

Statement of Performance Expectations

1 JULY 2017 – 30 JUNE 2018

*Accelerating the commercialisation of innovation
by businesses in New Zealand*

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



Foreword

This statement of performance expectations enables the public, Parliament, Ministers and the Ministry of Business Innovation and Employment (MBIE) to track Callaghan Innovation's progress against the commitments made in our Statement of Intent 2015-2019.

Together these two documents describe Callaghan Innovation's purpose, the focus for the next four years and how Callaghan Innovation will measure success.

Callaghan Innovation's purpose is to grow New Zealand's innovation economy by helping businesses succeed through technology. The following Multi-Category Appropriations (MCA) support businesses to successfully develop new and improved products, processes and services through innovation:

Building Business Innovation

This supports activities that raise awareness and increase business investment in R&D to accelerate the growth of innovative companies and build the effectiveness and skills of New Zealand's innovation system.

Research and Development Services and Facilities for Business and Industry

This supports research and technical expertise and facilities for business and industry to grow through meeting their R&D needs.

Business Research and Development Contract Management

This supports the provision of Research, Science and Technology output or grants for business or individuals to realise the efficient and effective allocation of research, science and technology outputs to maximise their returns to New Zealand.

In addition, Callaghan Innovation administers funding programmes on behalf of MBIE:

Accelerating Start-ups

Funding founder and technology incubators to support development and growth of business start-ups.

Research and Development Growth Grants

Supporting established business through additional investment in R&D.

Targeted Business Research and Development Funding

Supporting established businesses with smaller R&D programmes and those that are new to R&D, and hosting student interns that bring leading-edge knowledge and expertise.

Callaghan Innovation also is responsible for the National Measurement standards which provide specified standards to satisfy the needs for traceable physical measurement in New Zealand.

Callaghan Innovation continues to refine the suite of services provided to customers. We have identified that we need to focus on improving the following areas:

- Being a more customer focused organisation through our new Sector model, and capturing and considering the voice of our customers, across all parts of the organisation

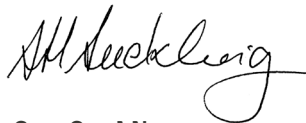
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- Improving how we seamlessly deliver our services – having an integrated workforce aligned around how we meet the needs of customers, working to align with partner organisations and being a coordinator across the innovation system.

This will allow us to improve the quality, relevance and timeliness of our services to businesses, contributing to our overall mission of accelerating the commercialisation of innovation by New Zealand businesses.

The following pages detail:

- Our purpose
- Our customers
- What we do
- What success looks like
- Our performance measurement framework
- Scope of our output classes and associated performance measures
- Our forecast financials.

In accordance with the Crown Entities Act 2004, we present, on behalf of Callaghan Innovation, the Statement of Service Performance Expectations for 2017/18.



Sue Suckling
Chair



Simon Botherway
Board Member

Our purpose

Callaghan Innovation's mission is to accelerate the commercialisation of innovation by New Zealand businesses. We grow New Zealand's innovation economy by helping businesses succeed through technology.

To achieve our purpose we will focus on continuing to implement our strategy from our Statement of Intent 2015 - 2019. The main focus continues to be:

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

We work in close partnership with other organisations that also contribute to increasing business R&D to ensure a comprehensive and integrated response to the opportunities and challenges that our customers face.

Our customers

Callaghan Innovation continues to apply a number of principles that help to sharpen our focus on those businesses where we can add the most value.

- **'High-value' manufacturing and services (HVMS) sector** – our primary focus is on business within the HVMS sectors – these businesses are export and R&D intensive and are more likely to innovate than other sectors.
- **Ambitious to grow** – we support businesses that have ambitions to significantly increase their share of an existing market (domestically and internationally) or to create and grow markets through innovation. Innovation does involve risk. Our services help to increase the odds of success, for those businesses that have the courage to take on the risks and reap the rewards of innovation.
- **Technology-driven** – we recognise that businesses can grow through a variety of means (for example, by expanding into new overseas markets) but our strategy is to focus on those businesses that want to grow through technology. We are particularly interested in those businesses that want to disrupt markets through their technology, rather than keep up with their competitors.
- **Māori economy** – a key part of Callaghan Innovation's role is supporting Māori businesses to embrace innovation as a catalyst to unlocking the potential of the Māori economic asset base.

