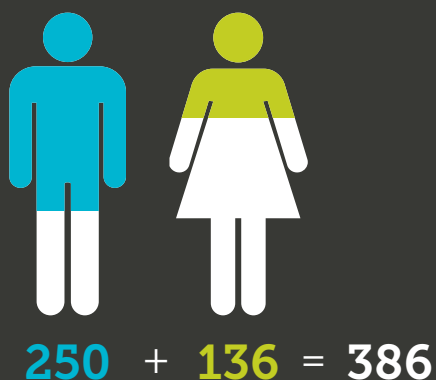
296 | WELLINGTON

28 | CHRISTCHURCH

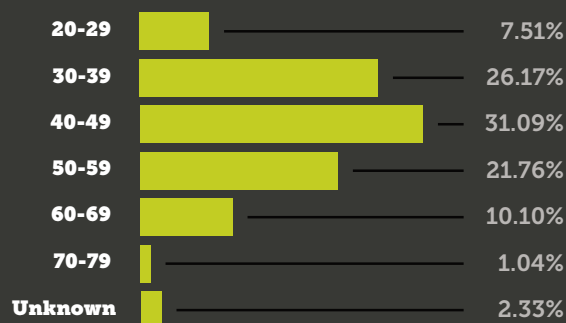
EMPLOYEES



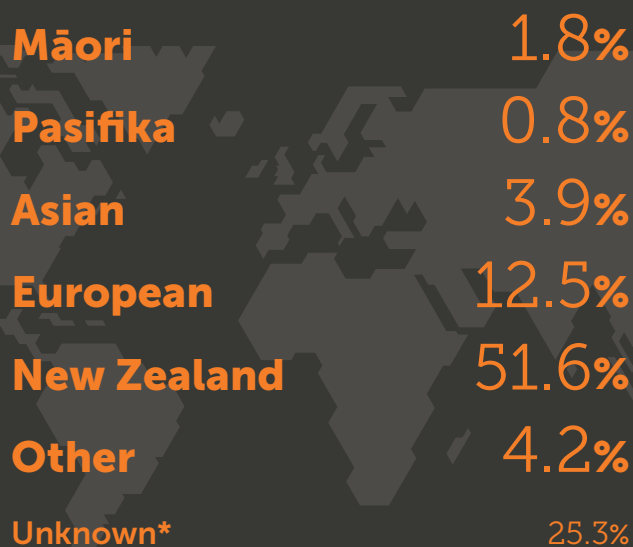
GENDER



AGE in 10-year groupings



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, articulates and iterates policies, programmes and tools to ensure that they support the development of our people capability and reinforce our organisational values.

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

1. Leadership, Accountability and Culture

- Held our inaugural Callaghan Innovation Day, focused on putting customers at the heart of the way we work, connect and collaborate
- Created Ideascout, an internal innovation pathway to capture, prioritise and implement great business improvement ideas that support our values
- Piloted 'Officevibe', a tool for gaining real-time feedback from our people. This is being rolled out across the organisation in 2017
- Continued our Women in Leadership mentoring programme
- Identified Workplace by Facebook as a digital collaboration tool to be rolled out in 2017.

2. Recruitment, Selection and Induction

- Actively recruited with the knowledge of our workplace profile and the need for diversity as a key driver
- Continued to welcome new staff through the executive-led orientation programme
- Incorporated Twitter feeds on our careers page to keep job seekers abreast of what is happening at Callaghan Innovation
- Promoted vacancies on our social media pages (Twitter, Facebook and LinkedIn) and on our corporate site to reach a wider audience.

3. Flexibility and Work Design

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

4. Employee Development, Promotion and Exit

- Invested in a learning management system for launch in 2017/18
- Reviewed the process and content of exit interviews for implementation in 2017/18
- Continued ongoing work on our career pathways project for scientists, engineers and research staff
- Piloted Agile as a project management approach, with senior leaders participating in a design thinking seminar
- Completed sales and negotiation skills training for relevant staff.

5. Reward and Recognition

- Undertook the annual remuneration review process
- 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.

6. Harassment and Bullying Prevention

- Had no formal complaints about bullying
- Continued to monitor and act as appropriate.

7. Healthy and Safe Environment

- Had 253 events reported, a decrease from 299 the previous year. This included a reduction in serious and moderate events and 100% increase in near miss reporting
 - Completed 158 workplace inspections
 - Identified 965 HSE-related improvement actions with approximately 75% of these actioned within the year
 - Completed 260 workplace risk assessments
 - Produced over 2,000 Safe Method of Use (SMoU) documents for chemical handling
 - Revised our site permitting process for contractor management, including the development of a contractor hand book
 - Commenced a review of our approach to health monitoring to better quantify any risk to employees, with controls and mitigations in place to protect employee health.
-

OUR 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 2016/17 year there was one change to the Board membership, with Richard Janes finishing his term early.

