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Callaghan Innovation
Te Pokapū Auaha

Annual Report
July 2022 - June 2023

Annual

Featuring

Growing our grants products portfolio
The launch of two new grants and the continued growth of the Research and Development Tax Incentive

Supporting more businesses
Improving our reach across our target customer groups

Ngā Pou o te Piriti
Release of our Māori engagement strategy 'The Pillars of the Bridge'

Callaghan Innovation | Annual Report 2023

Contents

Foreword

Tēnā koutou katoa.

We are pleased to present Callaghan Innovation's Annual Report for 2022/23.

The past few years have been challenging for Aotearoa New Zealand and we know that further challenges lie ahead. Our country has responded to a global pandemic and we have experienced first hand the impacts and consequences of climate change, but we know that continued economic recovery is paramount. We believe that Callaghan Innovation can be an enabler of solutions to these challenges and opportunities. Innovation is one of the keys to driving the high wage, low-emissions jobs that can power our economic growth.

We observe that in New Zealand, successful commercialisation of innovation and subsequent economic value is more likely to occur if all disciplines of innovation are supported. As has been shown by frameworks such as the '10 Types of Innovation'[1] commercial outcomes can be generated by a wide range of innovations. Our new Ārohia grants products launched this year represent a groundbreaking change to support innovation holistically.

2022/23 was the first year of our new strategy, as described in our Statement of Intent 2023-2027[2]. As part of our focus on refining and updating our product portfolio, we have introduced two new grants products - the New to R&D Grant and the Ārohia Innovation Trailblazer Grant, both of which contribute to a comprehensive portfolio that includes the Research and Development Tax Incentive (RDTI), Student Grants, and Repayable Grants in our Tech Incubator programme.

We have further refined our service delivery model to focus on our most promising customers - our Frontier Ventures and Māori Businesses - while continuing to deliver priority projects like the RDTI and the redevelopment of the Gracefield Innovation Quarter (GIQ). Our facilities at GIQ will enable us to strengthen our relationships across the ecosystem, growing our strategic engagement across the RSI sector and supporting the commercialisation of more publicly funded science.

We have launched our Māori Engagement strategy, Ngā pou o te piriti. The guiding principle of the strategy is to create better pathways for non-Māori to 'cross the bridge' to engage with Māori. Our wānanga is founded on the concept of a bridge and its four pillars, people, products, presence and partnerships. We will focus on cementing these foundational pillars to drive Māori engagement. The Sir Paul Callaghan 100 has been launched, with 16 companies welcomed to the list in 2022/23 and a further 18 mentioned as 'up and coming'.

Internally, we have worked hard to clarify who we are and what we do. We focused on being deliberate with our resources and targeting customers in our identified segments and industries.

Callaghan Innovation is not immune to financial pressures impacting the New Zealand economic environment, with costs rising in many of our core expenditure areas, but we are focused on managing this to ensure long term financial sustainability. Given this level of uncertainty, we will continue our strategy to focus and grow the organisation, align our funding to our key priorities and reduce costs where needed, to ensure we deliver a long term sustainable financial position.

We would like to take this opportunity to acknowledge Rachel Kelly who left the Board in October 2022, for her commitment and expertise over the preceding 16 months. We also welcome two new directors, Nicole Buisson and Sally McKechnie, to the Board and we look forward to working with them.

We truly believe supercharging the innovation environment will improve productivity, which is critically important to our economic development and wellbeing, and we are proud to be the engine for this as New Zealand's Innovation agency.

Ngā mihi maioha.

Pete Hodgson
Board Chair

Stefan Korn
Chief Executive

[1] Keely, Pikkel, Quinn and Walters (2013), Ten Types of Innovation: The discipline of building breakthroughs
[2] https://www.callaghaninnovation.govt.nz/sites/all/files/Callaghan_Innovation_Statement_of_Intent_2023-27_Final_Jun_2022.pdf

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About Callaghan Innovation

Te Pokapū Auaha

Callaghan Innovation was founded on the idea that Aotearoa's intergenerational prosperity would come not through traditional businesses or business models, but from smart, bold entrepreneurs creating innovative, new companies that are not just world-class but also working to make the world better.

We champion, guide, support and advise these companies as they make a positive impact on Aotearoa and the world.

Our Whakatauākī

Rukuhia te wāhi ngaro, hei maunga tātai whetū.

Explore the unknown, Pursue Excellence.
Our whakatauākī articulates our customer engagement journey and how we support innovators to navigate the unknown. It is a call to action in the pursuit of success.

This year we finalised our Māori Engagement Strategy 'Ngā pou o te piriti' to improve our delivery to Māori businesses and innovators. Like our customers, we are on a journey to improve our delivery and support for and with Māori. This means increasing our presence and support for Māori by making ourselves relevant and attractive for Māori to engage.

Our purpose

We activate innovation, accelerate commercialisation and help businesses grow faster for a better New Zealand.

Our role

We are a Crown Entity supporting hi-tech businesses in New Zealand. We provide a single front door to the innovation system for businesses at all stages of their innovation journey - from Start-Ups to the most experienced R&D performers.

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Ko Te Pokapū Auaha o Aotearoa Tātou.

We enable innovation in Aotearoa New Zealand.

What we do

We empower innovators by connecting people, opportunities and networks, and providing bespoke technical solutions, skills and capability development programmes, and grants co-funding.

We enhance the operation of New Zealand's innovation ecosystem, working closely with our government partners, Crown Research Institutes and other organisations that help increase business investment in R&D and innovation.

Our annual work programme, as expressed in our Statement of Performance Expectations, is driven by our Statement of Intent as well as the Annual Letter of Expectations from the Minister for Research, Science and Innovation.

Who we work with

Our innovation ecosystem partners work with us to provide comprehensive and integrated solutions for New Zealand businesses.

We work closely with the **Ministry of Business, Innovation and Employment (MBIE)**. The Minister for Research, Science and Innovation has responsibility for Callaghan Innovation, and MBIE monitors our performance.

We partner with **New Zealand Trade and Enterprise (NZTE),** and this year we have strengthened this relationship to better support global growth of innovative businesses. We work with other government agencies to reduce the barriers to growth faced by New Zealand businesses.

These agencies include the **Treasury**, the **Ministry for Primary Industries (MPI), New Zealand Growth Capital Partners**, and the **Ministry for Foreign Affairs and Trade (MFAT).**

We continue to work closely with Regional Business Partner networks, New Zealand Universities, Crown Research Institutes, other tertiary education organisations and other private R&D providers to enable local and national expertise, services and funding.

Technology incubators, founder business incubators, deep tech start-ups, industry associations and private sector science, engineering and technology companies and sites help us to provide a direct channel to the R&D community for New Zealand businesses.

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Our strategy

Our objective

To support science and technology-based innovation and its commercialisation by businesses, primarily in the manufacturing and services sectors, in order to improve their growth and competitiveness.

Our focus areas

Our strategy for the next five years is based on intensifying our support for customers who can have the largest impact for Aotearoa, while still delivering great, efficient support for innovators outside that target group, supported by digital tools where required. We have five strategic pillars to deliver this strategy.

Deliver globally leading innovation support services

We will adapt, simplify and productise our services, improving the customer experience and making our service and policy delivery more efficient and effective.

Support the commercialisation of science

We facilitate connections between industry and researchers to improve the commercial application of scientific research.

Support Māori innovation

We deliver specific services, customer journeys and engagement models for Māori scientists, innovators and entities.

Shift to a high-value economy through Frontier Ventures

We provide intensive, wraparound support to accelerate the growth of new and existing Frontier Ventures.

Grow high potential sectors

We flexibly support areas where disruptive innovations present significant commercial and wellbeing opportunities for Aotearoa.

Our desired outcomes

More New Zealand businesses are innovating and growing their investment in R&D

More science and technology based research is commercialised

Māori enterprises and innovators are economically successful and supporting community outcomes

Frontier Ventures drive NZ's economy, productivity and export growth

High potential sectors drive NZ's economy, productivity and export growth

Our enablers

Partnership with Māori - including applying Te Ao Māori principles across all our work

Developing and unleashing the unique experience and capability of **our people**

Continuing to improve our **safety and wellbeing** processes and culture

Possessing the **data and insights** to track our performance, feed into policy making and evolve our services

Our **physical and digital infrastructure,** enabling our people and customers to safely operate at their best

Our tools

We have created highly targeted products and services for our priority customer segments, as well as continuing to offer products that are accessible to our broader customer base.

Innovation skills products

Available to Frontier Ventures, Māori innovators and customers in high-potential sectors, these products are intended to grow specialist innovation and commercialisation skills across the private sector.

Funding products

Available to Frontier Ventures, Māori innovators and customers in high-potential sectors, these products de-risk and accelerate industry engagement in R&D through targeted grants, tax incentives and other funding mechanisms.

Connection products

Available to all customers, including businesses who are not innovating or investing in R&D that contact Callaghan Innovation for support. These products drive collaboration between NZ's research/science ecosystem, industry and innovators for the purpose of research commercialisation.

Commercialisation products

Available to all customers, these products provide access to deep tech expertise and problem solving to capture commercial opportunities enabled by new technologies.

One-on-one commercialisation coaching and support

Focused hands-on support and guidance for commercialisation of science and technology for companies on their innovation journey. This is intentional, intensive support to guide our customers' innovation activity and includes Founder Incubators, Tech Incubators and Accelerators, the Idea to Impact programme, Commercial and Technical workshops, and the Concept to Demo programme.

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How we're funded

In 2022/23 we received funding totalling $209.1 million, $184.4 million of this from annual appropriations, and $24.6 million from other revenue. More specifically this year we received:

CALLAGHAN INNOVATION OPERATIONS

$120.2m

to broker and provide innovation services, and deliver programmes to businesses

TRANSITIONAL SUPPORT TO BUSINESSES

$8.3m

to support businesses as they transition from the Growth Grants scheme to the RDTI

STUDENT GRANTS

$14.0m

to provide co-funding for private businesses to support students to work in a commercial R&D environment

REPAYABLE GRANTS FOR START-UPS

$12.6m

to fund services to support the growth of high-value start-ups

NEW TO R&D GRANT

$0.3m

to provide co-funding to encourage businesses without R&D capabilities and experience to build R&D programmes

INDUSTRY 4.0

$1.6m

to help businesses make the most out of the opportunities the fourth industrial revolution (Industry 4.0) offers

R&D PROJECT GRANT

$16.1m

to support private businesses with existing R&D Project Grants until the expiry of the Grant

NATIONAL MEASUREMENT STANDARDS

$9.6m

to fund our Measurement Standard Laboratory (MSL), NZ's national metrology institute

INNOVATION DEVELOPMENT GRANT

$5.0m

to fund businesses to undertake innovation activities that are not specifically R&D

CAPITAL INVESTMENT

$21.3m

to support infrastructure investment to enable us to provide services to businesses. The major focus in 2022/23 was the continued redevelopment of GIQ

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Our 2022/23 highlights

This year we have...

STRATEGIC PILLAR

Support the commercialisation of science

Worked with **Te Ara Paerangi** and **Wellington Science City**, two projects that offer huge potential for innovation in the RSI sector.

Established **HealthTech Activator** and **Tech Incubator** in their sectors to support emerging businesses to accelerate commercialisation.

STRATEGIC PILLAR

Shift to a high-value economy through Frontier Ventures

Focused on **targeted support** for Frontier Ventures, we have released our suite of **'Grow Products'** specifically designed to support Māori innovators and Frontier Ventures.

Established **Web3NZ**, a cross-government platform to support **Web3 innovators** and to accelerate innovation in **New Zealand.**

STRATEGIC PILLAR

Deliver globally leading innovation support services

Grown our customer base from 2,154 in 2018/19 to 2,241 in 2022/23, while maintaining a consistently high Net Promoter Score (NPS)[3].

Supported over **700 customers** through the RDTI application process, and launched **two new grants** this year, **New to R&D** and **Ārohia Innovation Trailblazer**.

Appointed **6 new providers** for Founder and Startup Support and launched a Code of Conduct to **support wellbeing** in the founder ecosystem.

STRATEGIC PILLAR

Support Māori innovation

Exceeded our goal to increase our Māori customer base by 40%, increasing by

83%

from **76** in 2021/22 to **139** in 2022/23

Cemented foundational relationships with **Te Taumata and Whāriki.**

Finalised and released **Ngā Pou o te Piriti** - The pillars of the bridge, which details our approach to engaging with Māori innovators and how we will achieve our outcomes.

STRATEGIC PILLAR

Grow high potential sectors

Established **4** cross-functional teams across sectors aligned to government research priorities and Industry Transformation Plans (ITPs)- HealthTech, Agritech, Digital/AI, and Construction.

[3] NPS is a measure that assesses the perceived value a customer gains from experiencing a product or service

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Our performance

We provide a single front door to the innovation ecosystem for businesses at all stages of their innovation journey - from start-ups to the most experienced R&D performers.

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STRATEGIC PILLAR

Deliver globally leading innovation support services

What we want to achieve

More New Zealand businesses innovating and growing their investment in R&D.

Why?

We aim to deliver our core products, including RDTI, grants and R&D solutions as efficiently and effectively as possible. This enables us to scale our impact for each New Zealand business we support and make the most efficient use of our scientists and commercialisation experts.

How?