What we do

Callaghan Innovation's strategy remains focused on:

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

A summary follows with further detail available in our Statement of Intent 2015 -2019.

Delivering innovation services to businesses

We provide services that meet a diverse range of needs depending on where our customers are in their innovation journey – from supporting start-ups to assisting the most experienced R&D performers. We set businesses on the fastest and most effective pathway to achieving growth and success through technology.

Our service mix ranges from self-help and on-demand through to deep customised engagement for those businesses that have unique technical and commercial requirements. As businesses' needs evolve, so does our service mix.

Innovation services currently include:

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 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' R&D investment for greater impact.

Building New Zealand's innovation capability

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

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

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

Building our capability in this area includes:

Inspiring current and future innovators

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

Technology networks

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

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.

Pilot plants, incubators and innovation precincts

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

National Science Challenge: Science for Technological Innovation

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

What success looks like

Callaghan Innovation's strategy remains closely aligned to the Government's Business Growth Agenda (BGA) and we are contributing to increasing business expenditure on R&D (BERD) as well as our ultimate goal of more and bigger HVMS businesses in the New Zealand economy.

In four years' time, we will know that we are being successful when ...

Externally

- More businesses are successfully developing new and improved products, processes and services through technology-driven innovation.
- Our customers have access to the most relevant expertise and facilities to conduct their R&D, either with us or at other R&D organisations, nationally and internationally.
- There is more coherence and coordination occurring across the innovation system so that customers can enter the system at any point and easily navigate their way through it.
- Callaghan Innovation is regarded by its customers, key stakeholders and the New Zealand public as a proactive, value-adding entity demonstrated by an increase in the number of new high-tech products and services launched into global markets.
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- Callaghan Innovation is regarded as supportive and responsive to the needs of Māori businesses.

Internally

- Callaghan Innovation is a fit for purpose organisation, with a highly engaged and energised workforce, working towards a shared purpose, aligned with a core set of values and supported by effective and efficient infrastructure and systems.
- Commercial revenue targets are consistently met and plans are in place to ensure future sustainability.
- Callaghan Innovation has an improved understanding of its customers through the better collection and use of high-quality information and data and has used this knowledge to tailor its offerings.
- Callaghan Innovation is strongly connected and aligned with partner organisations, including NZTE and regional business partners, so that customers' experiences are seamless.

External Accountability Measures

As a priority, we have been strengthening our performance measurement framework and indicators to monitor our progress. This includes collecting baseline data on HVMS businesses so that we can monitor the impact of our services down to an individual business level.

Our core external accountability measures are set out in the following pages against our output classes. We have included specific examples of the services we provide under each output class.

We are working to achieve a more competitive and productive economy for New Zealand