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 related to the effective management of the appointment and remuneration of the Chief Executive and her 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 research and development. 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
Robin Hapi (Deputy Chair)	30/06/2018	-	-	Chair	Member
Richard Janes	31/03/2017 <i>Term ended</i>	-	-	Member	Chair
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	30/09/2017	-	-	-	Member
Dr Alastair MacCormick	30/09/2017	-	-	-	Member

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

Stakeholder Advisory Group

Our Stakeholder Advisory Group members come from the business and science communities, with 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
Tom Grealley	Consultant	Independent
Brett Hewlett	Chief Executive Officer	Comvita
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	Chief Executive Officer	Icehouse
Stefan Korn	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 2016 to 30 June 2017, 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 2016 to 30 June 2017 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 2016 – 30 June 2017. 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 2017.

This year we merged three of our output classes into the Callaghan Innovation Operations Multi-Category Appropriation to align better with our activities. 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.

Performance Measures

Callaghan Innovation Operations: Multi-Category Appropriation

This appropriation enables us to broker and provide innovation services to businesses and deliver programmes that enhance New Zealand's innovation system. We can then achieve more support for businesses to successfully develop new and improved products, processes and services through R&D and technology-driven innovation by improving the performance of New Zealand's innovation system.

In 2016/17 three output classes were merged into the Callaghan Operations Multi-Category Appropriation (MCA). The new appropriation is made up of:

- Building Business Innovation
- Research and Development Services and Facilities for Business and Industry
- Business Research and Development Contract Management.

How Callaghan Innovation's performance is measured

Performance Measures	Performance Standard	Result
Total number of current and new customers using Callaghan Innovation services	Establish baseline	1,982 customers

MULTI-CATEGORY APPROPRIATION

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 2016/17 – \$000	Actual Revenue 2016/17 – \$000	Actual Expenditure 2016/17 – \$000	Actual Surplus 2016/17 – \$000
Appropriation	32,378	24,378	-	-
Other	1,488	1,542	-	-
Total	33,866	25,920	25,739	181

Performance Measures

Quantity	Performance Standard	Result
Percentage of surveyed customers who agree or strongly agree that Callaghan Innovation has added value to their business	80%	87% of innovation services survey respondents rated us 7 or higher when asked if they would recommend the Callaghan service or event on a 0-10 scale. ² The Net Promoter Score was +41.
Total number of customers using each innovation service	Establish baseline	Better By Lean – 301 Build for Speed – 33 Driving Innovation – 3 HPWI – 80 IMProve – 12 Innovation IP – 68 Global Expert/Quid – 63 Events – 788

² As Callaghan's survey programme is still being rolled out, not all Callaghan services are captured in the above results.

MULTI-CATEGORY APPROPRIATION

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, where they have complementary technical expertise.

Financial Performance

	Budget Revenue 2016/17 – \$000	Actual Revenue 2016/17 – \$000	Actual Expenditure 2016/17 – \$000	Actual Surplus 2016/17 – \$000
Appropriation	19,523	23,023	-	-
Other	31,405	28,443	-	-
Total	50,927	51,466	51,443	24

Performance Measures

Quantity	Performance Standard	Result
10 R&D subcontracts between Callaghan Innovation and other R&D providers totalling more than \$2 million	Achieved	79 contracts \$2.6m value
Number of New Zealand businesses with research and technical service contracts (excluding MSL, KiwiStar and GlycoSyn)	Establish baseline	136 businesses
Commercial revenue from domestic customers*	\$3.3 million	\$3.7m

*New Zealand businesses with research and technical service contracts (excluding MSL, KiwiStar and GlycoSyn).

MULTI-CATEGORY APPROPRIATION

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 negotiate, manage and monitor 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.

Financial Performance

	Budget Revenue 2016/17 – \$000	Actual Revenue 2016/17 – \$000	Actual Expenditure 2016/17 – \$000	Actual Surplus 2016/17 – \$000
Appropriation	7,751	12,250	-	-
Other	392	409	-	-
Total	8,143	12,659	12,351	308

Performance Measures

Quantity	Performance Standard	Result
Percentage of growth, project and student ³ fellowship applications who have received a decision within 30 working days of receipt of the completed application	90%	77% (423 of 550). The process for calculating these figures changed this financial year to reflect updated workflow processes. The timings are more reflective of the length of time taken to assess and approve an application. The R&D Grants Group has an ongoing programme of work to improve application completion and processing times in the next financial year.

³ To ensure representative reporting of this measure, the student grants included are Student Fellowship grants, R&D Experience grants and Student Career grants.

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. 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 2016/17 – \$000	Actual Revenue 2016/17 – \$000	Actual Expenditure 2016/17 – \$000	Actual Surplus 2016/17 – \$000
Appropriation	5,764	5,764	-	-
Other	629	631	-	-
Total	6,393	6,395	6,378	17

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 2017	Achieved	Achieved There were 108 procedures in validation on 30 June 2017, of which 30 were validated or re-validated during 2016/17. An annual surveillance review of MSL was carried out by IANZ. IANZ also conducted technical reassessments of MSL's Time and Frequency standard, Humidity standard, and Pressure standard. There were no corrective actions requiring clearance arising from the surveillance review or the reassessments.