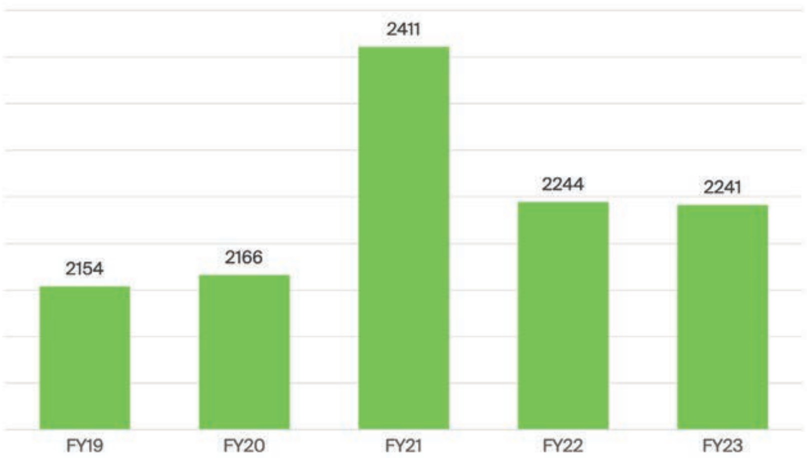
We do this through defining, developing and implementing a highly defined set of products, which we deliver efficiently with significant digital assistance where appropriate.

Our customers

This year we worked with 2,241 organisations across a range of sectors, life-stages and regions.

Since 2018/19 we have grown our customer base by 4%, an average increase of approximately 20 customers a year (excluding 2020/21). The increases seen in the chart below for 2020/21 reflect the increase in support services for customers during the Covid-19 period, including the R&D loan that drew in 110 new customers and re-engaged 345 more. It is not unexpected that this significant uplift dropped off in subsequent years.

Number of organisations working with Callaghan Innovation



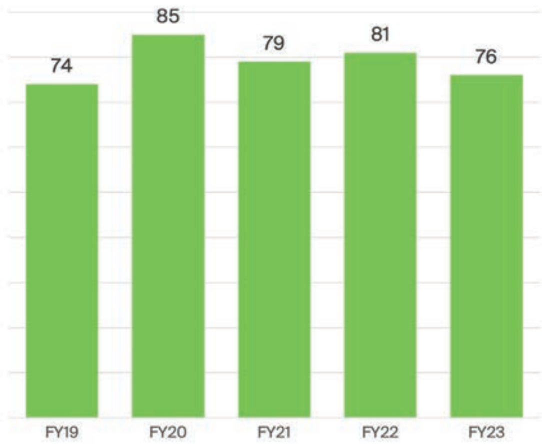
Note: we changed our customer definition in 2022/23, and the historical numbers reported here are updated to reflect this new definition. The change was made to align with our business model and the new definition primarily focuses on customers who have consumed 'core products', these are generally products and services we are funded to deliver. Historical results here will differ from customer numbers reported in previous Annual Reports.

Our Net Promoter Score (NPS) is the measure we use to assess the perceived value a customer gains from experiencing a product or service. Our overall NPS surveys customers who have consumed a core product or service, including services from our business innovation advisors.

The result this year is +76, exceeding our target of +60 and in line with our 2021/22 result of +81.

Our overall NPS score has remained consistently high (+74-+85) throughout the last five financial years.

NPS scores by financial year



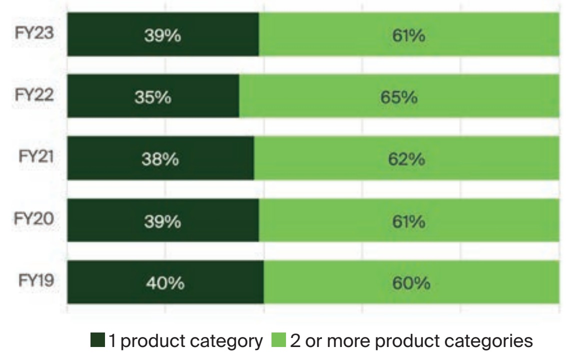
The number of product categories a customer is involved with evidences diversity in the services and mechanisms we are using to support them and their business.

In each of the last five financial years, approximately 60% of customers have consumed products from 2 or more product categories.

The average number of product categories used has been stable over the last five years. Customers in 2022/23 used 2.13 product categories on average, as compared to customers in 2018/19 who had used 2.01 product categories on average.

Diversity of engagement

Depth of relationship based on number of product categories used

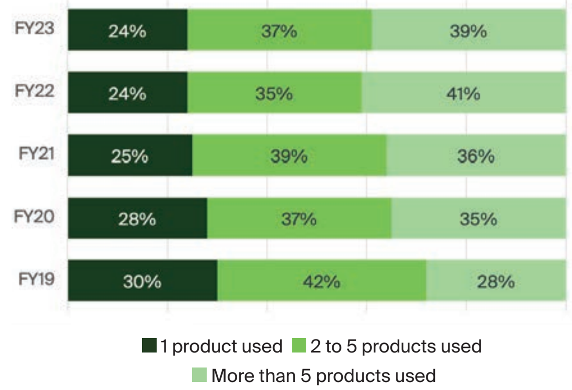


We can also look at the number of individual products consumed by our customers, which could be seen as an indicator of the intensity of the relationship. We can show increases over time with an increasing proportion of customers engaging with us multiple times.

In 2022/23 76% of customers have consumed two or more products with us, an **increase** from 70% in 2018/19.

Intensity of engagement

Depth of relationship based on number of individual products used



Callaghan Innovation | Annual Report 2023

Callaghan Innovation administers several incentive programmes to encourage businesses and entrepreneurs to invest in R&D. Reducing some of the financial risk associated with R&D is important to develop high-value, globally relevant companies, and to help drive economic recovery in Aotearoa.

1. RDTI

The RDTI is our flagship funding product, and the centrepiece of our financial incentive and support system for firms conducting eligible R&D. It is the Government's primary initiative for achieving our goal of increasing New Zealand's R&D expenditure to 2% of GDP by 2027.

The RDTI provides a 15% tax credit on a business' eligible R&D spend. It came into effect in April 2019 and Callaghan Innovation manage the operational application in conjunction with Inland Revenue

Since launch the RDTI has supported in excess of $2 billion in R&D, representing $312 million in tax credits[4].

The strategic focus for 2022/23 has been to relaunch a streamlined RDTI product that improves access and engagement for Māori customers, while significantly improving the overall customer experience.

This year we made improvements to the website and introduced new engagement services to support our customers.

As a result the RDTI customer engagement team have been able to support more than 700 customers, the majority (93% of those surveyed) of whom say they have received good support and guidance from us.

2. Grants

Callaghan Innovation acts as a delivery agency for MBIE for any new funding products. We operationalise the policy for new products while also working to continually improve performance once implemented (as we have done with the RDTI).

We have launched two new grants in 2022/23 - the New to R&D Grant in December 2022 and the Ārohia Innovation Trailblazer Seed Grant in April 2023.

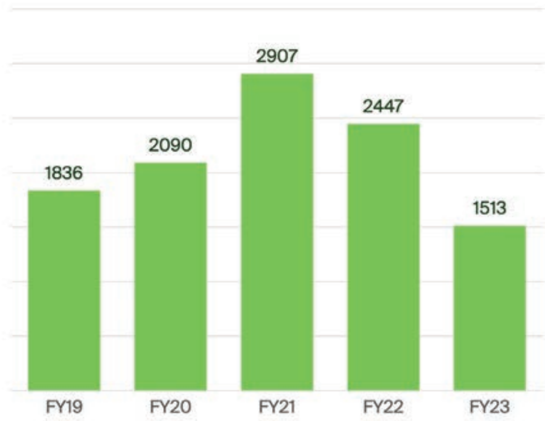
The Ārohia Innovation Trailblazer Full Grant also opened for applications at the end of June 2023, the close date for initial applications is in the 2023/24 financial year.

These two grants are added to our suite of existing funding products that includes the RDTI, Student Experience Grants, and Repayable Grants for Start-ups.

The following chart shows the engagement with our grants products over time, noting a peak in 2020/21. This peak primarily reflects a significant increase in the uptake of Student Grants in that year. Since then, we have closed the R&D Project Grant, and transitioned the majority of customers from the Growth Grant, which has been decommissioned, to the RDTI. We have also launched the following new grants products:

- R&D Loan - launched 2020/21
- Transitional Support Payment - launched 2021/22
- New to R&D - launched 2022/23
- Ārohia Innovation Trailblazer Seed Grant - launched 2022/23

Engagements with Grants by financial year



New to R&D Grant - is a co-funding grant offering 20% funding support for businesses who are new to R&D. Since the grant launched in December 2022, we have had 80 applications, and 19 customers now have an active New to R&D Grant.

The total value of active New to R&D grants is $2.7m, and the average value is $143k.

Ārohia Innovation Trailblazer Grant - is for non R&D activities and supports innovation that creates wider opportunities outside R&D. The Seed Grant supports businesses to get the evidence, data and customer validation they need to apply for the Full Grant.

We had 145 applications for the Ārohia Seed Grant since launch in April 2023, and 23 customers now have an active Ārohia Seed Grant. The total value of active grants is $575k, and the average value is $25k.

Student Experience Grants - available from 1 August to 30 September 2022. Over 550 applications were processed for more than 1100 student intern places totalling $10.5 million in grant funding. In addition to Experience Grants we offer students Career Grants, Fellowship Grants, and RDTI Student Grants. This year for the first time, we placed restrictions on Careers Grants to manage the amount of grant funding available, and did not offer Fellowship Grants as the programme is under review. Combined, these two factors resulted in us not meeting one of our performance targets for Student Grants, which is to receive 700 applications during the year, we received 603.

Founder and Start-up Support - We appointed six new providers for the programme to develop and recruit participants and deliver their acceleration and incubation programmes. The Support Programme is intended to accelerate the growth of quality start ups by providing intensive, wrap-around support, with access to mentors, networks and investment to fuel growth.

These providers help build entrepreneurial capability in aspiring entrepreneurs, and work to catalyse growth for start-ups. The programmes they offer are short and focus on rapid and intensive product development.

Founder and Start-up support programmes include Pre-Accelerator and Accelerator workshops, and we have welcomed over 2,000 participants to a Pre-Accelerator event, and 166 organisations have been through Accelerator events.

We developed and launched the Code of Conduct and Guide for Founders in November 2022, two founder-centric documents to foster trust and respect in the start-up ecosystem.

We know that uneven power dynamics in the startup ecosystem can leave founders feeling vulnerable, so alongside our innovation ecosystem partners we've created a Code of Conduct, available online to everyone. We've made having a Code of Conduct a requirement for our Founder and Start-up Support Programme partners, and encourage anyone working with founders to put a Code of Conduct in place.

[4] https://www.mbie.govt.nz/about/news/government-drives-2-billion-of-business-research-and-development/

3. GIQ

The GIQ programme is focused on redeveloping our Lower Hutt facilities to provide a healthy, safe and fit-for-purpose working environment for our staff, tenants and customers. Final works are anticipated to be completed in 2023/24.

Highlights for the year include:

- Te Pā Harakeke, our new flexible laboratory building, opened on 3 August 2022, with the Minister for Research, Science and Innovation cutting the ribbon.
- The new building for the Gracefield Early Childhood Education Centre received its dawn blessing in October 2022. The relocation of the centre is an enabler for the Hazardous Goods and Chemical Storage project to proceed.
- The demolition of E Block was completed in November 2022, and the McKay building demolition, after undergoing a period of asbestos removal, was completed in April 2023.
- In March 2023 we successfully opened a refurbished PC-2 (Physical Containment Level 2) compliant laboratory, which is initially being used to support GIQ's first resident biotechnology start-up, Bioviros. Bioviros focus on customised viral vector manufacturing for cell and gene therapy.
- Ground work for the Hazardous Goods project was finished in June 2023, this is the final significant project scheduled to be completed as part of the GIQ programme in 2023/24.
- The project to upgrade the former Library building made substantial progress, including seismic improvements and interior refurbishment work to provide flexible office and collaboration spaces. The building will be available for use in early 2023/24.
- The sitewide infrastructure project undertook a significant level of work to replace end-of-life horizontal infrastructure (three waters, electricity and telecommunications) across the site.

4. Research and Development Solutions

Callaghan Innovation assists companies with their R&D ambitions and hi-tech problem solving needs through a range of frameworks and bespoke services.

Many companies in New Zealand face a range of well known barriers to R&D, including the high cost of developing their own in-house capability, retaining highly specialised R&D staff and sourcing access to specialised equipment.
The R&D Solutions group utilises world class scientists and engineers to deliver services to our customers via specialist teams that include:

- Boosting innovative applied technology - core capabilities in this group are data vision, wireless communications, advanced mechatronics, advanced engineering and materials, and microsystems and polymers.
- Delivering health and life technologies - the Biotechnologies group assists companies to transform biological materials into high value products. Within this field Glycosyn provides synthetic route evaluation and development, GMP manufacture of investigational new drugs, and specialty commercial ingredients to a global market.
- Accelerating innovation - this area delivers services to customers or other government agencies, including strategically aligned ITP initiatives and mission-led innovation on Government priorities.
- A mission led approach to challenges - this group includes four units; Digital & AI connect the AI ecosystem & support emerging technologies such as Web3; HealthTech support 200+ emerging businesses in Bio-pharma/therapeutics, Medical Device tech and Digital Health; CleanTech deliver commercial validation and scientific expertise to advance cleantech/climate change focused products; and Construction Innovation secure new funding to enable sector transformation through innovation & ecosystem partnerships.

The R&D Solutions group also includes the Measurement Standards Laboratory, which is Aotearoa's primary provider of calibration services porters, innovators, testing facilities and regulators. This group represents Aotearoa in international decision making regarding measurement and provides a trusted technical basis for the national quality infrastructure.

Callaghan Innovation | Annual Report 2023

CASE STUDY

BioBrew - From Horses to Humans

BioBrew is bringing the benefits of its successful animal probiotic to humans, with some key technical assistance from Callaghan Innovation.

BioBrew was founded by Andre Prassinos and Don Pearson in 2009, for the purpose of developing fresh microbial supplements for mature and young ruminants, horses and household pets, as well as a bio-stimulant for plant health. BioBrew teamed up with Callaghan Innovation's Bioprocessing & Fermentation Team Leader Paul Rose and Fermentation Scientist Rashad Syed to translate this microbial knowledge into a new probiotic product for people. Callaghan Innovation could offer BioBrew the right cost model – access to experienced scientists with sophisticated laboratory equipment on a contract basis.