We are an important part of the system

Callaghan Innovation

Increase the contribution of HVMS firms as a percentage of NZ exports

Overall Measures

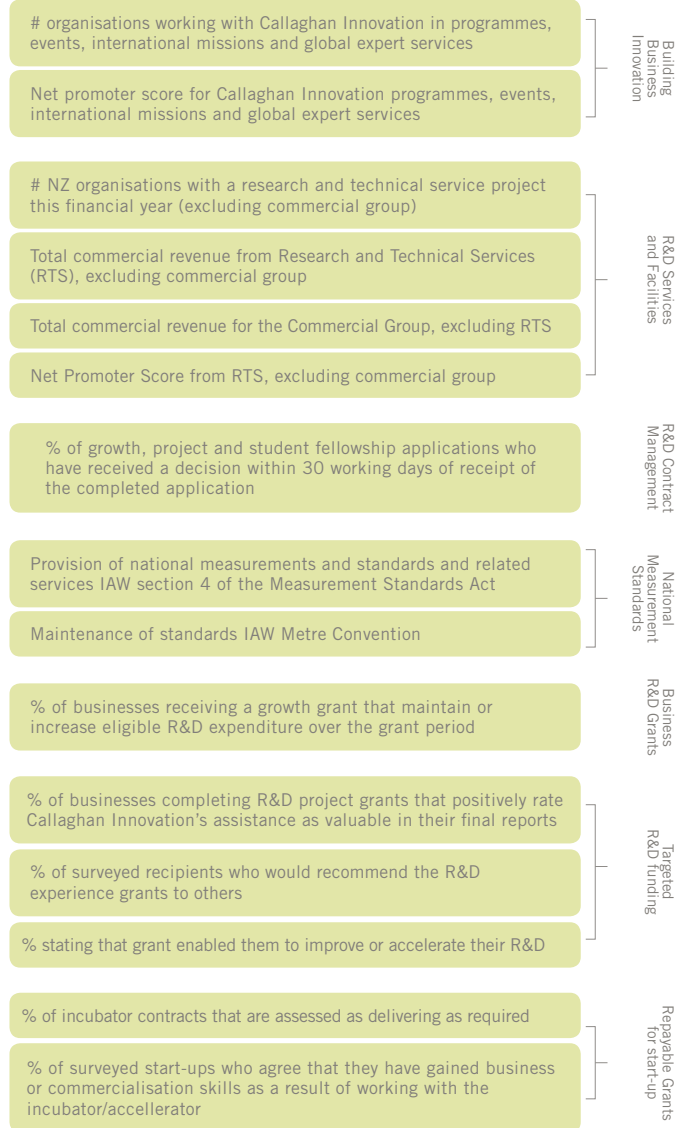
Total number of organisations working with Callaghan Innovation on Services

Growth rate of companies using Callaghan Innovation's services

Number of new products or services developed with customers

In the future a suite of indicators could measure impacts for customers

- Revenue
- EBIT
- R&D spend (BERD)
- Total FTEs
- R&D FTEs
- Exports



Glossary

BERD: Business expenditure on R&D
 CEC: Customer Engagement Centre
 EBIT: Earnings before interest and taxes
 FTE: Full-time equivalent
 GDP: Gross Domestic Product
 HVMS: High-value manufacturing and services
 IAW: In accordance with
 R&D: Research and development



Statement of Performance Expectations

Callaghan Innovation Operations: Multi-Category Appropriation

This appropriation will enable us to broker and provide innovation services to businesses and deliver programmes that enhance New Zealand’s innovation system. We can then provide 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 Innovation Operations Multi-Category Appropriation (MCA). The 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	2016/17 Performance Standard	2017/18 Performance Standard
Total number of organisations working with Callaghan Innovation on services this Financial Year and Net Promoter Score of all surveyed customers.	New measure	Establish baseline
Total number of organisations working with Callaghan Innovation and NZTE as a F700 customer.	New measure	Establish baseline

Building Business Innovation

Scope

This category is limited to activities that raise awareness about and increase business investment in R&D.

What does this mean?

It is intended to accelerate the growth of innovative companies and build the effectiveness and skills of New Zealand's innovation system.

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 businesses in overcoming information problems and transaction costs by sourcing advice, technical expertise and training.

Examples of services provided

- Customised one-on-one advice and information for business
- Connection services for businesses to access domestic or international expertise, facilities, training, knowledge and technology infrastructure
- Innovation training services
- Access to international innovation partnerships, e.g. Enterprise Europe Network
- Networking events, tradeshows and sponsorships
- Distinguished speakers for seminars to business and industry
- Incubator and Accelerator programmes for business
- Customer Engagement Centre services.

Cost and Funding

Cost and Funding	2017/18 (\$ M)
Revenue	
Crown Revenue - Appropriation	32.4
Other Revenue	1.0
Total Revenue	33.4
Expenses	33.4
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2016/17 Performance Standard	2017/18 Performance Standard
Number of organisations working with Callaghan Innovation in the following services:	New measure	Establish baseline
<ul style="list-style-type: none"> • Programmes • Events • International Missions • Global expert 		
Net promoter score for Callaghan Innovation Services:	New measure	Establish baseline
<ul style="list-style-type: none"> • Programmes • Events • International Missions • Global expert 		

*Partial figures for Events and Global expert are available in the Callaghan Innovation Annual Report 2016

Research and Development Services and Facilities for Business and Industry

Scope

This appropriation is limited to providing research and technical expertise and facilities to business and industry.