Business Research and Development Grants

In addition to our MCAs and National Measurements Standard Output Class, 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 ⁴	70%	85% (169 of 199 companies)

Targeted Business Research and Development Funding

R&D Project Grants support greater investment by businesses in R&D, especially those with less well-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 surveyed recipients who agree that R&D project or student funding had a positive impact on the results of their R&D project	80%	95% (84 of 88 Project Grants)
Percentage of surveyed recipients who would recommend the R&D Experience grants to others	80%	99% (103 of 104 responses)

⁴ This compares the average eligible quarterly R&D spend in the two years prior to the Growth Grant (the years used to enter the scheme) with the average eligible quarterly R&D spend during the Growth Grant period. Note: the wording about eligible R&D spend being maintained or increased has changed in the latest Ministerial direction. It was previously "the business has maintained or increased non-government funded eligible R&D expenditure over the two years of the grant period as compared to the two years prior to the grant period". It is currently "has maintained or increased eligible R&D expenditure over the two years of the grant period as compared to the two years prior to the grant period".

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 pre-incubation grants progressed into repayable grants	90%	44% 17 grants (91 total) were awarded in the last quarter and typically take six months to convert to a repayable grant. ⁵

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

⁵ The decision to proceed to a repayable loan agreement from the approval of a pre-incubation project may not occur in the same financial year and remaining pre-incubation projects may enter into repayable loan agreements for the next financial year.

FINANCIAL STATEMENTS

Statement of Comprehensive Revenue and Expenses	54
Statement of Changes in Equity	55
Statement of Financial Position	57
Statement of Cash Flows	59
Notes to the Financial Statements	61

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2017

		GROUP 2017 ACTUAL	GROUP 2017 BUDGET	GROUP 2016 ACTUAL
	<i>Notes</i>	\$000	<i>Unaudited</i> \$000	\$000
Revenue				
Funding from the Crown	2	66,720	77,823	68,749
Funding from the Crown – grants		169,322	198,196	154,126
Commercial and other revenue	2	20,812	21,510	20,319
Interest revenue		1,305	1,044	1,432
Total revenue		258,159	298,573	244,626
Total revenue				
		258,159	298,573	244,626
Expenditure				
Personnel costs	3	(44,106)	(45,575)	(44,426)
Science project and subcontract costs		(14,132)	(25,436)	(15,684)
Other expenses	3	(24,873)	(22,580)	(23,482)
Depreciation and amortisation expense	8,9	(5,983)	(6,465)	(5,968)
Grant expense	4	(169,322)	(198,196)	(154,126)
Interest expense		(2)	-	(81)
Total operating expenditure		(258,418)	(298,252)	(243,767)
Surplus for the period				
		115	321	1,058
Other comprehensive revenue and expense				
Cash flow hedges (net of tax)		(271)	-	731
Total comprehensive revenue and expenses		(156)	321	1,789

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 2017

GROUP	Notes	Contributed capital \$000	Accumulated surplus \$000	Hedge reserve \$000	Total equity \$000
Balance as at 1 July 2016		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 expenses for the year		48,573	7,243	357	56,173
Other transactions					
Capital contribution		4,300	-	-	4,300
Balance as at 30 June 2016		52,873	7,243	357	60,473
Balance as at 1 July 2016		52,873	7,243	357	60,473
Surplus for the year		-	115	-	115
Other comprehensive revenue					
Cash flow hedge reserve		-	-	(271)	(271)
Total comprehensive revenue and expense for the year		52,873	7,358	86	60,317
Other transactions					
Capital contribution		-	-	-	-
Balance as at 30 June 2017	6	52,873	7,358	86	60,317

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 2017

GROUP BUDGET (unaudited)	Notes	Contributed capital \$000	Accumulated surplus \$000	Hedge reserve \$000	Total equity \$000
Balance as at 1 July 2016		49,573	10,341	(36)	59,878
Surplus for the year		-	257	-	257
Other comprehensive revenue					
Cash flow hedge reserve		-	-	-	-
Other transactions					
Capital contribution		4,344	-	-	4,344
Total comprehensive revenue and expense for the year		53,917	10,598	(36)	64,479
Balance as at 30 June 2016		53,917	10,598	(36)	64,479
Balance as at 1 July 2016		53,670	9,044	(56)	62,658
Surplus for the year		-	321	-	321
Other comprehensive revenue					
Cash flow hedge reserve		-	-	-	-
Total comprehensive revenue and expense for the year		53,670	9,365	(56)	62,979
Other transactions					
Capital contribution		12,450	-	-	12,450
Balance as at 30 June 2017	6	66,120	9,365	(56)	75,429