"We barely understood the food grade regulations," Andre Prassinos says. "To have someone with Paul's expertise guiding us through it at such a high standard is very reassuring."

In addition, the Callaghan Innovation team introduced BioBrew to NZ's food innovation facility The Foodbowl, where BioBrew will do the first commercial runs of the new human probiotic.

> "We've learned from each other. BioBrew inspired us and gave more purpose to our plans to introduce a fermentation process into our food grade facility, and we hope to use that as a platform for future opportunities."
>
> **Paul Rose**, Bioprocessing and Fermentation Team Leader, Callaghan Innovation.

STRATEGIC PILLAR

Support the commercialisation of science

What we want to achieve

More science and technology based research is commercialised.

Why?

Making strong connections with innovative businesses and connecting these businesses to the research sector, particularly the Universities and Crown Research Institutes, is critical for driving impact from research. Connecting researchers across the ecosystem increases the proportion of research that meets a societal or economic need and improves the chances of having research commercialised.

How?

Two key programmes deliver in this area - our HealthTech Activator and our Technology Incubator Programme.

HealthTech Activator (HTA) - is a coordinated, ecosystem-wide support mechanism for early-stage founders and companies in NZ's HealthTech sector. HTA aims to advance, de-risk and accelerate the commercialisation of innovation in NZ's HealthTech ecosystem, and currently supports more than 200 emerging HealthTech businesses.

At the close of 2022/23 over 1,100 subscribers are using the HealthTech Activator portal. We have delivered 21 events and supported more than 180 HealthTech companies, including 3 of the 4 HealthTech companies highlighted in the first cohort of the Sir Paul Callaghan 100.

Tech Incubator - is a collaboration between the public and private sectors, and is designed to provide Kiwi deep-tech startups with strong breadth and depth of commercialisation support, international and local connections, and access to investment. There are four Tech Incubators run by Brandon Capital, Bridgewest Ventures, Sprout Agritech and WNT Ventures. Three of these have international connections and all are able to provide pastoral support, as well as funding, to start-ups participating in the programme.

These four providers are eligible to apply for the Repayable Grants scheme, a co-funding scheme requiring financial commitments from our customers to access funding.

Since the inception of this scheme we have contributed $27 million to the Tech Incubator programme in the form of 36 repayable government grants of $750,000, and $8.1 million in programme operational funding. An impressive $75.7 million in private sector funding has been committed, far exceeding the $9.0 million minimum required to access repayable grants.

In 2022/23 we undertook an ecosystem mapping project to identify the gaps and opportunities for further products to be developed to support the commercialisation of science. This will lead into a wider work programme to develop and test some additional products in this space.

Callaghan Innovation | Annual Report 2023

The commercialisation landscape

The outcomes from Te Ara Paerangi and Wellington Science City will heavily influence the commercialisation landscape and we are supporting both of these initiatives.

Te Ara Paerangi Future Pathways is a multi-year programme focused on the future of New Zealand's research, science and innovation system. The intention is to support the development of National Research Priorities which will enable the government to focus research funding and activities on the most important social, environmental, health and economic issues and opportunities for Aotearoa.

Wellington Science City is the government's largest ever capital investment in science infrastructure. The outcome is the creation of three multi-institution research hubs that will build on the region's strengths to make Wellington a vibrant, resilient, and adaptable centre of research, science and innovation by 2030. The GIQ site is one of these hubs.

CASE STUDY

The opening of Alpha Group's fermentation plant

The Alpha Fermentation Plant, developed in conjunction with Callaghan Innovation, is a state of the art facility designed exclusively to produce the Ganoderma Lingzhi ingredient used in the majority of Alpha's high-value export nutraceutical range.

Callaghan Innovation's Bioprocessing and Fermentation Team was instrumental in the development of the technology which has seen Alpha Group shorten the growing period to yield material for extraction of bioactives reduced from six months to 10 days.

Alpha Group also utilised Callaghan Innovation's Student Career Grants to fund a PhD student into their first role to assist in commissioning the new plant.

STRATEGIC PILLAR

Support Māori Innovation

What we want to achieve

Māori enterprises and innovators are economically successful and supporting community outcomes.

Why?

Māori businesses are growing faster, innovating more and investing more in R&D than other New Zealand businesses, and have huge untapped potential. Forming genuine partnerships with products and services that are tailored to supporting Māori businesses and innovators contributes to a socially, culturally, and environmentally strengthened economy.

How?

Re-design and deliver specific services, customer journeys and engagement models for Māori scientists, innovators and entities. Be more present in Māori spaces (i.e. marae, wānanga and kura); identify opportunities for Māori to participate in the design of new or amended products and services; and partner with existing Māori networks in lieu of establishing our own.

The Māori economy is worth around $70 billion dollars, growing at a rate of 10% per year and is on track to reach $100 billion before 2030. A research report released by the NZ Productivity Commission[5] shows that Māori frontier firms are faster growing, are more innovative, and more likely to export than other firms.

New Zealand has many high-growth, Māori-led innovative businesses that are maximising the potential of technology. These businesses are developing solutions to emerging social and environmental needs, such as developing biostimulants for the primary sector and providing geothermal and energy solutions.

In 2022/23 we worked with 139 Māori companies, a 48% increase from 2018/19, and a 83% increase from last financial year. Māori companies as a proportion of our customer base has also increased over the last five years, 4.4% in 2018/19 to 6.2% in 2022/23.

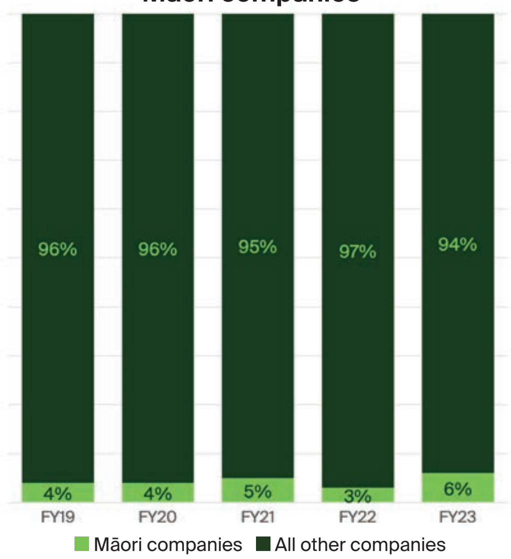
The peak in 2020/21 shown in the chart below reflects an increase in support for Māori innovators during the COVID-19 pandemic driven by R&D loans and a focus on innovation skills business advice and funding. In addition, we have improved our data management, we are now systematically tagging customers who are Māori companies.

Number of customers that are Māori companies

[5] https://www.productivity.govt.nz/assets/Documents/Cut-to-the-chase-Maori-frontier-firms.pdf

Callaghan Innovation | Annual Report 2023

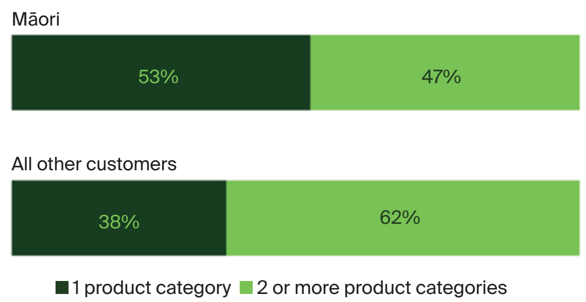
Percentage of customers that are Māori companies



Just under half of Māori customers (47%) in 2022/23 used two or more products. This is slightly lower than the average for all other customers (excluding Māori companies, 62% of other customers have used two or more products), which tells us that there is potential for us to grow our product offering across our existing Māori customer base.

Diversity of engagement

Depth of relationship based on number of product categories used



Our Māori customers are most likely to be introduced to Callaghan Innovation through Innovation Skills products. Many Māori businesses are in the early stages of their life cycle, which may account for this as the Innovation Skills products appeal to young businesses. Innovation Skills products also contain a sub-group of 'Grow products'. Grow products are developed primarily to target Māori businesses and Frontier Ventures, and include strategy design, R&D roadmapping, and business model innovation.

When we compare 2021/22 to 2022/23 we see rapid growth in Māori customers across all our product categories, and in all categories have exceeded our +40% (from 2021/22) growth target.

These increases are the result of a change in the way we engage with Māori companies and Frontier Ventures. Our refocused strategy has provided our staff with the licence to dedicate their time and resources to supporting these critical customer segments. For our Māori customers in particular we are working with them to understand their specific R&D objectives, where societal and environmental outcomes, and sustainable impacts for Māori communities are often equally as important as commercialisation.

Ngā Pou o te Piriti - The pillars of the bridge

In 2022/23 we released our Māori engagement strategy, Ngā pou o te piriti. The core principles of our strategy are represented by the concept of a bridge and its four pillars, representing people, products, presence and partnerships. We will focus on cementing these foundational pillars to drive Māori engagement.

The guiding principle of the strategy is to create better pathways for non-Māori (in particular Government) to 'cross the bridge' to engage with Māori. Key to delivering on aspects of this strategy is to establish partnership agreements with organisations aligned with our goals. In February 2023 we signed an MOU with Te Taumata, an organisation who champion a voice for Māori on trade between Aotearoa and the rest of the world. This relationship enables increased collaboration with Māori innovators and includes activities such as developing a partnered mentorship programme that will grow rangatahi Māori engagement in research, science and technology to support Māori engagement with a global Indigenous Innovation Community.

We signed an agreement with Whāriki in April 2023. This agreement creates a foundation to build a community digital platform which represents a manifestation of the bridge in our strategy. The platform will give Callaghan Innovation trusted access to the Māori SME and innovator ecosystem to a level and scale not yet experienced for us. Time is needed to grow Māori business familiarity with the platform and we have committed to support the roll out, promotion and maintenance of the platform for a minimum of 12 months.

While both these agreements are a milestone step to engage with Māori, we will continue to build kanohi ki te kanohi (in person) relationships and support in community events with Māori in Māori defined spaces.

STRATEGIC PILLAR

Shift to a high-value economy through Frontier Ventures

What we want to achieve

Frontier Ventures drive NZ's economy, productivity and export growth.

Why?

Frontier Ventures are identified by the Productivity Commission as key drivers of productivity and export revenue and an area where Aotearoa underperforms.

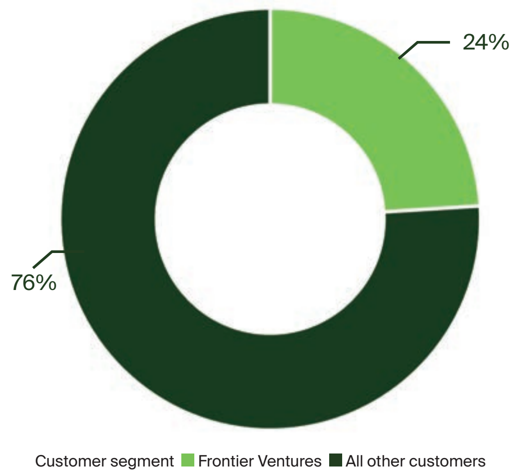
How?

Focus intensive, wraparound support to accelerate the growth of new and existing Frontier Ventures.

Frontier Ventures are at, or have the potential to be at the 'Innovation Frontier' characterised by high investment in R&D, high productivity, and a global, export driven focus. We identify them based on their R&D intensity (R&D spend or revenue is more than 10%), and their ongoing commitment to innovation (as assessed by a team of Callaghan Innovation experts).

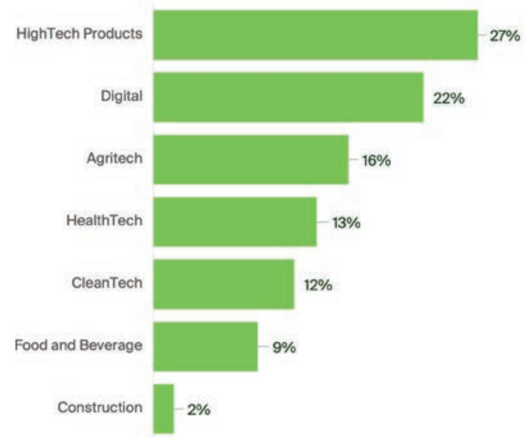
Across our customer base, many customers sit in more than one of our high priority segments, Frontier Ventures are also Māori customers, and customers in high potential sectors. Subsequently when we develop products targeted at high priority segments, we are designing them for use across all three of these groups. The Grow Products to support Māori customers and Frontier Ventures mentioned in our 'Support Māori Innovation' section are an example of this.

In 2022/23 we worked with 537 Frontier Ventures, or 24% of our customer base. Of this group nearly half (42%) have worked with Callaghan Innovation for five years or more.

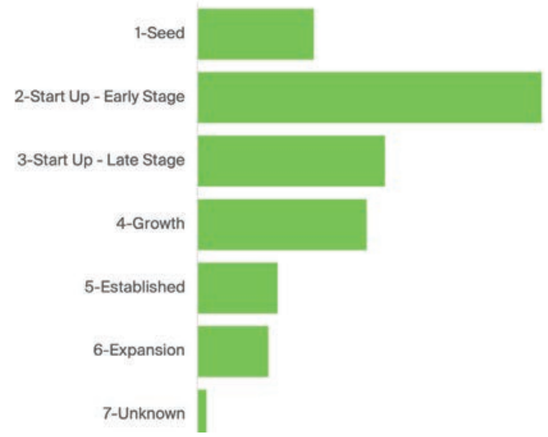


Nearly half of our Frontier Venture customers are in the HighTech products sector (including but not limited to spacetech, transport, manufacturing and marine) or Digital sector, and are start-ups.