What does this mean?

It is intended to achieve growth in businesses through meeting their research and development needs.

Callaghan Innovation meets the R&D needs of businesses and industry to help them grow. Our R&D services provide New Zealand businesses outsourced access to product and process development capabilities, data and analytics 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 by combining their R&D teams, connecting them to further R&D capability across the ecosystem, and providing our own differentiated R&D portfolio. Our staff work diligently to find solutions that solve our customers' R&D challenges. Callaghan Innovation also facilitates interactions with other research providers, where they have complementary technical expertise. It is Callaghan Innovation's ability to quickly assemble and deliver diverse R&D-enabled solutions for customer needs which provides differentiation from the rest of the New Zealand ecosystem.

Examples of services provided

- Access to specialist equipment, facilities, pilot plants and laboratories
- Design and prototype development services
- Technical expertise and facilities
- Connections to external R&D capability fit for meeting business needs.

Cost and Funding

Cost and Funding	2017/18 (\$ M)
Revenue	
Crown Revenue - Appropriation	19.5
Crown Revenue - Contestable	2.9
Crown Revenue - National Science Challenge	9.8
Commercial Revenue - Domestic	10.4
Commercial Revenue - International	10.0
Other Revenue	1.2
Total Revenue	53.8
Expenses	53.7
Net funded to/(from)	0.1

How Callaghan Innovation's performance is measured

Performance Measures	2016/17 Performance Standard	2017/18 Performance Standard
Number of New Zealand organisations with a research and technical service project this financial year (excluding commercial group)	New measure	Establish baseline
Total commercial revenue from Research and Technical services (excluding commercial group)	New measure	\$10.4 million
Total commercial revenue for the Commercial Group (excluding RTS)	New measure	\$10.6 million
Net Promoter Score from Research and Technical Services, services (excluding commercial group)	New measure	Establish baseline

Business Research and Development Contract Management

Scope

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.

What does this mean?

This category is intended to achieve efficient and effective allocation and contracting of research, science and technology outputs, and grants to maximise their returns to New Zealand.

Callaghan Innovation currently manages three R&D grant funds on behalf of MBIE. We provide robust, transparent and efficient allocation and monitoring services of these grants to business.

Examples of services provided

- Assessment and due diligence of grant recipients
- Monitoring of contracts and incubators
- Funding and monitoring outsourced partner organisations who promote Callaghan Innovation services.

Cost and Funding

Cost and Funding	2017/18 (\$ M)
Revenue	
Crown Revenue - Appropriation	7.7
Other Revenue	0.4
Total Revenue	8.1
Expenses	8.1
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2016/17 Performance Standard	2017/18 Performance Standard
Percentage of growth, project and student fellowship applications who have received a decision within 30 working days of receipt of the completed application	90%	90%

Output Class - National Measurement Standards

Scope

This appropriation is limited to providing specified standards to satisfy the needs for traceable physical measurement in New Zealand.

What does this mean?

We contribute to the success of companies selling products and services that are dependent on accurate and internationally accepted traceable physical measurements. Our Measurements Standards Laboratory is New Zealand's national metrology institute, ensuring that New Zealand's units of measurement are consistent with the International System of Units. Delivery of services is provided by the Measurement Standards Laboratory in accordance with its role assigned under the Measurement Standards Act 1992.

Examples of services provided

- Specialist measurement services
- Expert consultancy, including advice on difficult measurements
- R&D on measurements or measuring instruments
- Field measurements or surveys
- Calibration services.

Cost and Funding

Cost and Funding	2017/18 (\$ M)
Revenue	
Crown Revenue - Appropriation	5.8
Commercial Revenue - Domestic	0.5
Commercial Revenue - International	0.1
Other Revenue	0.2
Total Revenue	6.6
Expenses	6.6
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures ¹	2016/17 Performance Standard	2017/18 Performance Standard
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) independently reviewed and validated, with all external review actions completed by 30 June 2018	Achieved	Achieved

¹ – Both performance measures for Output Class 4: National Measurement Standards have been updated for the 2016/17 financial year

Commercial Revenue

We earn commercial revenue for our research and technical services domestically and internationally. You can see a summary below of our total commercial revenue as well as a breakdown in Building Business Innovation and Business Research and Development Contract Management.