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

As at 30 June 2017

		GROUP 2017 ACTUAL	GROUP 2017 BUDGET	GROUP 2016 ACTUAL
	<i>Notes</i>	\$000	<i>Unaudited</i> \$000	\$000
EQUITY				
Contributed capital	6	52,873	66,120	52,873
Accumulated surplus	6	7,358	9,365	7,243
Hedge reserve	6	86	(56)	357
TOTAL EQUITY		60,317	75,429	60,473
<i>Represented by:</i>				
CURRENT ASSETS				
Cash and term deposits	5	26,880	27,633	29,740
Trade and other receivables	7	5,405	7,426	6,251
Crown debtor – grants	7	76,420	64,117	69,311
Derivative financial instruments	18	86	-	357
Work in progress		967	12	819
Inventories		512	167	258
Total current assets		110,270	99,355	106,736
NON-CURRENT ASSETS				
Trade and other receivables	7	400	-	1,128
Investment in joint ventures and associates	11	7,771	7,210	7,397
Property, plant and equipment	8	39,803	45,871	33,766
Intangible assets	9	2,049	5,343	1,878
Total non-current assets		50,023	58,424	44,169
TOTAL ASSETS		160,293	157,779	150,905

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

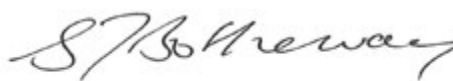
The accompanying accounting policies and notes form an integral part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION CONTINUED

As at 30 June 2017

		GROUP 2017 ACTUAL	GROUP 2017 BUDGET	GROUP 2016 ACTUAL
		\$000	<i>Unaudited</i> \$000	\$000
CURRENT LIABILITIES				
Trade creditors and other payables	14	11,659	11,031	10,055
Employee benefits	12	3,539	3,408	3,386
Provisions	15	-	-	692
Grant obligations	17	76,420	64,117	69,311
Funds received in advance	13	8,170	3,292	6,732
Total current liabilities		99,788	81,848	90,176
NON-CURRENT LIABILITIES				
Employee benefits	12	188	502	256
Total non-current liabilities		188	502	256
TOTAL LIABILITIES		99,976	82,350	90,432
NET ASSETS		60,317	75,429	60,473

For and on behalf of the members of the Board, which authorised the issue of the financial statements on 29 August 2017.


Sue Suckling
Chair, Callaghan Innovation Board

Simon Botherway
Callaghan Innovation Board

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

For the year ended 30 June 2017

	GROUP 2017 ACTUAL	GROUP 2017 BUDGET	GROUP 2016 ACTUAL
	\$000	Unaudited \$000	\$000
CASH FLOW FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Receipts from the Crown – operating	77,035	75,865	75,500
Receipts from the Crown – grants	169,322	198,200	150,483
Receipts from commercial customers	20,884	20,798	18,659
Interest received	1,305	1,044	1,432
	268,546	295,907	246,074
<i>Cash was applied to:</i>			
Payments to suppliers	(47,359)	(47,572)	(45,354)
Payments to employees	(44,019)	(45,046)	(43,472)
Payments to grant recipients	(169,322)	(198,200)	(150,483)
	(260,700)	(290,818)	(239,309)
Net cash flow from operating activities	7,846	5,089	6,765
	<i>16</i>		
CASH FLOW FROM INVESTING ACTIVITIES			
<i>Cash was provided from:</i>			
Sale of property, plant and equipment	11	-	39
Term deposit maturities	45,500	2,000	46,000
Finance lease receivables	1,545	-	1,830
	47,056	2,000	47,869
<i>Cash was applied to:</i>			
Purchase of property, plant and equipment	(11,437)	(18,911)	(7,213)
Purchase of intangible assets	(825)	-	(697)
Investment in term deposits	(41,500)	-	(53,500)
	(53,762)	(18,911)	(61,410)
Net cash flow from investing activities	(6,706)	(16,911)	(13,541)

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 2017

	<i>Notes</i>	GROUP 2017 ACTUAL \$000	GROUP 2017 BUDGET <i>Unaudited</i> \$000	GROUP 20165 ACTUAL \$000
CASH FLOW FROM FINANCING ACTIVITIES				
<i>Cash was provided from:</i>				
Capital contribution		-	12,450	4,300
		-	12,450	4,300
		-	12,450	4,300
Net increase/(decrease) in cash and cash equivalents		1,140	628	(2,476)
Cash and cash equivalents at the beginning of the year		1,740	1,505	4,216
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5	2,880	2,133	1,740

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

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 2017 ("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 income statement.

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

Work-in-progress

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

Trade and other receivables

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

The impairment of a receivable is established when there is objective evidence that Callaghan Innovation will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the carrying amount of the asset and the present value of estimated future cash flows using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive 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 KiwiSaver and the Government Superannuation Fund are accounted for as a defined contribution superannuation scheme and are recognised as an expense in the Statement of Comprehensive Revenue and Expense as incurred.