Sector breakdown of Frontier Ventures 2022/23



Lifecycle stages of Frontier Ventures 2022/23

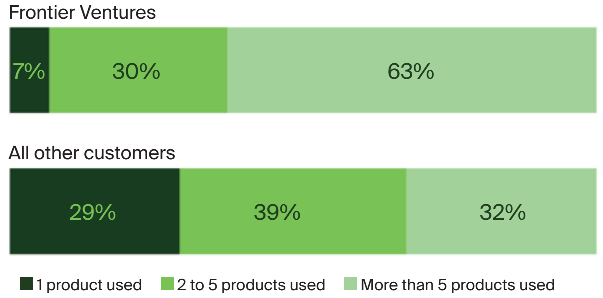


We have a deeper relationship with Frontier Ventures than with our total customer base, both across product categories, and within product categories - either repeated use of products or multiple products within a category, which indicates a strong start to the delivery of our strategy to differentiate our service delivery to priority segments.

93% of Frontier Ventures use two or more products, compared to 71% of all other customers

Intensity of engagement

Depth of relationship based on number of individual products used



STRATEGIC PILLAR

Grow high potential sectors

What we want to achieve

High potential sectors drive NZ's economy, productivity and export growth.

Why?

High potential sectors are identified by the Productivity Commission as key drivers of productivity and export revenue and an area where Aotearoa underperforms.

How?

Flexible support for areas where new disruptive innovations present both significant commercial and wellbeing opportunities for NZ. Our support of these sectors is reflected largely in our overall business model which provides a standardised, simplified set of products for high impact customers.

Our strategic move to a 'product-based' business model enables a highly defined value exchange with our customers. Along with Māori businesses and Frontier Ventures we identify 'High potential sectors' as segments where we specifically focus our support.

We have developed a cross-functional delivery team model to establish support structures specific to the sector we are working with. These teams are aligned to government priorities and Industry Transformation Plans (ITPs) and therefore have the potential to change over time as wider NZ societal and economic influences change.

Our established and currently active teams include:

AgriTech ITP - provides services, advice and access to networks in New Zealand and internationally to support the creation of world-leading agritech solutions.

We do this through two key mechanisms - providing information that enables our customers to better navigate the funding and support landscape through our products 'Agritech Support Explorer' and 'Global Signals'; and in conjunction with NZTE we support collaboration across the sector through our invitation only networks 'Early Adopter', 'Scale for Global Growth' and 'Farm 2050 Nutrient Technology Trialing Platform'.

AI/Digital ITP (including Web3) - places special emphasis on innovative partnerships that accelerate AI discoveries, our approach combines the strengths of government, academia, and industry. The intent is to establish a trusted central place for AI Innovation, and empower NZ businesses and industries with a vehicle to connect to the wider AI ecosystem, as well as drive AI uptake.

We are also working on AI+, a flexible and scalable framework with a cross-disciplinary AI focus on a wide range of applications important to NZ, including Agritech, Health, Digital, CleanTech (Energy & Environment), Food & Beverage, and the Māori Economy.

The AI+ targets projects and activities in three overarching themes:

- **AI idea to impact** - to address the opportunity for business from discovery AI projects to full-scale solution implementation.
- **AI Future** - to research into and to build capabilities in emerging AI technologies and practices that will impact on businesses in the long and medium term.
- **AI Connect** - to focus on the ecosystem connection and collaboration, science to commercialisation.

The Web3 initiative (also described in the 'Shift to a high-value economy through Frontier Ventures' section) is a prototype to determine what gaps exist in the development and commercialisation of the Web3 sector, and to assist where possible. The intent is to work with partners across the ecosystem to help solve problems for NZ Web3 innovators.

Construction (including the Kāinga Ora partnership) - solutions in the construction industry include manufacturing and advanced automation, decarbonisation of buildings, waste minimisation and digital tools.
The partnership with Kāinga Ora leverages Callaghan Innovation's technical R&D and commercialisation capabilities to help bolster construction innovation in NZ.

HealthTech Activator (HTA) - the HTA also uses a cross-functional delivery model and is outlined in more detail in the 'Support the commercialisation of science' strategic pillar.

The Sir Paul Callaghan 100 Report
This year we launched the Sir Paul Callaghan 100 Report which celebrates companies that deserve recognition for their world-leading, world-bettering, and innovative contributions to Aotearoa, it is a celebration of companies crucial to our socio-economic success.

Sir Paul Callaghan believed that 100 inspired companies would turn NZ around. This year's report highlights 16 companies, including Futureverse - the first Māori-founded business valued at over NZ$1 billion, and Hi-Tech Award winners EasyCrypto and Formus Labs. These companies have the potential to dominate worldwide niche markets, thereby significantly contributing to our GDP and creating valuable job opportunities for our workforce.

As numerous companies are already making significant strides towards becoming a 'Sir Paul Callaghan 100' company, we have also included profiles for 18 up-and-coming companies in the report. We pay tribute to exceptional early stage companies that are already making a splash on a global stage.

Governance

Callaghan Innovation is governed by a Board of Directors. Our Board provides governance over our operations, and monitors organisational performance. All decisions relating to our operations are made by, or under the authority of, the Board in accordance with the Callaghan Innovation Act 2012 and the Crown Entities Act 2004.

The Minister for Research, Science and Innovation has responsibility for Callaghan Innovation, and MBIE monitors Callaghan Innovation.

We work closely with MBIE to implement government innovation policy effectively and efficiently, incrementally improve the delivery of policy and to provide a demand-side view from our customers and the innovation ecosystem to inform policy development where this is required.

Governance committees

Audit and Risk

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.

Health and Safety, People, Culture and Diversity (from August 2022)

Amalgamates the People, Culture and Diversity and Health and Safety Committees, and their respective Terms of Reference. Oversees and makes recommendations to the Board on matters regarding people, culture and diversity, including the effective management, appointment and remuneration of the Chief Executive. Also assists and advises the Board regarding its responsibilities with respect to the Health, Safety and Environment (HSE) practices of Callaghan Innovation.

Grants

Assists the Board in providing governance and oversight of Grants funding and the Research and Development Tax Incentive available to Callaghan Innovation customers to accelerate their R&D activities and commercialisation.

Gracefield Development Governance Group

Provides oversight of the effective and efficient delivery of the GIQ tactical estates programme.

Board members

The Minister of Research, Science and Innovation appointed the Chief Executive of MBIE as an advisor to the Board. This role was delegated to Nic Blakeley, Deputy Secretary, Labour, Science and Enterprise.

Pete Hodgson

CHAIR

Pete is a former Cabinet Minister (NZ Government 1999 –2008) whose portfolios included Science, Economic Development, Tertiary Education, Energy, Transport, Forestry, Fisheries, Climate Change Policy and Commerce. He is a past Chief Executive and current board member of Otago Innovation Limited, in the University of Otago's Technology Transfer Office. Pete was Chair of the Southern District Health Board until its dissolution and is actively engaged with multiple aspects of the New Dunedin Hospital build. He has a bachelor's degree in veterinary science and a Master's degree in public policy (with Distinction).

Jennifer Kerr

Jennifer is a full time Independent Director. As well as being the Deputy Chair of Callaghan Innovation, she is the Chair of New Zealand Trade and Enterprise, the Chair of Worksafe New Zealand and is a member of the New Zealand Police Assurance and Risk Committee. She also sits as a director on a number of other boards and is a member of Global Women. She has degrees in arts and social sciences and is of Ngāti Mutunga and Ngāti Tama descent.

Elena Trout

Elena is a qualified civil engineer with extensive experience in the planning, development and implementation of large engineering and technical projects. She has held senior management roles in the energy, transport and infrastructure sectors and has been involved in a number of high-profile and nationally significant socio-economic infrastructure projects.

Elena is a past President and Distinguished Fellow of Engineering New Zealand. She is a seasoned director and currently holds several director and chair roles and is a Fellow of the Institute of Directors.

Matanuku Mahuika

Matanuku has more than 25 years experience as a lawyer advising on a wide range of corporate, commercial, Treaty of Waitangi, Māori land and administrative law issues. He has experience in working with early-stage and start-up businesses and has held a wide variety of directorships and governance roles. Matanuku's tribal affiliations are Ngāti Porou and Ngāti Raukawa.

Shaun Hendy

Professor Hendy MNZM FRSNZ is a Founder and Chief Scientist at Toha, a company that operates a marketplace for environmental action. He was founding Director of Te Pūnaha Matatini, a national Centre of Research Excellence, focusing on complex systems from 2015-2021. He has been a Professor at both the University of Auckland and Victoria University of Wellington, and a Distinguished Scientist at Callaghan Innovation. Professor Hendy has won many awards, including the Callaghan Medal for Science Communication, the Prime Ministers Science Media Communication Prize, and the E.O. Tuck medal for applied mathematics. In 2021 his team was awarded the Prime Minister's Science Prize for their COVID-19 response. He co-authored Get off the Grass with the late Sir Paul Callaghan in 2012, and has since written two other books, Silencing Science and #NoFly.

Nicole Buisson

Nicole Buisson is an independent director and also works with technology companies on growth and scaling initiatives. She currently sits on the Boards of New Zealand Growth Capital Partners, The Icehouse and Mosaic Business Solutions. She formerly sat on MBIE's Small Business Council and the Boards of WEL Networks, Ultra Fast Fibre and Rose & Thorne. Her corporate background combines a mix of technology (AWS, Xero), venture capital and private equity (3i and E&Y's Venture Capital Advisory Group), and corporate innovation (Vodafone, HK CSL). Nicole holds an MBA from Columbia University and London Business School and is a Chartered Member of the Institute of Directors.

Sally McKechnie

Sally McKechnie has more than 20 years experience as a public and administrative lawyer, advising and representing commercial entities, Government ministers, ministries, public sector and not for profit interests. She has experience working with and advising Crown and businesses entities in the science and innovation sector. She founded and leads Simpson Grierson's public law and government team in Wellington and earlier in her career she was Crown Counsel. Sally has had governance roles in the sport and not for profit sector, and is currently a director of Gymnastics New Zealand and Cricket Wellington. Sally holds an LLB(Hons) and a BA from Otago University, and a BCL and MPhil from Oxford University, where she attended as a Rhodes Scholar.

Our people

We believe we should lead and support cultural and social shifts within Callaghan Innovation in the same way we support scientific and technological advancement within the innovation ecosystem.

Developing an inclusive place to work

We continue to focus on identifying and rectifying our gender and ethnicity pay gaps. In collaboration with the union we have developed an action plan that addresses both the structural and cultural change necessary to ensure we're eliminating inequitable practice within the organisation. We have published our gender and ethnicity pay gaps publicly on our website and via the Mind the Gap Registry.

We have also improved our data management to more accurately track and measure diversity trends, and completed an internal review to ensure diversity, equity, inclusion and belonging principles are integrated into all relevant policies.

Leadership, growing and developing our people's capability

We piloted the second iteration of our strategic leadership programme, growing the capabilities of an expanded range of leaders and leadership types within the organisation.

In addition we are working to align with Ngā pou a te piriti to uplift the internal capability of the organisation via a Tikanga, Te Tiriti, Te Reo & Māturanga Māori learning programme.

Staff recognition and retention

We launched a Remuneration Team in 2022/23, who undertook a comprehensive assessment of our remuneration and reward system and practices, and made recommendations on changes to create a 'fit for the future' remuneration and reward system. In addition to pay adjustments to ensure gender and ethnicity pay equity, the team also made recommendations for overall pay adjustments to better align our salary bands with average.

Hauora Wellbeing

We ran a series of interactive Wellbeing Seminars over four months with our EAP provider Benestar.

Our culture

Our behaviours reflect the culture we are developing as we journey towards our vision to make Aotearoa a place where talent wants to live.

Our core values:

- **Karawhiu** We have the courage to give things a go
- **Whakatauira** We lead by example, and trust others to do the same
- **Pūmanawa** We use and share our knowledge to create better outcomes for all
- **Tautoko** We support others to be successful in their roles and lives.

Demographic Information

As at 30 June	2022/23	2021/22	2020/21
Workforce by location			
Auckland	98	99	101
Wellington	309	300	359
Christchurch	26	30	29
Total number of Callaghan Innovation employees	433	429	489
Workforce engagement (Figures for part time/full time do not include our casual employees)			
Casual	2	6	7
Part-time	37	39	53
Full-time	406	384	436
Fixed-term	45	47	88
Permanent	398	376	394
Gender			
Male	264	275	313
Female	168	154	175
Gender Diverse	N/A	N/A	1
Unknown	1.6%		

As at 30 June	2022/23	2021/22	2020/21
Ethnicity			
Asian	13%	8%	7%
Māori	5%	2%	3%
NZ European / Pākehā (inc tauiwi)	52%	49%	44%
Pacific Islands	2%	1%	2%
Middle Eastern / Latin American / African	4%	8%	7%
Unknown	26%	31%	37%
Age			
Less than 20 years	0.2%	0.2%	0.2%
20-29 years	9%	10%	8%
30-39 years	26%	25%	25%
40-49 years	27%	29%	31%
50-59 years	25%	24%	23%
60-69 years	11%	11%	11%
70-79 years	1.1%	0.7%	0.8%
Unknown	0.7%	0.7%	0.8%

Callaghan Innovation | Annual Report 2023

Our carbon footprint

Callaghan Innovation plays a crucial role in supporting the emergence of new technologies and innovative practices to combat climate change in New Zealand.

We are committed to meeting the requirements of the Carbon Neutral Government Programme (CNGP) and transitioning to a low emission and energy-efficient environment. Managing our emissions is a key component of our environmental objectives and forms a pillar of our reduction plan.

Our sustainability reporting highlights our organisational focus areas and changes required to reduce our operational greenhouse gas emissions. The scope of our carbon emissions reporting is defined as our core operational emissions and includes equity shares we have in Foodbowl, Foodsouth and Food Waikato and additional emissions from staff commuting.