Our commercial revenue is reinvested back into our services to ensure our capabilities are up to standard to continue to deliver and improve our services to meet the immediate and future needs of business and industry.

	2016/17 Budget (\$ M)	2017/18 Budget (\$ M)
Commercial Revenue		
Domestic Revenue	8.3	10.9
International Revenue	10.9	10.1
Total Commercial Revenue	19.2	21.0

Non-Departmental Capital Expenditure

Scope

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

What does this mean?

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

Callaghan Innovation is expected to draw down a total of \$26.5 million in capital appropriation for 2017/18.

Capital appropriation totalling \$26.5 million for three separate initiatives is planned. The first is \$10.0 million for Gracefield property initiatives. The second is \$14.7 million for the initial phase of the Gracefield Innovation precinct redevelopment. The third is \$1.8 million for the replacement of ageing Measurement Standards Laboratory equipment. These appropriations have been reflected in our cashflow forecast.

How Callaghan Innovation's performance is measured

Performance Measures	2016/17 Performance Standard	2017/18 Performance Standard
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

Business Research and Development Grants

In addition to our MCA and National Measurements Standard Output Class, Callaghan Innovation administers three funding programmes aimed at helping businesses invest more in R&D. We administer a range of R&D grants to add scale to businesses' own R&D investment 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.

Research and Development Growth Grants

Growth Grants are designed to increase R&D investment by businesses that have a strong track record for R&D spending in New Zealand. We provide 20% co-funding for R&D for an initial three years with an extension option, capped at \$5 million a year. Growth Grants are funded by the Crown through a multi-year appropriation.

Cost and Funding

Cost and Funding	2017/18 (\$ M)
Revenue	
Crown Revenue - Appropriation	145.6
Total Revenue	145.6
Expenses	145.6
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2016/17 Performance Standard	2017/18 Performance Standard
Percentage of businesses receiving a Growth Grant that maintain or increase eligible R&D expenditure over the grant period ²	70%	70%

² – 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'.

Targeted Business Research and Development Funding

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

Our R&D experience, career and fellowship grants support undergraduate and graduate students to work in a commercial R&D environment 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.

Cost and Funding

Cost and Funding	2017/18 (\$ M)
Revenue	
Crown Revenue - Appropriation	37.5
Total Revenue	37.5
Expenses	37.5
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2016/17 Performance Standard	2017/18 Performance Standard
Percentage of businesses completing research and development project grants that positively rate Callaghan Innovation's assistance as valuable in their final reports	80%	80%
Percentage of surveyed recipients who would recommend the R&D Experience Grants to others ³	80%	80%
Percentage stating that grant enabled them to improve or accelerate their research and development	New measure	Establish baseline

³ – Surveyed recipients are companies that found a student and students who identified as working on the company projects.

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 development and growth of new technology-focused business start-ups.

Cost and Funding

Cost and Funding	2017/18 (\$ M)
Revenue	
Crown Revenue - Appropriation	21.7
Total Revenue	21.7
Expenses	21.7
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2016/17 Performance Standard	2017/18 Performance Standard
Percentage of incubator contracts that are assessed as delivering as required (founder-focused and technology-focused) ⁴	90%	90%
Percentage of surveyed start-ups who agree that they have gained business or commercialisation skills as a result of working with the incubator/accelerator	New Measure	Establish baseline

⁴ – Callaghan Innovation will be assessing the contracts as meeting the reporting requirements which were agreed between us and the incubators.

Financial forecasts to 30 June 2018

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

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

The prospective financial statements rely on the Budget 2018 assumptions noted on page 18. The Callaghan Innovation Board, which is responsible for the preparation of these prospective financial statements, believes the assumptions adopted provided at the time of preparation to be the best estimate of the future financial performance and state of Callaghan Innovation for the year ended 30 June 2018.

Authorisation statement

The forecast figures reported are those for the year ending 30 June 2018. These were authorised for issue on 25 May 2017 by the Callaghan Innovation Board which is responsible for the forecast financial statements as presented.