Income tax

Callaghan Innovation 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 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Crown revenue – exchange transactions		
Ministry of Business, Innovation and Employment – Operational funding including Research and Development	66,720	68,749
Crown revenue – non-exchange transactions		
Ministry of Business, Innovation and Employment – Research and Development Grants	169,322	154,126
Total Crown and other revenue	236,042	222,875
Commercial and other revenue – exchange transactions		
Commercial – domestic	7,438	8,077
Commercial – overseas	10,732	8,831
Royalty and licensing income	276	387
Property and equipment rental	901	1,259
Other revenue	1,465	1,765
Interest revenue	1,305	1,432
Total commercial and other revenue	22,117	21,751
Total revenue	258,159	244,626

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 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Personnel costs include:		
Salary and wages	42,181	41,241
Defined contribution plan employer contributions	1,138	1,119
	43,319	42,360
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	787	912
Number of employees	16	9
Other expenses include:		
Repairs and maintenance	2,866	2,370
Premises and utility expenses	3,036	3,253
Fees to PWC		
- For auditing the financial statements	131	129
- Tax services	-	5
- Other services	21	-
Bad and doubtful debts	(14)	(62)
Directors' fees	259	241
Rent and lease expenses	2,671	2,950
Donations	2	4
Loss on disposal of fixed assets	64	208
Foreign exchange losses	50	116
Intellectual property (patents)	179	229

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. GRANT EXPENSE

	GROUP 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Grants approved for which recipients can demonstrate they have met grant conditions.	169,322	154,126
Total grants expense	169,322	154,126

5. CASH AND TERM DEPOSITS

	GROUP 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Cash at bank	2,880	1,740
Term deposits	24,000	28,000
Total cash and term deposits	26,880	29,740

Various term deposits were held at 30 June 2017 for periods of between 90 and 211 days.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. EQUITY

	GROUP 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
CONTRIBUTED CAPITAL		
Balance at 1 July 2016	52,873	48,573
Capital contribution	-	4,300
BALANCE AT 30 JUNE 2017	52,873	52,873
ACCUMULATED SURPLUS		
Balance at 1 July 2016	7,243	6,185
Surplus for the period	115	1,058
BALANCE AT 30 JUNE 2017	7,358	7,243
HEDGE RESERVE		
Balance at 1 July 2016	357	(374)
Fair value gain (loss) for the period	(271)	731
BALANCE AT 30 JUNE 2017	86	357
TOTAL EQUITY AT 30 JUNE 2017	60,317	60,473

A capital contribution of \$4,300,000 was received on 31 December 2015. No capital contribution was received from the owner in the 2017 financial year. The capital appropriation funded from the Ministry of Business, Innovation and Employment is used to fund the purchase and development of assets 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 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Current		
Debtors	3,438	4,053
Less: Provision for impairment	(62)	(115)
	<u>3,376</u>	<u>3,938</u>
Goods and services tax (GST) receivable/(payable)	-	6
Accrued income	476	616
Other receivables	16	233
Prepayments	808	813
Finance leases – gross receivables	831	831
Unearned finance income	(102)	(186)
	<u>729</u>	<u>645</u>
	<u>5,405</u>	<u>6,251</u>
Crown debtor grants (non-exchange)		
Ministry of Business, Innovation and Employment – grants receivable	76,420	69,311
	<u>76,420</u>	<u>69,311</u>
Non-current receivables		
Finance leases – gross receivables	415	1,246
Unearned finance income	(15)	(118)
	<u>400</u>	<u>1,128</u>
Gross receivables from finance leases		
- Less than 1 year	831	831
- Greater than 1 year but less than 5 years	415	1,246
- Greater than 5 years	-	-
	<u>1,246</u>	<u>2,077</u>
Unearned finance income	(117)	(304)
	<u>1,129</u>	<u>1,773</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	GROUP 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Net investment in finance leases:		
- Less than 1 year	729	645
- Greater than 1 year but less than 5 years	400	1,128
- Greater than 5 years	-	-
	1,129	1,773

The carrying amounts 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 2017 trade receivables of \$62,000 (2016: \$115,000) were considered impaired.

The impaired receivables were from a number of customers.

	GROUP 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Opening balance	115	177
Released	(115)	(177)
Recognised during the period	62	115
CLOSING BALANCE	62	115

(b) Past due but not impaired

At 30 June 2017 trade receivables of \$1,047,000 (2016: \$677,000) 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 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Within 1 month	427	361
Within 1 to 3 months	507	186
Beyond 3 months	113	130
	1,047	677

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 2016					
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
For the year ended 30 June 2017					
Carrying amount at 1 July 2016	3,001	14,993	14,727	1,045	33,766
Additions	-	639	3,014	8,206	11,859
Transfers from capital work in progress	-	2,189	1,303	(3,810)	(318)
Disposals	-	-	(66)	-	(66)
Depreciation	-	(1,558)	(3,880)	-	(5,438)
Carrying amount at 30 June 2017	3,001	16,263	15,098	5,441	39,803
Cost	3,001	22,145	26,146	5,441	56,733
Accumulated depreciation	-	(5,882)	(11,048)	-	(16,930)
Carrying amount	3,001	16,263	15,098	5,441	39,803

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 2016					
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 2017					
Carrying amount at 1 July 2016	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 2017	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

Capital work in progress

The majority of assets under capital work in progress are specialised equipment \$2,668,000 and buildings \$1,893,000 (2016: buildings \$582,000, specialised equipment \$375,000).