This is the first year we have publicly reported our carbon emissions, we have however been reporting these internally since 2020/21 and have chosen 2019/20 as our baseline year. These results have been audited annually and independently verified for each year.

Independent verification

The measurement of Callaghan Innovation's greenhouse gas emissions (emissions data and calculations) has been independently verified against ISO14064-1:2018 by Toitū Envirocare (Enviro-Mark Solutions Ltd), a wholly owned subsidiary of Manaaki-Whenua Landcare Research, which is a Crown Research Institute.

We are measuring, managing, and reducing our emissions according to ISO14064-1:2018 and Toitū requirements. We are a Toitū carbonreduce organisation, accredited by the Joint Accreditation System of Australia and New Zealand (JAS ANZ) under ISO14065.

A copy of our Toitū carbonreduce certification disclosure can be viewed on the Toitū website.

Total annual emissions and their source

These emissions results align with the 2023 Measuring Emissions Guidance from the Ministry for the Environment, which uses the 100 year Global Warming Potentials (GWPs) in the IPCC Fourth Assessment Report (AR5). Current national inventories report their emissions based on AR5 GWPs, and government published emissions factor sets align with national reporting.

We have reduced our air travel, gas and electricity emissions since our baseline year. Two key factors have influenced this - reductions as a result of Covid-19 travel restrictions, and the temporary closure of spaces at GIQ while we have undergone infrastructure site works. We also acknowledge that more renewable energy was produced last year which had a favourable impact on the electricity emission factor.

In 2022/23 we emitted 2,802 tCO2-e (tonnes of carbon dioxide equivalent), a 38.6% reduction on 2019/20 (4,561 tCO2-e). The majority of our emissions came from energy usage and business travel.

Table 1: Emissions profile broken down by scope and total annual emissions (tCO2-e)

Category		Scope	2022/23 tCO2-e	2021/22 tCO2-e	2020/21 tCO2-e	2019/20 tCO2-e
1	Direct emissions	1	1,209.82	1,432.78	1,924.31	2,039.81
2	Indirect emissions from imported energy	2	420.27	922.76	1,068.98	1,003.95
3	Indirect emissions from transportation	3	940.42	564.68	411.18	1,119.74
4	Indirect emissions from products and services used by Callaghan Innovation	3	231.30	320.39	370.19	397.25
5	Indirect emissions associated with the use of products and services with the organisation	3	-	-	-	-
6	Indirect emissions from other sources	3	-	-	-	-
Total Gross Emissions (All measured emissions) in tCO2-e			**2,801.72**	**3,240.61**	**3,774.65**	**4,560.75**
Change in gross emissions (all categories) from previous financial year				14%	17%	-%
Change in gross emissions (all categories) since 2019/20				29%	17%	-%

Reinstatement of historical emissions into baseline year

This year we calculated our commuting and working from home emissions (excluding the Food Innovation Network) for our baseline year and had them reinstated into our 2019/20 footprint, this added 285 tCO2-e. We also updated our baseline emissions to reflect the latest emissions factors recently released by the Ministry for the Environment in August 2023.

Table 2: Total emissions breakdown by emission sources 2022/23

Sources	2022/23 tCO2-e	Percentage
Stationary combustion (use of fossil fuel)	1,079.29	39%
Business travel - Transport (non-company owned vehicles)	700.14	25%
Imported electricity	420.27	15%
Employee commuting	195.70	7%
Disposal of solid waste - Landfilled	121.20	4%
Leakage of refrigerants	111.29	4%
Transmission of energy (T&D losses)	96.87	3%
Working from home	21.25	1%
Mobile combustion (incl. company owned or leased vehicles)	18.62	1%
Business travel - Accommodation	16.37	1%
Disposal of liquid waste - Wastewater	9.71	0.3%
Downstream freight - Paid by the organisation	6.91	0.2%
Purchased goods and services	2.54	0.1%
Recycling process	0.62	0.02%
Emissions - Industrial processes	0.62	0.02%
Disposal of solid waste - Not landfilled	0.23	0.01%
Upstream freight - Paid by the organisation	0.06	0.002%
Disposal of liquid waste - Not wastewater	0.03	0.001%

Emission intensity by FTE and expenditure

Since 2019/20 Callaghan Innovation and our share of the Food Innovation Network has experienced an overall decrease of the number of FTEs. Our expenditure has remained constant after an initial increase following our baseline year. Despite this, we have seen a consistent reduction in emissions per FTE and per million dollars of expenditure.

Table 3: Emissions by FTEs and expenditure

Category	22/23	21/22	20/21	19/20
FTEs*	498	495.5	553	507.5
Expenditure ($million)	132	131	133	113
Emissions intensity				
Total gross emissions per FTE in tCO2-e	5.63	6.54	6.83	8.99
Total gross emissions per million dollars of expenditure in tCO2-e	21.23	24.74	28.38	40.36

*The above FTE numbers include Foodbowl, Foodsouth and FoodWaikato to accurately reflect our emission intensity by FTE and expenditure

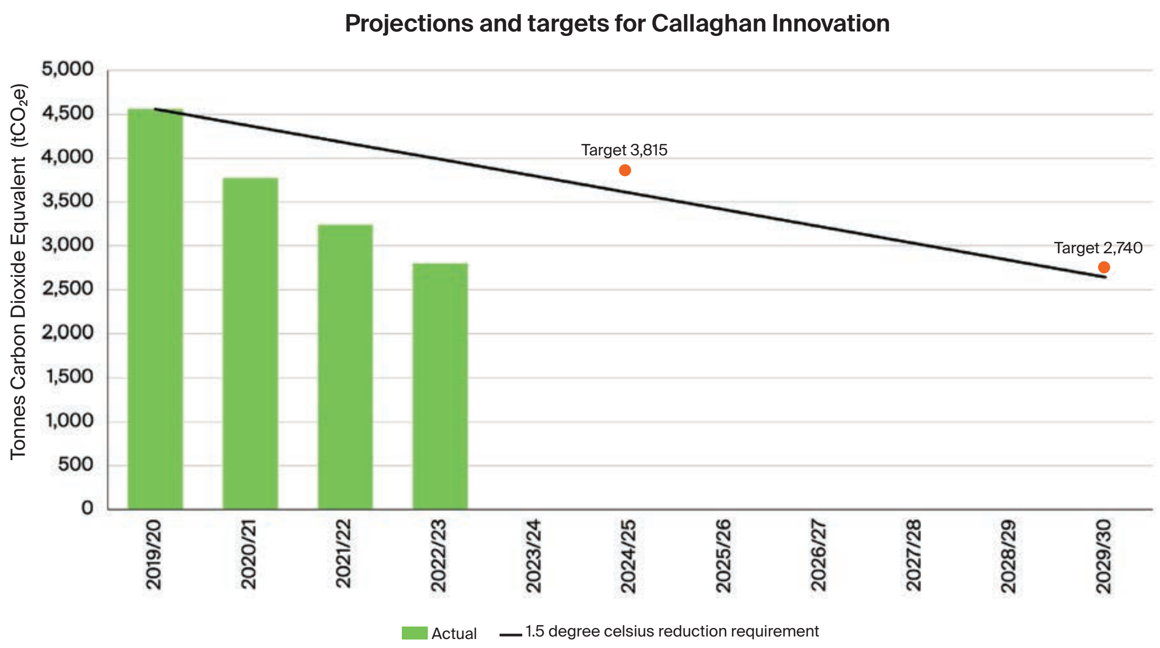
Our reduction targets

We have used a science based target tool to set science aligned targets to limit global warming to less than 1.5 degrees of warming as required under the CNGP.

Our target also aligns to the requirements of the Toitū carbonreduce programme. We have set the following emissions reduction targets:
2025 target: Gross emissions (all Categories) to reduce by at least 21% from the base year 2019/20.
2030 target: Gross emissions (all Categories) to reduce by at least 42% from the base year 2019/20.

Progress towards our targets

Our estimated projected emissions are set to be 19% and 47% less in 2025 and 2030 respectively, compared to 2019/20. The line in the graph below labelled 1.5 degree celsius reduction requirement shows this reduction journey over time to 2030. The bars are our actual emissions, which we will track against forecast to measure our progress.
We are projected to meet our emissions targets, however this projection will change over time as changes to latest emission factors align with the latest climate science.



Our reduction plan and future reporting

Future reduction plans

As a participant of the carbon neutral government programme we have developed our carbon reduction plan. We are focusing on our top three emissions categories as described in Table 2 - our fossil fuel use, our electricity consumption, and our travel.

Key activities in our fossil fuel reduction plan include:

- Transitioning our fleet to be fully electric by 2025/26
- Investing in our infrastructure, initially replacing fossil fuel boilers with low carbon technology
- Promoting sustainable transport options

Key activities to reduce our electricity consumption and increase our energy efficiency include:

- Improving our energy management system to better understand how we can be energy efficient in our buildings
- Replacing existing lighting with LED Lighting
- Investigating the feasibility of solar panels at our sites

We have an internal target to reduce our business travel by 50% by 2030, this equates to 5% per year until 2030.

In addition we have developed our environmental performance policy, and are raising awareness of sustainable, energy efficient practices across the organisation.

Improving our data

Callaghan Innovation's current emissions reporting accounts for our operating emissions. As we identify and establish appropriate data collection processes additional sources may be included in our emissions reporting. This year we have included staff commuting and working from home emissions into our baseline year.

Table 4: Direct Category 1 emissions by greenhouse gases in tonnes of CO2-e

Category 1 emissions*	CO2 (tCO2)	CH4 (tCO2-e)	N2O (tCO2-e)	HFC (tCO2-e)	Emissions total (tCO2-e)
Stationary combustion	1,076.28	2.53	0.48	0.00	1,079.29
Mobile combustion	18.11	0.16	0.35	0.00	18.62
Leakage of Refrigerants	6.76	0.00	0.00	104.53	111.29

*Only categories with emissions are shown

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 2022 to 30 June 2023, and the judgements used in them. This includes responsibility for any end-of-year performance information provided by Callaghan Innovation under Section 19A of the Public Finance Act 1989, whether or not that information is included in this annual report.

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 2022 to 30 June 2023 fairly reflect the financial position and operations of Callaghan Innovation.

Pete Hodgson
Board Chair

Stefan Korn
Chief Executive

Callaghan Innovation | Annual Report 2023

Statement of Service Performance

This Statement of Service Performance reports on Callaghan Innovation's performance, including progress against our Statement of Performance Expectations for the year ended 30 June 2023.

This report has 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). This Statement of Service Performance complies with Public Benefit Entity Reporting Standards. Callaghan Innovation's main objective is to support science and technology-based innovation and its commercialisation by businesses, primarily in the manufacturing sector and services sector, in order to improve their growth and competitiveness.

We partner with ambitious businesses of all sizes, providing a range of innovation and research and development (R&D) products to suit each stage of growth. Our people – including more than 200 of Aotearoa's leading scientists and engineers – empower innovators by connecting people, opportunities and networks. We also provide tailored technical solutions, skills and capability development programmes, and grants co-funding. We enhance the operation of Aotearoa's innovation ecosystem, working closely with government partners, Crown Research Institutes, and other organisations that help increase business investment in R&D and innovation.
We operate on a "product-based" business model which enables a highly defined value exchange with our customers. Callaghan Innovation receives funding from the Crown via appropriations, in order to deliver these products to achieve our objectives.

The measures set in the Statement of Performance Expectations, which are based on the 2022/23 Vote Business, Science and Innovation, have been developed in collaboration with leaders in Strategy, Government Engagement, Insights and Business. Our measures are reviewed by our Executive Leadership Team and Board, before being approved by the Ministry for Business, Innovation and Employment. These measures provide a faithful representation of what Callaghan Innovation has achieved, using the funding from the eight annual appropriations in the 2022/23 financial year, whilst also being aligned to our focus areas as stated in our SOI. The baselines and targets are set based on historical performance and best practice guidelines.

Available appropriations

Callaghan Innovation received funding from eight annual appropriations in the 2022/23 financial year, all of which were annual appropriations (two of which had multiple categories of outputs).

The majority of Callaghan Innovation's operational funding comes from the 'Callaghan Innovation Operations Multi-Category Appropriation'. We also administer six funding programmes aimed at helping businesses invest in more 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 young start-ups or established R&D performers. In addition, this financial year we have introduced two new grants, the New to R&D Grant to encourage businesses without R&D capabilities or experience to build R&D programmes, and the Ārohia Innovation Trailblazer Grant to provide funding for businesses to undertake innovation activities that are not specifically R&D.

The following table shows the funding made available by the Crown through the 2022/23 Estimates and Supplementary Estimates of Appropriations, compared with the amounts recognised by Callaghan Innovation.

$000's	Estimates	Supplementary Estimates	Actual	Difference to Supplementary Estimates
Annual Multi Category Appropriation (MCA)				
Callaghan Innovation Operations MCA				
Building Business Innovation	40,685	45,685	45,685	-
Business Research and Development Contract Management	7,750	7,750	8,015	(265)
Research and Development Services and Facilities for Business and Industry	32,805	32,805	28,384	4,421
Total Multi Category Appropriation	**81,240**	**86,240**	**82,084**	**4,156**
Targeted Business Research and Development Funding MCA				
R&D Project Grant	-	27,610	16,083	11,527
Student Grant	15,000	20,525	13,989	6,536
New to R&D Grant	22,500	36,500	307	36,193
Total Multi Category Appropriation	**37,500**	**84,635**	**30,379**	**54,256**
Other Annual Appropriations				
Innovation Development Grant	16,800	25,000	17	24,983
Transitional Support to R&D Performing Businesses	28,500	38,000	8,339	29,661
Repayable Grants for Start-ups	20,746	30,045	12,646	17,399
Future-proofing New Zealand's Manufacturing Sector by Driving Industry 4.0 Uptake and Skills Development	1,003	1,003	1,620	(617)
National Measurement Standards	11,789	8,986	8,986	-
Callaghan Innovation Capital Investment	21,340	21,340	21,340	-

Callaghan Innovation Operations: Multi-Category Appropriation

The multi-category appropriation enables us to broker and provide innovation services to businesses and deliver programmes enhancing New Zealand's innovation system. Together, this encourages businesses to innovate and develop new and improved products, processes and services.