Budget 2017/18 Financial Assumptions

Profit and Loss

1. The 2018 Budget is consistent with Callaghan Innovation strategic direction and is considered appropriate and achievable.
2. Continued operational funding from the Crown. The 2018 Budget includes a contestable funding tail of \$2.9 million and funding for the National Science Challenge (NSC) programme of \$9.8 million offset by costs of the same amount.
3. Commercial revenue increase of 7% is driven by a significant increase in domestic revenue year-on-year, partially offset by a decrease in international revenue (mainly Glycosyn), compared with the latest 2017 forecast commercial revenue (\$19.6 million).
4. Expenditure
 - Subcontracts and programmes – increased expenditure due to the expansion of the NSC programme.
 - Salaries and wages – total net increase due to annualised effect of the establishment of several new positions, the planned appointments of new roles in FY2018 and allowance for a modest pay adjustment.
 - Property and insurance – repairs and maintenance spend has been budgeted to reduce in FY2018. This is in line with increased capital expenditure on the Gracefield Innovation Quarter.
 - No provisions for abnormal costs.

Balance Sheet and Cash Flow

1. Balance sheet opening balances are based on Callaghan Innovation forecast to 30 June 2018.
2. Increased equity due to \$0.1 million net surplus and \$26.5 million Crown capital appropriation to fund further capital investments, moving Callaghan Innovation into a more “fit-for-purpose state”. The \$26.5 million capital appropriation is subject to completion of several business cases and ministerial approval.
3. Increase in fixed assets and decrease in cash is due to capital expenditure planned for 2018. Capital expenditure of \$36.4 million, made up of investment in scientific plant and equipment, infrastructure (buildings/laboratories) and ISSP projects.

Prospective Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2018	2018 BUDGET GROUP \$M
Revenue	
Revenue from the Crown	78.1
Revenue from the Crown – Grants	204.8
Commercial revenue	<u>21.0</u>
Total revenue	303.9
Other income	2.9
Interest income	<u>0.7</u>
Total Revenue	<u>307.5</u>
Expenditure	
Personnel costs	(45.7)
Science project and subcontract costs	(27.1)
Other expenses	(22.7)
Depreciation and amortisation expense	(7.1)
Grant expense	<u>(204.8)</u>
Total expenditure	<u>(307.4)</u>
Surplus	0.1
Other comprehensive revenue and expense	-
Total comprehensive revenue and expense	<u>0.1</u>

Prospective Statement of Changes in Equity

For the year ended 30 June 2018	2018 BUDGET GROUP \$M
Balance at 1 July 2017	62.1
Total forecast comprehensive revenue and expense for the year	<u>0.1</u>
	62.2
Other Transactions	
Capital contribution	<u>26.5</u>
Balance as at 30 June 2017	<u>88.7</u>

Prospective Statement of Financial Position

As at 30 June 2018	2018 BUDGET GROUP \$M	As at 30 June 2018	2018 BUDGET GROUP \$M
EQUITY		CURRENT LIABILITIES	
Contributed Capital	80.2	Trade creditors and other payables	10.6
Accumulated Surplus	8.5	Employee benefits	3.4
TOTAL EQUITY	<u>88.7</u>	Grant obligations	73.8
<i>Represented by</i>		Income in advance	<u>6.4</u>
CURRENT ASSETS		Total current liabilities	94.2
Cash and cash equivalents	23.8	NON-CURRENT LIABILITIES	
Trade and other receivables	6.0	Employee benefits	<u>0.5</u>
Crown – debtor grants	73.8	Total non-current liabilities	0.5
Inventories	<u>0.3</u>	TOTAL LIABILITIES	<u>94.7</u>
Total current assets	103.9	NET ASSETS	<u>88.7</u>
NON-CURRENT ASSETS			
Property plant and equipment	72.4		
Investments	<u>7.1</u>		
Total non-current assets	79.5		
TOTAL ASSETS	<u>183.4</u>		