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 \$256 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 2017 \$000	GROUP 2016 \$000
Cost	4,895	4,895
Accumulated depreciation	(2,540)	(2,135)
Depreciation charge for the year	(126)	(405)
Net book amount	2,229	2,355

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. INTANGIBLE ASSETS

	GROUP 2017 Software \$000	GROUP 2016 Software \$000
Balance at 1 July 2016		
Cost	2,832	2,303
Accumulated amortisation	(954)	(530)
Opening carrying amount	1,878	1,773
For the year ended 30 June 2017		
Additions	507	562
Transfers from capital work in progress	318	135
Disposals	(109)	(76)
Amortisation charge	(545)	(516)
Balance at 30 June 2017		
Cost	3,148	2,832
Accumulated amortisation	(1,099)	(954)
Closing carrying amount	2,049	1,878

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 2017
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 2017	GROUP 2016
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%
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.

New Zealand Food Innovation (Waikato) Limited

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Current assets	1,433	1,520
Non-current assets	19,899	18,629
Current liabilities	(631)	(990)
Non-current liabilities	(13,676)	(14,159)
Total revenue	6,980	6,466
Total expenditure	(6,033)	(5,718)
Net surplus/(deficit)	947	748
Results of the associate		
Share of surplus/(deficit)	285	224
Interest in associate		
Carrying amount at beginning of year	2,513	2,289
Acquisition at fair value	-	-
Impairment of acquisition value	-	-
Share of surplus/(deficit)	285	224
Carrying value at the end of the year	2,798	2,513

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 2017 \$000	ACTUAL 2016 \$000
Current assets	2,072	2,187
Non-current assets	1,382	1,310
Current liabilities	(1,934)	(2,097)
Total revenue	1,110	1,873
Expenditure	(1,002)	(889)
Net surplus	108	984
Results of the associate		
Share of surplus	54	491
Interest in associate		
Carrying amount at beginning of year	687	196
Acquisition at fair value	-	-
Share of surplus	54	491
Carrying value at the end of the year	741	687

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

	ACTUAL 2017 \$000	ACTUAL 2016 \$000
Total		
Current assets	1,665	1,291
Non-current assets	7,430	7,496
Current liabilities	(740)	(443)
Non-current liabilities	(2,070)	(2,101)
Results of the joint venture		
Revenue	3,837	3,788
Expenditure	(3,785)	(3,762)
Net surplus	52	26
Share of surplus	35	17
Interest in joint venture		
Carrying amount at beginning of year	4,197	4,713
Impairment	-	(533)
Share of total recognised revenues and expenses	35	17
Carrying value at the end of the year	4,232	4,197

All joint venture and associates have 30 June balance dates.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. EMPLOYEE BENEFITS

	GROUP 2017 \$000	GROUP 2016 \$000
Current		
Employee entitlements	434	336
Long service and retiring leave	255	254
Annual leave	2,775	2,654
Sick leave	75	142
	3,539	3,386
Non-current		
Long service and retiring leave	188	256

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 1.97% in 2018, 2.36% in 2019 and 3.92% thereafter to 2037. The inflation factor is based on the expected long-term increase in remuneration for employees currently forecast at 3.1%.

13. FUNDS RECEIVED IN ADVANCE

	GROUP 2017 \$000	GROUP 2016 \$000
Payable under exchange transactions		
Government and other revenue received in advance	1,718	2,457
Funds held on behalf of third parties	6,452	4,275
	8,170	6,732

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 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Payables under exchange transactions		
Trade creditors	5,303	3,633
Other payables	6,306	6,422
Total payables under exchange transactions	11,609	10,055
Payables under non-exchange transactions		
Goods and services tax (GST) payable	50	-
Total payables under non-exchange transactions	50	-
Total	11,659	10,055

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 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Breakdown of provisions		
Current portion		
Restructuring and severance	-	692
	-	692

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

**16. RECONCILIATION OF SURPLUS WITH
CASH FLOW FROM OPERATING ACTIVITIES**

	GROUP 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Net surplus for the period	115	1,058
<i>Add/(less) non-cash items:</i>		
Depreciation	5,438	5,452
Amortisation of intangible assets	545	516
Impairment in associate	-	533
Share of surplus joint venture and associate	(374)	(733)
Loss on sale of fixed assets	64	208
Property and equipment rental income	(901)	(1,259)
Proceeds on sale of fixed assets classified as investing activity	-	39
<i>Add/(less) movements in working capital:</i>		
Trade and other receivables	(6,183)	(3,810)
Inventory	(254)	(21)
Work in progress	(148)	(198)
Funds received in advance	1,438	2,131
Employee benefits	85	172
Trade and other payables	8,292	1,946
Derivative financial instrument	(271)	731
NET CASH FLOWS FROM OPERATING ACTIVITIES	7,846	6,765

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 2017 was calculated internally using a discounted cash flow model. Using the discounted cash flow model the liability was calculated for 2017 at \$443,923 (2016: \$510,000).

Adjusting the discount rate down/up 1.0% results in a decrease/increase of the 2017 retiring/long service leave liability balance and end of period surplus of \$13,000 decrease/increase (2016: \$16,000 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 \$76,420,000 (2016: \$69,311,000). Payments against the 30 June 2017 accrual are expected to be made during the 2017/18 financial year.