The funding in this appropriation is separated into three categories:

1. Building Business Innovation
2. Research and Development Services and Facilities for Business and Industry
3. Business Research and Development Contract Management

Funding and performance expectations have been set for each category within the appropriation as well as for the appropriation as a whole.

The financial performance presented in the table below is for the MCA as a whole, and is an aggregation of the financial performances of the three categories, which are presented separately under each category. Major variances of actual against budget are explained under the financial performance table of each category.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation	82,084	81,240	75,516	79,823
Crown revenue - National Science Challenge	15,743	8,965	15,480	19,702
Commercial revenue	17,758	18,952	14,846	19,892
Other revenue	540	1,640	7,687	5,681
Total revenue	**116,125**	**110,797**	**113,529**	**125,098**
Expenses	112,560	110,697	121,301	131,596
Net surplus/(deficit)	**3,565**	**100**	**(7,772)**	**(6,498)**

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 performance standard
Total number of organisations working with[1] Callaghan Innovation this financial year	2,241	2,000	2,877	2,600
Net Promoter Score[2] of all surveyed customers[3]	+76	+60	+74	+60

[1]'Working with' reflects any customer that has consumed a product or service from Callaghan Innovation during the financial year.
[2]Net Promoter score measures how likely a customer is to recommend Callaghan Innovation's services to a colleague or organisation using a scale of 0=Not at all likely to 10=Extremely likely. Responses are grouped in three categories: Promoters (9-10 scores), Passives (7-8 scores) and Detractors (0-6 scores). NPS is then calculated by subtracting the percentage of Promoters from the percentage of Detractors and reporting this as a score.
[3]All customers who consume a product or service during the financial year are provided with a request for feedback.

In 2022/23 we changed the definition of 'customer' to better reflect the organisations who we have a relationship with, determined by those consuming core products or services, primarily the new definition excludes customers who attend events, international missions and grants applications. The expected impact was estimated to be a decrease in customers of 25-35% and as a result the performance standard was revised down by a stretch target of 23% from 2600 to 2000. Our performance in 2022/23 exceeded this standard, as the actual drop was slightly less than estimated at 22%.

It must be noted that the historical performance standards and results in the table above included events, international missions and grants applications, the standard and result for 2022/23 exclude these. If we restate the total number of organisations Callaghan Innovation worked with in 2021/22 using the new definition the result would be 2,244.

Our NPS result has remained consistently high over the last five years indicating a consistent high quality product service performance. The performance standard of +60 was set in 2019/20 when NPS for the previous years had been in the 50s (+53 in 2017/18 and +57 in 2018/19). Since 2019/20 there was strong direction from ELT to capture NPS more fully across our delivery, resulting in a more complete view of customer experience across our product and service portfolio.

1. Building business innovation

This category funds activities that increase business investment in R&D or raise awareness of its value, both of which are core roles for us. Through this appropriation, we help businesses innovate and grow faster and build the effectiveness and skills within New Zealand's innovation system.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation	45,685	40,685	35,318	34,955
Commercial revenue	51	-	-	-
Other revenue	228	85	3,708	3,154
Total revenue	**45,964**	**40,770**	**39,026**	**38,109**
Expenses	33,217	40,770	32,196	38,109
Net surplus	**12,747**	**-**	**6,830**	**-**

There is an in-principle expense transfer of up to $5.000m to carry forward funding into 2023/24.

Crown Revenue is $5m above budget due to the classification of Ārohia operational grant funding. This funding was intended to be drawn from the Ārohia grant appropriation but had been tagged to Building business innovation appropriation.

The budget for categories 1 through 3 of the MCA is prepared at an MCA level rather than a category level, with expenditure matched to revenue at the category level. In addition to this, the overhead allocation model has been further refined subsequent to the budget setting process. The variances in expenditure between actual and budget for each of these categories off-sets and is in line with the budgeted figure after accounting for the movements in category 2.

Callaghan Innovation | Annual Report 2023

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 performance standard
Number of customers who used Innovation Skills services	370	350	873	1,000
Net Promoter Score for Innovation Skills Services	+59	+60	+61	+60
Percentage of RDTI applicants who agree that they have had a good level of guidance and support with the application process[4]	93%	60%	n/a	n/a
Percentage of general approval applications that are processed and a recommendation made to Inland Revenue within 37 working days[5] of receiving the application from Inland Revenue	66%	80%	n/a	n/a
Percentage of customers who are enrolled in RDTI (via MyIR) that Callaghan Innovation have proactively engaged[6] with	100%	75%	n/a	n/a

As previously mentioned in 2022/23 the definition of 'customer' changed and the new definition excludes a group of customers in 'Innovation Skills', therefore we revised the target for 2022/23 to reflect this. Historical performance standards and results in the table above included international missions and events, the standard and result for 2022/23 exclude these. If we restate the total number of organisations Callaghan Innovation worked with in 2021/22 using the new definition the result would be 286. The RDTI targets were set based on application demand expectations at the time and partial years data. Our teams have worked very hard to proactively contact customers and support them through the application process and this work is reflected in the results for these measures.

The performance measure, percentage of general approval applications that are processed and a recommendation made to Inland Revenue within 37 days, did not meet the target of 80%, but has improved significantly since its inception in March 2022 (when it was 35%). This year we implemented several measures, such as a new customer experience journey and increased information for customers on how to more effectively engage with the RDTI process. We also added a new assessment process which enabled the streamlining of the assessment and recommendations of applications. These measures improved the timeliness of the process and subsequent improvements were seen over time.

[4] Good level of guidance is measured through survey responses using a 1-5 scale from extremely dissatisfied to extremely satisfied. Scores of 4 and 5 are used to recognise Good level of Guidance and the number of these scores is measured against the number of respondents.
[5] 37 working days reflected the average time to make a recommendation when this measure was initially set.
[6] The RDTI Customer Engagement team contacts businesses who have enrolled in the scheme in the myIR portal as the next step in their RDTI journey. Engagement is deemed proactive if completed within 5 working days of their enrollment.

2. Research and development services and facilities for business and industry

This appropriation funds research and technical expertise and facilities to businesses and industry. This category funds services that meet the R&D needs of businesses by helping to de-risk innovation and get products or services to markets quicker, so businesses can realise value faster and gain a greater return on investment.

We connect businesses and industries to product and process development capabilities, data and analytics expertise, open labs, engineering workshops and pilot plants, to help them innovate and grow. We also connect businesses with other research providers, where they have complementary technical expertise. Our point of difference is our deep links to all parts of the innovation system and our ability to move quickly to connect businesses with the relevant help they need.

Our customers range in size and maturity from start-ups to multinational corporations, in public and private sectors, and across a host of industries.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation	28,384	32,805	32,184	37,118
Crown revenue - National Science Challenge	15,743	8,965	15,480	19,702
Commercial revenue	17,707	18,952	14,846	19,892
Other revenue	312	1,555	3,979	2,527
Total revenue	**62,146**	**62,277**	**66,489**	**79,239**
Expenses	73,342	62,177	76,669	85,737
Net (deficit)/surplus	**(11,196)**	**100**	**(10,180)**	**(6,498)**

National Science Challenge revenue and corresponding expense was up $6.7m against budget. The budgeted revenue is the amount received from MBIE for the project during the year, however due to a continued ramp up of the project we have utilised previously unspent funds. Revenue and expenditure over the past 2 years have been fairly consistent.

Within the budget values above, we have appropriation funding and equal and offsetting costs of $4.425m p.a. relating to the Bioresource Processing Alliance and New Zealand product accelerator. For accounting purposes, we are considered an Agent for these schemes and the related revenue and costs are not included in the actual results above (2022: $4.418m).

Callaghan Innovation | Annual Report 2023

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 performance standard
Number of customers with a Research Development Solutions project this financial year	217	250	262	250
Net Promoter Score from Research Development Solutions	+55	+50	+50	+40

The last quarter of 2022/23 has had a strong focus on securing future workstreams that have potential for significant impact, such as the partnership with the Construction Sector Accord to deliver a new programme, Construction Activator. This has resulted in a reduced number of customers with a Research Development Solutions project at the close of the 2022/23 financial year.

3. Business research and development contract management

This appropriation funds the cost of managing customer engagement with the RDTI, and the grants that Callaghan Innovation is responsible for. It also covers negotiating, managing and monitoring the related contracts with these businesses or individuals. We manage three R&D grant funds on behalf of MBIE.

This category funds the efficient and effective application and contracting of research, science and technology outputs and grants to maximise their returns to New Zealand.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation	8,015	7,750	8,014	7,750
Other revenue	-	-	1,288	-
Total revenue	**8,015**	**7,750**	**9,302**	**7,750**
Expenses	6,000	7,750	12,436	7,750
Net (deficit)/surplus	**2,015**	**-**	**(3,134)**	**-**

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 performance standard
Number of new Student Grant applications received during the financial year	603	700	1,022	700
Percentage of Student Grant applications who have received a decision within 30 working days of receipt of the completed application	99.7%	90%	89%	90%
Number of New to R&D Grant applications received during the financial year	n/a	Baseline established	n/a	n/a

The number of new Student Grant (including R&D Experience, Career and Fellowship Grant) applications has not reached target in 2022/23. This year we have had to place restrictions on Career Grants to manage the amount of grant money available, in addition we did not offer Fellowship Grants as they are currently under review.

The process for Student Grant decisions was streamlined during the year which created a more efficient process, allowing 99.7% of decisions to be made within 30 days of an application being completed.

The New to R&D Grant opened in December 2022, we will start reporting results when we have 12 months of data. A baseline will be established by 30 June 2024.

Targeted business research and development funding

This appropriation provides co-funding for private businesses to undertake R&D projects and for funding students to work in R&D active businesses. It is intended to achieve further and faster growth for established businesses through investment in R&D.

This category funds the grants component of our funding products. i.e. it funds the grants themselves. The cost of administering and supporting the grants is covered under the Business Research and Development Contract Management category above.

Our Student Grants support undergraduate and graduate students to work in a commercial R&D environment as interns in New Zealand's commercial R&D facilities.
Our New to R&D Grant is intended to encourage businesses without R&D capabilities and experience to build R&D programmes, and provide a smooth transition to the RDTI once these are established.

The R&D Project Grant supports existing financial commitments to private businesses who have already been accepted into the R&D Project Grant, and exists to honour those commitments until the expiry of the grant.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation (Grant Funding)	30,379	37,500	48,215	67,490
Total revenue	**30,379**	**37,500**	**48,215**	**67,490**
Grant expenses	30,379	37,500	48,215	67,490
Net surplus	-	-	-	-

There are in-principle expense transfers of up to $52.000m to carry forward funding into 2023/24 for Project, Student and New to R&D Grants.

Actual revenue and expenditure was down $7.1m against budget, due to lower than expected demand and a slow ramp up of the New to R&D grant which caused a $22.2m downward variance against budget. This was however largely off-set by $16.1m of unbudgeted expenditure for R&D Project Grants to facilitate continued payment of the remaining commitments.

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 performance standard
Number of businesses with active Student Grants this financial year	661	500	n/a	n/a
Number of businesses with active New to R&D Grants this financial year	n/a	Baseline established	n/a	n/a

The number of businesses with an active Student Grant is higher than expected due to carry-over grants from the previous year where payments are still being made.

The New to R&D Grant opened in December 2022, we will start reporting results when we have 12 months of data. A baseline will be established by 30 June 2024.

Innovation Development Grant

This appropriation funds the Ārohia Innovation Trailblazer Grant, a new grant established in 2022/23. It provides funding for businesses to undertake innovation activities that are not specifically R&D, that have the potential to create spill-overs to the rest of the economy. It covers both the grants themselves and the cost of establishing the scheme and administering the grants.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation (Grant Funding)	17	16,800	-	-
Total revenue	**17**	**16,800**	**-**	**-**
Grant expenses	17	16,800	-	-
Net (deficit)/surplus	**-**	**-**	**-**	**-**

There is an in-principle expense transfer of up to $25.000m to carry forward funding into 2023/24.

There was a delay in the opening of the Ārohia Innovation Trailblazer Grant, with the Seed Grant launching in April 2023 and the Full Grant in June 2023, which resulted in total revenue and expenses falling short of budget.

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 performance standard
Number of new Ārohia – Innovation Trailblazer Grant applications received during the financial year	n/a	Baseline established	n/a	n/a
Number of businesses with active Ārohia – Innovation Trailblazer Grants this financial year	n/a	Baseline established	n/a	n/a

We will start reporting results when we have 12 months of data. A baseline will be established by 30 June 2024.

Transitional Support to R&D Performing Businesses

The R&D Tax Incentive (RDTI) is a broad-based mechanism to support and incentivise R&D across the economy. It is the Government's flagship initiative for achieving our goal of increasing New Zealand's R&D expenditure to two per cent of GDP by 2027. The RDTI came into effect in April 2019, and effectively replaced the Growth Grant support programme.

To support customers transitioning between the two schemes an RDTI transitional support payment will be available for eligible Growth Grant customers. This payment ensures continuity of financial support for customers while changes to the R&D eligibility criteria are bedded in.