Prospective Statement of Cash Flows

For the year ended 30 June 2018	2018 BUDGET GROUP \$M	For the year ended 30 June 2018	2018 BUDGET GROUP \$M	For the year ended 30 June 2018	2018 BUDGET GROUP \$M
CASH FLOWS FROM OPERATING ACTIVITIES		CASH FLOWS FROM INVESTING ACTIVITIES		CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	
<i>Cash was provided from</i>		<i>Cash was applied to</i>		<i>Cash balance at end of the year comprises</i>	
Receipts from Crown – operating	75.2	Purchase of property plant and equipment	<u>(36.4)</u>	Cash and call deposits	<u>23.8</u>
Receipts from Crown – grants	204.8	Net cash flows from investing activities	<u>(36.4)</u>	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>23.8</u>
Receipts from commercial customers	23.9	CASH FLOWS FROM FINANCING ACTIVITIES			
Interest received	<u>0.9</u>	<i>Cash was provided from</i>			
	304.8	Capital injection	<u>26.5</u>		
<i>Cash was applied to</i>		Net cash flows from financing activities	<u>26.5</u>		
Payments to suppliers	(49.6)	Net increase (decrease) in cash and cash equivalents	(5.1)		
Payments to employees	(45.6)	Cash and cash equivalents at the beginning of the year	<u>28.9</u>		
Payments to grant recipients	<u>(204.8)</u>				
	(300.0)				
Net cash flows from operating activities	<u>4.8</u>				

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 includes the Crown Entities Act 2004 and the 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 consist of those of 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 is designed as a public benefit entity for financial reporting purposes.

Basis of preparation

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

Statement of compliance

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

The financial statements comply with Public 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 million dollars (\$000,000).

Summary of significant accounting policies

Revenue

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

Revenue from the Crown - operational funding

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

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

Grants (Crown revenue)

Grants received are recognised in the 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 project 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.

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.

Basis of consolidation

The consolidated prospective financial statements combine the financial statements of Callaghan Innovation its controlled entities, associates and joint ventures as at 30 June 2018 (“the Group”).

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

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

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

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

combination are measured initially at their fair value at the acquisition date.

Investment in 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:

On acquisition of the investment, any difference between the cost of the investment and the investor's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as follows:

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted to recognise the Group's share of the post-acquisition 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 venture (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 functional currencies 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 hedge firm commitments are deferred in equity as qualifying cash flow hedges until the dates that the underlying transactions will affect surplus or deficit. All other foreign currency translation differences in the consolidated financial statements are taken to the Statement of Comprehensive Revenue and Expense. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated to the New Zealand dollar using the exchange rate at the date when the fair value was determined.

Property, plant and equipment

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

Additions

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

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.

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 their useful life. The Group uses a discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Non-cash-generating assets

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

Recoverable amount of non-current assets

The Group assesses whether there is any indication that a non-current asset may be impaired at each reporting date. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset is considered impaired, it is written down to its recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use for an individual asset or cash-generating unit as appropriate. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets

The Group classifies its financial assets in two categories: at fair value through profit or loss, and loans and receivables.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. Derivatives are also categorised as at fair value through profit and loss unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for those with maturities greater than 12 months after the balance sheet date are classified as non-current assets. The Group's loans and receivables consist of "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 rate 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 make up the financial instrument, which is normally

the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Derivative financial instruments

Derivatives are initially recognised at fair value on the dates that derivative contracts are entered into and are subsequently re-measured to their fair value. The method of recognising a resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges). The Group documents at the inception of a transaction cash flows of hedged items.

Cash flow hedge

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

transaction is ultimately recognised in the Statement of Comprehensive Revenue and Expense. When a forecast transaction is no longer expected to occur the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Comprehensive Revenue and Expense.

Derivatives that do not qualify for hedge accounting

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

Inventories

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

Work-in-progress

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

Trade and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate 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 pre-tax discount rate that

reflects a current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Leases

Finance leases - lessor

Leases that transfer substantially all the risks and rewards incidental to the ownership of an asset, whether or not title is eventually transferred, are classified as finance leases. When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned financial income.

Operating leases - lessor

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

Operating leases - lessee

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to 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. The inflation factor is based on the expected long term increase in remuneration for employees.

Superannuation schemes

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

Income tax

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

Goods and Services Tax (GST)

All items in the financial statements are presented exclusive of GST, except for trade receivables and trade payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax 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.



CallaghanInnovation