	GROUP 2017 ACTUAL \$000	GROUP 2016 ACTUAL \$000
Payable under non-exchange transactions		
Grant obligations and debtor	76,420	69,311
Total grant obligations	76,420	69,311

(c) Revenue

Some revenue for the Group is project based. Revenue is recognised on an accruals basis to the Statement of Comprehensive Revenue and Expense 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 2017: \$1,718,000 (2016: \$2,457,000).

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 2017		
Financial assets		
Cash and cash equivalents	26,880	-
Crown debtor – grants	76,420	-
Debtors and other receivables	4,997	-
Derivative financial instruments	-	86
	108,297	86
	GROUP \$000	GROUP \$000
	Liabilities measured at amortised cost	Derivatives used for hedging
Financial liabilities		
Creditors and other payables	11,659	-
Grant obligations	76,420	-
Employee benefits	3,284	-
	91,363	-
	GROUP \$000	GROUP \$000
	Liabilities measured at amortised cost	Derivatives used for hedging
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 leave benefits	3,132	-
Derivative financial instruments	-	-
	82,498	-

The only financial liabilities held at fair value are foreign exchange contracts \$86,325 asset (2016: \$357,000 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 is 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 \$86,325 (gain) (2016: \$357,000 gain).

At 30 June 2017, 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 \$62,000 lower, weakened \$76,000 higher (2016: strengthened \$154,000 lower, weakened \$188,000 higher) as the result of foreign exchange translation of US dollar denominated trade receivables/payables.

At 30 June 2017, 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 \$11,000 lower, weakened \$14,000 lower (2016: strengthened \$28,000 lower, weakened \$35,000 lower) as the result of translation of Australian dollar denominated trade receivables/payables.

At 30 June 2017, 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 2017		GROUP 2016	
	Currency (Thousands)	Contract value NZD\$000	Currency (Thousands)	Contract value NZD\$000
Bank buys				
United States dollar	2,010	2,875	3,828	5,748
Australian dollar	1,284	1,362	562	617
Bank sells				
United States dollar	849	1,192	75	102
Euro	1,289	2,037	-	-

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 2017 Less than One Year \$000	GROUP 2016 Less than One Year \$000
Cash and cash equivalents	26,880	29,740
Trade and other receivables	5,405	6,251
Crown debtor – grants	76,420	69,311
Derivatives used for hedging	86	357
Trade and other payables	(11,659)	(10,055)
Grant obligations	(76,420)	(69,311)
Provisions	-	(692)
Employee benefits	(3,539)	(3,386)

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 2017 Less than One Year	GROUP 2016 Less than One Year
Forward foreign exchange contracts		
– cash flow hedges		
Inflow	4,237	6,365
Outflow	(3,229)	(102)

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 2017 \$000	GROUP 2016 \$000
Sales of services and general recoveries		
- New Zealand Food Innovation Auckland Limited	12	20
- New Zealand Food Innovation (South Island) Limited	10	10
- New Zealand Food Innovation (Waikato) Limited	25	26
	47	56
Operational and project funding		
- New Zealand Food Innovation Auckland Limited	2,001	2,083
- New Zealand Food Innovation (South Island) Limited	400	1,100
- New Zealand Food Innovation (Waikato) Limited	-	9
	2,401	3,192

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	GROUP 2017 \$000	GROUP 2016 \$000
KEY MANAGEMENT PERSONNEL COSTS		
<i>Board members</i>		
Remuneration	259	241
Full-time equivalent members	1.0	1.0
<i>Leadership team</i>		
Remuneration	2,629	2,575
Termination benefits	178	717
Other benefits other than remuneration and other short-term cash benefits	-	-
Total full-time equivalent personnel	6.7	6.7
	3,066	3,533

22. COMMITMENTS AND CONTINGENCIES

	GROUP 2017 \$000	GROUP 2016 \$000
CAPITAL COMMITMENTS		
Commitments for capital expenditure budgeted and approved		
Buildings	1,994	945
Plant	5,031	6,866
TOTAL CAPITAL COMMITMENTS	7,025	7,811

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**OPERATING COMMITMENTS**

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

	GROUP 2017 \$000	GROUP 2016 \$000
Not later than 1 year	1,943	2,083
Later than 1 year and not later than 5 years	5,639	5,663
Later than 5 years	2,678	1,238
TOTAL OPERATING COMMITMENTS	10,260	8,984

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

Grant commitments

	GROUP 2017 \$000	GROUP 2016 \$000
Grant commitments for those grant contracts awarded but yet to be drawn down	225,436	170,154

Operating leases rental receivables – group company as lessor

	2017 \$000	2016 \$000
No later than 1 year	226	561
Later than 1 year and no later than 5 years	22	-
Later than 5 years	-	-
	248	561

The Group leases property under various agreements which terminate in 2019.

CONTINGENCIES**Contingent liability**

Callaghan Innovation is defending a court proceeding brought against it by a grant recipient, Trends Publishing International Limited, arising out of the termination by Callaghan Innovation of a growth grant. The claimant seeks damages of approximately \$22 million. The matter is set down for trial in November 2017. Callaghan Innovation denies all liability and considers that it has sufficient indemnity insurance to cover any liabilities arising including costs.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Contingent asset	GROUP 2017 \$000	GROUP 2016 \$000
Repayable incubator grants	11,557	7,197

Incubator grants are repayable once the grant recipient's product produces commercial revenue. A percentage of the commercial revenue generated is payable to Callaghan Innovation as repayment of the outstanding loan each year until the loan is repaid. Due to these grants only being made since 2014/15 there is limited information on which to assess the timing of any future repayments from grant recipients and the likely quantum of such repayments.