The RDTI transitional support payment was originally intended to only be available for one financial year but has been extended to 30 June 2024, so Callaghan Innovation will continue to accept applications up to 30 June 2024.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation (Grant Funding)	8,339	28,500	-	9,500
Total revenue	**8,339**	**28,500**	**-**	**9,500**
Grant expenses	8,339	28,500	-	9,500
Net surplus	**-**	**-**	**-**	**-**

There is an in-principle expense transfer of up to $25.000m to carry forward funding into 2023/24.carry forward funding into 2023/24.

Actual revenue and expenses were down $16.2m against budget due to the timing and nature of the RDTI Transitional Support Payment. This payment captures R&D spend across multiple tax years which makes the timing of payments difficult to predict. The disparities between business tax years, fiscal years and the period for which companies can apply for transition support payments make timing of payments, and therefore revenue and expenses, difficult to predict.

Performance measures

	2023/24 result	2023/24 performance standard
Percentage of former Growth Grant recipients that applied for the Research and Development Tax Incentive by 30 June 2024	On track	60%

We are measuring the performance of the Transitional Support Payment in terms of the proportion of former Growth Grant recipients who had applied for the RDTI since it became available. The performance measure is delivered through a targeted campaign and one-on-one support provided by our RDTI customer engagement team to ensure that former Growth Grant customers are aware of, and can apply for the Transitional Support Payment.

Despite this performance measure being a multi-year target, the Callaghan Innovation team contacted all remaining Growth Grant customers in 2021/22, resulting in 73% of them applying for the RDTI. There are no other Growth Grant customers eligible for this transitional payment, however applications for the scheme remain open until 30 June 2024. For this reason, the reporting for this performance measure will be confirmed at the conclusion of the Transitional Support Payment period (2023/24) as 73% and for 2022/23 recorded as being 'On Track'.

Repayable grants for startups

Our Founder and Start-up Support Programme provides funding and services to support the growth of high-value New Zealand start-ups.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation (Grant & Incubator funding)	12,646	20,746	16,037	20,746
Total revenue	**12,646**	**20,746**	**16,037**	**20,746**
Grant & Incubator expenses	12,646	20,746	16,037	20,746
Net (deficit)/surplus	-	-	-	-

There is an in-principle expense transfer of up to $20.000m to carry forward funding into 2023/24.

Actual revenue and expenditure was down $8.1m against budget due to the phasing of this grant appropriation. This grant is a 7-year program with budgeted phasing equal across all seven years at $20.746m. In actuality this grant is structured such that the spend is lower in the early years to utilise the underspend in the outer years as the pipeline of grant recipients increases.

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 performance standard
Number of customers that received a service from Start-up Support Services (Incubators or Accelerators)	224	170	341	170
Net Promoter Score from Start-up Support Services (Incubators or Accelerators) customers surveyed	+65	+50	+79	+50

At the start of 2022/23 we appointed six new providers to the Founder and Start-up Support Programme to deliver acceleration and incubation programmes. The standard of 170 was set in 2020/21 and was left unchanged given the uncertainty of the impact of the changes.

The NPS standard was set at a time when third party providers surveyed on our behalf. In 2022/23 we moved this research in-house, improving our response rate and certainty around the quality of the data. The standard was left unchanged given the uncertainty around the impact of the changes.

Future proofing New Zealand's manufacturing sector by driving Industry 4.0 uptake and skills development

The fourth industrial revolution – dubbed 'Industry 4.0' – is a phenomenon happening now. It is characterised by a fusion of technologies that is blurring the lines between the physical, digital and cyber-physical. Helping companies adapt to Industry 4.0 is a priority for us in our role as New Zealand's innovation agency. The Industry 4.0 appropriation helps businesses make the most out of the opportunities Industry 4.0 offers.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation	1,620	1,003	1,434	2,131
Total revenue	**1,620**	**1,003**	**1,434**	**2,131**
Expenses	1,700	1,003	1,284	2,131
Net (deficit)/surplus	**(80)**	**-**	**150**	**-**

Performance measures

This appropriation has been granted an exemption from performance reporting for 2022/23 under section 15D (2)(b)(iii) of the Public Finance Act 1989 as the amount of this annual appropriation for a non-departmental output expense is less than $5 million.

National Measurement Standards

This appropriation provides funding for our Measurement Standards Laboratory (MSL), New Zealand's national metrology institute. MSL ensures that units of measurement used here are consistent with the International System of Units, and delivers services in accordance with its role assigned under the Measurement Standards Act 1992.

This is critical for New Zealand companies selling products and services that depend on accurate and internationally accepted traceable physical measurements.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Revenue				
Crown revenue - Appropriation	8,986	8,986	8,567	8,567
Commercial revenue	560	610	-	610
Other revenue	39	-	983	15
Total revenue	**9,585**	**9,596**	**9,550**	**9,192**
Expenses	10,883	9,596	9,679	9,192
Net deficit	**(1,298)**	**-**	**(129)**	**-**

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 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	Achieved	Achieved
All technical procedures related to the maintenance of national measurement standards (in accordance with the resolutions and recommendations of the Metre Convention) independently reviewed and validated, with all external review actions completed by the end of the financial year	Achieved	Achieved	Achieved	Achieved

Reporting to the minister on the provision of national measurements and standards occurs retrospectively. This occurs annually in the second quarter of the financial year, once the annual report has been authorised for issue.

We reported to the Minister on the 2021/22 financial year in December 2022.

There were 85 technical procedures in validation on 30 June 2023, 23 of which were validated or revalidated during the year. There are four outstanding corrective action requests from previous audits as at 30 June 2023. MSL responded to all of them and clearance was obtained from International Accreditation New Zealand (IANZ) on 25 August 2023. Our accreditation has continued uninterrupted.

Callaghan Innovation Capital Investment Appropriation

This appropriation funds capital expenditure to help establish and develop an advanced technology institute. This capital expenditure will support the purchase or development of assets by and for Callaghan Innovation's use, to ensure we have the appropriate infrastructure to provide the best possible services to businesses. The major focus for Callaghan Innovation in 2022/23 is the redevelopment of the Gracefield Innovation Quarter.

Financial performance

$000's	2022/23 Actual	2022/23 Budget	2021/22 Actual	2021/22 Budget
Gracefield Innovation Quarter	20,000	20,000	22,900	45,800
National Measurement Standards	1,340	1,340	2,135	2,135
Total Capital Contributions	**21,340**	**21,340**	**25,035**	**47,935**

Capital appropriations are typically drawn down in advance of actual expenditure requirements.

Performance measures

	2022/23 result	2022/23 performance standard	2021/22 result	2021/22 performance standard
Any major capital project[7] proposals are developed in accordance with published Treasury business case guidance	n/a	Achieved	Achieved	Achieved

There were no major capital project proposals developed during the year.

[7] Major capital project is defined as generally having a whole of life cost of $25 million or greater.

Statutory reporting requirements

Ministerial directions (Section 151(1)(F) Crown Entities Act 2004)

Callaghan Innovation received three Ministerial Directions in the 2022/23 year and operated under existing Ministerial Directions issued in previous years. All Ministerial Directions currently applicable to Callaghan Innovation are on our website (**callaghaninnovation.govt.nz**) or on the New Zealand Gazette website (**gazette.govt.nz**).

Systems and procedures for administration of government grants

Section 15(2) of the Callaghan Innovation Act requires that we report on the systems and procedures that provide fairness and transparency around the allocation and administration of government research, science and technology (RS&T) grants.

To give effect to the requirement of the Act, the following systems and procedures have been implemented and operated throughout the year across all grants as follows:

Research and Development New to R&D, Project and Student Grants

- New to R&D, Project and Student Grants' eligibility criteria are published on the Callaghan Innovation website.
- Eligible research and development is assessed by a minimum of two authorised persons. Grant applications that do not meet the eligibility criteria are not accepted.
- Callaghan Innovation will only approve grants where the applicant has confirmed they have the financial ability to cover their project costs.
- Application forms are standard for each grant type and not amended for individual circumstances.
- All grants are approved in line with a delegations policy approved by the Callaghan Innovation Board.
- Grants are assessed by members of the Funding Engagement Team and are peer reviewed.
- Grant funding contracts are standard and not amended for individual circumstances. Funding contracts are approved in line with a delegations policy approved by the Callaghan Innovation Board.
- Claims for payment to grant recipients are approved in line with a delegations policy approved by the Callaghan Innovation Board.

Ārohia Innovation Trailblazer Grant

The Ārohia Innovation Trailblazer Seed Grant launched in April 2023. Eligibility criteria are published on the Callaghan Innovation website.

- Criteria are assessed by members of the Funding Engagement team. Grant applications that do not meet the eligibility criteria are not accepted.
- Callaghan Innovation will only approve grants where the applicant has confirmed they have the financial ability to cover their project costs.
- Application forms are standard for each grant type and not amended for individual circumstances.
- All grants are approved in line with a delegations policy approved by the Callaghan Innovation Board.
- Grant funding contracts are standard and not amended for individual circumstances.
- Funding contracts are approved in line with a delegations policy approved by the Callaghan Innovation Board.
- Claims for payment to grant recipients are approved in line with a delegations policy approved by the Callaghan Innovation Board.

The Ārohia Innovation Trailblazer Full Grant launched in June 2023. It is a contestable grant and has different assessment criteria but no applications had been submitted at 30 June 2023.

Incubator Support Repayable Grants

- Incubator repayable grants are assessed in accordance with the directives of the scheme.
- Application forms are standard for each grant type and not amended for individual circumstances.
- All grants are approved in line with a delegations policy approved by the Callaghan Innovation Board.
- Grant funding contracts are standard and not amended for individual circumstances. Funding contracts are approved in line with a delegations policy approved by the Callaghan Innovation Board.
- Claims for payment to grant recipients are approved in line with a delegations policy approved by the Callaghan Innovation Board.

Callaghan Innovation has a Conflicts of Interest policy that is reviewed and approved by the Callaghan Innovation Board.

Potential conflicts of interest are assessed as part of the grant application assessment.

Where any conflicts of interest are identified, additional information is required to be provided to explain how the conflict will be managed.

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 report 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 2023.

Pay bracket	Callaghan Innovation	Food Innovation Auckland Limited	Food Innovation (South Island) Limited	Total
100,000 - 109,999	37	1	None - no employees earn $100k	38
110,000 - 119,999	27			27
120,000 - 129,999	32	1		33
130,000 - 139,999	37			37
140,000 - 149,999	23	1		24
150,000 - 159,999	24			24
160,000 - 169,999	19			19
170,000 - 179,999	9			9
180,000 - 189,999	5			5
190,000 - 199,999	3			3
200,000 - 209,999	7			7
210,000 - 219,999	4			4
220,000 - 229,999	1			1
260,000 - 269,999	1			1
280,000 - 289,999	1	1		2
290,000 - 299,999	2			2
310,000 - 319,999	1			1
320,000 - 329,999	2			2
330,000 - 339,999	1			1
360,000 - 369,999	1			1
490,000 - 499,999	1			1
Total	**238**	**4**	**0**	**242**

Board of Directors’ Remuneration

Callaghan Innovation Directors

Elena Trout	30,800
Jennifer Kerr	35,000
Pete Hodgson	58,000
Shaun Hendy	30,800
Matanuku Mahuika	30,800
Rachel Kelly*	11,667
Nicole Buisson**	-
Sally McKenchnie**	-
Total	**197,067**

*Rachel Kelly resigned her role on Callaghan Innovation Board in October 2022

**Nicole Buisson and Sally McKenchnie were confirmed as incoming board members during the June 2023 board meeting.

Food Innovation Auckland Limited Directors

Roger Gower	15,000
Anthony Nowell	10,000
Michael Barker	10,000
Karen Fistonich	10,000
Stefan Korn*	-*
Total	**45,000**

*Director elected not to receive compensation for their role on these Boards.

Food Innovation (South Island) Limited Directors

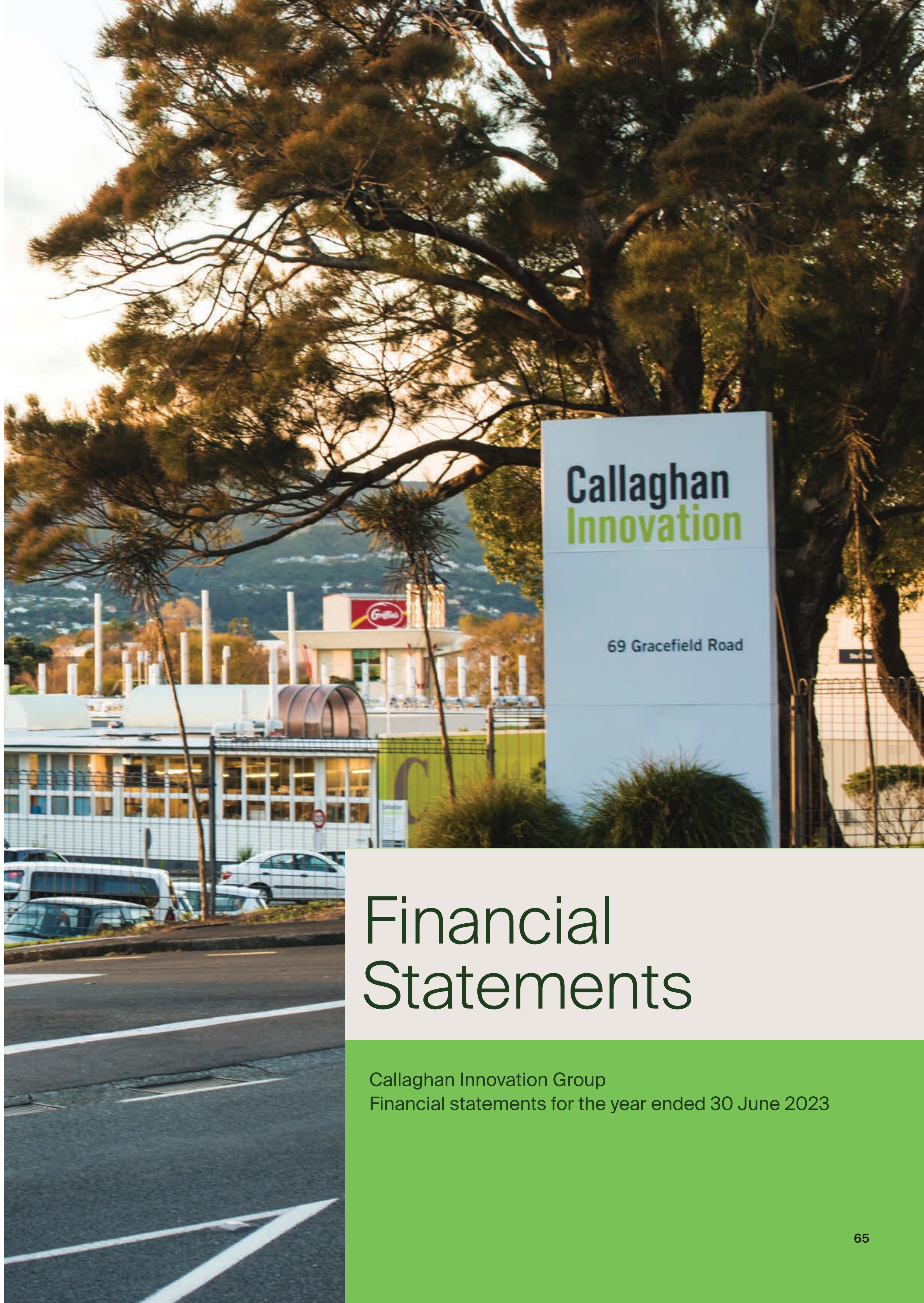
Alan Malcolmson	18,192
Grant Edwards*	-
Stefan Korn*	-
Total	**18,192**

*Directors elected not to receive compensation for the roles on these Boards.