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 2017. 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 below budget due to lower than planned domestic commercial revenue. Finance income is above budget due to higher than planned cash balances during the year.

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 cash equivalents is below budget due to non receipt of capital contribution from owner.

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 2017.

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

Intangible assets are lower than budget due to later implementation of various Software as a Service applications. Funds received in advance is above budget due to higher than planned unspent agency funding held on behalf of third parties.

Equity is lower due to non receipt of planned capital contribution from owner.

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.

Higher investing receipts due to higher receipts from term deposits transferring funds from term deposits.

Higher investing payments due to higher term deposit payments transferring funds to term deposits.

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 2017****2017
Year
\$000**

	<i>Output class</i>	<u>2017 Year \$000</u>
Statement of Performance Expectations: Outputs		
Building business innovation	1	24,378
Research and development and facilities for business and industry	2	23,023
Business Research and Development contract management	3	12,250
National measurement standards	4	5,764
Total output revenue		65,415
Revenue from the Crown – Grants income		157,899
Revenue from the Crown – Incubator funding		11,423
Revenue from the Crown – Science contestable funding and other		1,581
Other revenue, including interest		21,841
Funds received in the capacity of an agent		8,918
Total revenue per Statement of Comprehensive Revenue and Expense		267,077
Minus:		
Personnel costs		(44,426)
Science project and subcontract costs		
Acting as principal	(14,132)	
Acting as agent (refer above)	(8,918)	(23,050)
Other expenses including interest		(24,875)
Depreciation and amortisation expense		(5,983)
Grant expense		(169,322)
Total expenses per Statement of Comprehensive Revenue and Expense		(267,336)
Share of surplus from joint venture and associate		374
Surplus for the year		115

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 Group financial statements
and performance information for the year ended 30 June 2017*

The Auditor-General is the auditor of Callaghan Innovation (the Group). The Auditor-General has appointed me, Karen Shires, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and performance information of the Group consisting of Callaghan Innovation and its subsidiaries and other controlled entities, on his behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 54 to 90, that comprise the statement of financial position as at 30 June 2017, 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 46 to 52.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2017; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand 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 2017, including 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 12 September 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and performance information, and we explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and performance information

The Board of Directors is responsible on behalf of the Group for preparing financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and performance information, the Board of Directors is responsible on behalf of the group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

Responsibilities of the auditor for the audit of the financial statements and performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

For the budget information reported in the financial statements and performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations for the year ended 30 June 2017.

We did not evaluate the security and controls over the electronic publication of the financial statements and performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and performance information, including the disclosures, and whether the financial statements and performance information represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements and performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and performance information. We are responsible for the direction, supervision and the performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 98, but does not include the performance information and financial statements, and our auditor's report thereon.

Our opinion on the financial statements and performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standards 1 (revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out an engagement in the area of a property review, which is compatible with those independence requirements. Other than the audit and this engagement, 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 April 2017. 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. Callaghan Innovation has embedded the streamlined processes and is undertaking continuous improvements.

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 2017.

Band	Number of Employees
\$390,000 - \$399,999	1
\$380,000 - \$389,999	1
\$370,000 - \$379,999	0
\$360,000 - \$369,999	0
\$350,000 - \$359,000	0
\$340,000 - \$349,999	0
\$330,000 - \$339,999	0
\$320,000 - \$329,999	1
\$310,000 - \$319,999	0
\$300,000 - \$309,999	0
\$290,000 - \$299,999	1
\$280,000 - \$289,999	0
\$270,000 - \$279,999	1
\$260,000 - \$269,999	2
\$250,000 - \$259,999	0
\$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	3
\$180,000 - \$189,999	3
\$170,000 - \$179,999	6
\$160,000 - \$169,999	8
\$150,000 - \$159,999	11
\$140,000 - \$149,999	9
\$130,000 - \$139,999	13
\$120,000 - \$129,999	17
\$110,000 - \$119,999	34
\$100,000 - \$109,999	24

Board of Directors' remuneration

Callaghan Innovation Board of Directors 2016/17 (\$)

Sue Suckling – Board Chair	58,000
Robin Hapi	35,000
Richard Janes	26,000
Al Monro	28,000
Alison Barrass	28,000
Frances Valintine	28,000
Simon Botherway	28,000
Kate McGrath	28,000

Grants Committee (Non-Board members) remuneration

Callaghan Innovation Non-Board Members FY16 (\$)

Peter Townsend	4,500
Dr Alastair MacCormick	5,204

**Rukuhia te wāhi ngaro,
hei maunga tātai whetū.**

Explore the unknown,
pursue excellence.

AUCKLAND / WELLINGTON / CHRISTCHURCH

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