Grants Committee (Non-board members) remuneration

Callaghan Innovation (non-board members)

Peter Townsend	2,250
Imche Fourie	1,500
Total	**3,750**



Financial Statements

Callaghan Innovation Group
Financial statements for the year ended 30 June 2023

Statement of Comprehensive Income and Expenses

For the year ended 30 June 2023

	Notes	2023 Actual $000	2023 Budget Unaudited $000	2022 Actual Restated $000
Income				
Funding from the Crown	2	111,710	95,769	103,984
Funding from the Crown - Grants	2	51,383	103,546	64,202
Commercial and other revenue	2	19,308	19,763	18,191
Lease rental income	2	3,055	2,741	2,421
Interest income	2	2,281	309	731
Total income		**187,737**	**222,128**	**189,529**
Expenditure				
Personnel costs	3	(65,716)	(62,651)	(63,728)
Science project and subcontract costs		(23,946)	(17,958)	(22,779)
Impairment charge on financial instruments	8	(37)	-	(27)
Other expenses	3	(34,419)	(25,331)	(33,508)
Amortisation, depreciation and impairment	10, 11	(9,956)	(12,542)	(9,729)
Grant expense	4	(51,383)	(103,546)	(64,202)
Total operating expenditure		**(185,457)**	**(222,028)**	**(193,973)**
Share of deficit from associate	13	(532)	-	(468)
Surplus / (deficit) for the period before taxation for continuing operations		**1,748**	**100**	**(4,912)**
Income tax	5	-	-	-
Surplus / (deficit) for the period after taxation for continuing operations		**1,748**	**100**	**(4,912)**
Deficit from discontinued operations	14	-	-	(467)
Surplus / (deficit) for the period after taxation		**1,748**	**100**	**(5,379)**
Other comprehensive income and expenses				
Item that will be reclassified to surplus / (deficit)				
Cash flow hedges (net of tax) - continuing operations		97	-	(162)
Cash flow hedges (net of tax) - discontinued operations	14	-	-	(43)
Total comprehensive income and expenses		**1,845**	**100**	**(5,584)**

Explanations of major variances against budget are provided in note 26.

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 2023

Group	Notes	Contributed Capital $000	Accumulated surplus $000	Hedge reserve $000	Total equity $000
Balance as at 1 July 2021		101,493	12,069	146	113,708
Deficit for the year		-	(5,379)	-	(5,379)
Other comprehensive income					
Cash flow hedge reserve		-	-	(205)	(205)
Total comprehensive income and expenses for the year		**-**	**(5,379)**	**(205)**	**(5,584)**
Other transactions					
Capital contribution		25,035	-	-	25,035
Balance as at 30 June 2022		**126,528**	**6,690**	**(59)**	**133,159**
Balance as at 1 July 2022		126,528	6,690	(59)	133,159
Surplus for the year		-	1,748	-	1,748
Other comprehensive income					
Cash flow hedge reserve		-	-	97	97
Total comprehensive income and expenses for the year		**-**	**1,748**	**97**	**1,845**
Other transactions					
Capital contribution	6	21,340	-	-	21,340
Balance as at 30 June 2023		**147,868**	**8,438**	**38**	**156,344**

Group BUDGET (unaudited)	Contributed capital $000	Accumulated surplus $000	Hedge reserve $000	Total equity $000
Balance as at 1 July 2022	126,528	7,007	-	133,535
Surplus for the year	-	100	-	100
Other comprehensive income				
Cash flow hedge reserve	-	-	(63)	(63)
Total comprehensive income and expenses for the year	**-**	**100**	**(63)**	**37**
Other transactions				
Capital contribution	21,340	-	-	21,340
Balance as at 30 June 2023	**147,868**	**7,107**	**(63)**	**154,912**

Explanations of major variances against budget are provided in note 26.

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

Statement of Financial Position

As at 30 June 2023

	Notes	2023 Actual $000	2023 Budget Unaudited $000	2022 Actual Restated $000
Equity				
Contributed capital		147,868	147,868	126,528
Accumulated surplus		8,438	7,107	6,690
Hedge reserve		38	(63)	(59)
Total equity	6	**156,344**	**154,912**	**133,159**
Current Assets				
Cash and term deposits	7	54,115	60,060	68,119
Trade and other receivables	8	9,038	6,573	8,320
Crown debtor - Grants	8	20,220	30,712	28,663
Derivative financial instruments	20	53	19	83
Work in progress		103	70	137
Inventories		442	382	425
Income tax receivable		17	-	8
Total current assets		**83,988**	**97,816**	**105,755**
Non-current assets				
Investment in associates	13	3,303	4,122	3,835
Trade and other receivables	8	659	-	553
Property, plant and equipment	10	114,669	114,912	87,354
Intangible assets	11	7,545	7,448	7,420
Total non-current assets		**126,176**	**126,482**	**99,162**
Total assets		**210,164**	**224,298**	**204,917**
Current liabilities				
Trade creditors and other payables	17	10,114	8,841	12,095
Employee benefits	15	6,601	6,074	5,516
Derivative financial instruments	20	15	82	142
Grant obligations	19	20,220	30,712	28,663
Funds received in advance	16	15,827	23,027	23,049
Provisions	25	995	-	2,216
Total current liabilities		**53,772**	**68,736**	**71,681**
Non-current liabilities				
Employee benefits	15	48	86	77
Deferred tax liability	9	-	564	-
Total non-current liabilities		**48**	**650**	**77**
Total liabilities		**53,820**	**69,386**	**71,758**
Net assets		**156,344**	**154,912**	**133,159**

Explanations of major variances against budget are provided in note 26.

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

Statement of Cash Flows

For the year ended 30 June 2023

	Notes	2023 Actual $000	2023 Budget Unaudited $000	2022 Actual $000
Cash flow from operating activities				
Cash was provided from:				
Receipts from the Crown - Operating		103,600	94,769	108,839
Receipts from the Crown - Grants		59,826	103,546	111,218
Receipts from commercial customers		23,398	22,509	22,137
Interest received		1,916	325	731
		188,740	**221,149**	**242,925**
Cash was applied to:				
Payments to suppliers		(60,032)	(42,395)	(50,689)
Payments to employees		(65,003)	(63,027)	(64,072)
Payments to grant recipients		(59,826)	(103,546)	(111,218)
		(184,861)	**(208,968)**	**(225,979)**
Net cash flow from operating activities	18	**3,879**	**12,181**	**16,946**
Cash flow from investing activities				
Cash was provided from:				
Sale of property, plant and equipment		107	-	666
Term deposit maturities		66,074	-	71,320
		66,181	**-**	**71,986**
Cash was applied to:				
Purchase of property, plant and equipment		(36,713)	(36,134)	(24,987)
Purchase of intangible assets		(2,617)	-	(3,491)
Investment in term deposits		(46,576)	-	(82,000)
		(85,906)	**(36,134)**	**(110,478)**
Net cash flow used in investing activities		**(19,725)**	**(36,134)**	**(38,492)**

Statement of Cash Flows (Continued)

For the year ended 30 June 2023

	Notes	2023 Actual $000	2023 Budget Unaudited $000	2022 Actual $000
Cash flow from financing activities				
Cash was provided from:				
Capital contribution	6	21,340	21,340	25,035
		21,340	**21,340**	**25,035**
Net cash flow from financing activities		**21,340**	**21,340**	**25,035**
Net increase / (decrease) in cash and cash equivalents		5,494	(2,613)	3,489
Cash and cash equivalents at the beginning of the year		7,396	62,672	3,907
Cash and cash equivalents at the end of the year	**7**	**12,890**	**60,059**	**7,396**

Explanations of major variances against budget are provided in note 26.

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 2023

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 Public Finance Act 1989, Crown Entities Act 2004 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.

Callaghan Innovation's primary purpose is to support business research and development, accelerate commercialisation, and empower New Zealand's innovators.

Callaghan Innovation does not operate to make a financial return.

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

Basis of preparation

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

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 Benefit Entity Reporting Standards.

The financial statements were authorised for issue by the Board of Directors on 28 September 2023.

Functional presentation currency and rounding

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

Standards issued and not yet effective

PBE IFRS 17 Insurance Contracts

PBE IFRS 17 Insurance Contracts is a forthcoming accounting standard specifically relating to how to account for insurance contracts. This standard will be effective for financial periods that begin on or after 1 January 2023, and early adoption is permitted. This standard is not expected to be relevant to the operations of the Group.

New and amended standards and interpretations

PBE IPSAS 41 Financial Instruments

PBE IPSAS 41 Financial Instruments is effective from 1 January 2022 and was adopted by the Group on 1 July 2022.

PBE IPSAS 41 introduces new recognition and measurement requirements for financial assets and restricts the ability to measure financial assets at amortised cost to only those assets that are held within a management model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In addition, measurement of financial assets at fair value through other comprehensive revenue and expense is also restricted.

PBE IPSAS 41 has not had a material impact on the Group and there are no significant changes as a result of adopting the new standard, as the requirements are similar to those contained in PBE IFRS 9 which the Group adopted for the year ended 30 June 2020.

The updated expected credit loss impairment model has not materially changed the amount of impairment provisioning.

PBE FRS 48 Service Performance Reporting

PBE FRS 48 Service Performance Reporting is effective for periods from 1 January 2022 and was adopted by the Group on 1 July 2022. PBE FRS 48 requires specific disclosures for the reporting of service performance information which have been provided in the statement of service performance.

Where accounting policies relate to specific disclosures, they are included in the relevant notes to the financial statements. Additional policies that impact several areas of the financial statements, or do not relate to specific disclosures, are set out below.

Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies are revalued at exchange rates at the balance sheet date, unless they are hedged in which case they are recognised at the underlying hedge rate.

Inventory

Inventory 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 on a commercial project where the corresponding revenue has not yet been recognised (for example, a key project billing milestone has not been reached).

Provisions

The Group 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.

Goods and Services Tax (GST)

All items in the financial statements are presented exclusive of GST, except for trade receivables, trade payables and Statement of Cash Flow items, 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, Inland Revenue Department is included as part receivables or payables in the Statement of Financial Position. The net GST paid to, or received from, Inland Revenue | Te Tari Taake is classified as an operating cash flow through payments to suppliers in the Statement of Cash Flows. Commitments and contingencies are disclosed exclusive of GST.

2. Income

Relevant accounting policies

Revenue from exchange transactions are measured at the fair value of the consideration received or receivable, while revenue from non-exchange transactions are measured at the amount of the increase in net assets recognised.

Revenue from Exchange Transactions

Crown income - 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. Revenue is measured at the fair value of consideration received or receivable from the Crown which has been determined to be the equivalent to the amounts due under the relevant funding arrangements and agreements.

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 the expenses recognised are recoverable.

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.

Revenue from non-exchange transactions

Crown Income - Research and Development Grants

Grants received are recognised in the Statement of Comprehensive Income and Expenses 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. This is generally once the obligation to pay the grant recipient has been recognised. Any grants for which the requirements have not yet been completed are carried as liabilities until all conditions have been fulfilled, and are recognised as income when conditions of the grant are satisfied.

Interest

Interest income is recognised using the effective interest method.

Rental revenue

Rental income for leased or sub-leased facilities is recognised on a straight line basis over the lease term.

	2023 $000	2022 $000
Crown income - Exchange transactions		
Ministry of Business, Innovation and Employment - Operational funding including R&D	111,710	103,984
Crown income - Non exchange transactions		
Ministry of Business, Innovation and Employment - Research and Development Grants	51,383	64,202
Total Crown income	163,093	168,186
Commercial revenue and other income - Exchange transactions		
Commercial - Domestic	8,877	7,243
Commercial - Overseas	9,437	7,312
Royalty and licensing income	230	97
Other income	764	3,539
Total commercial revenue and other income	19,308	18,191
Lease Rental Income		
Property and equipment rental	3,055	2,421
Total lease rental income	3,055	2,421
Finance income		
Interest income	2,281	731
Total finance income	2,281	731
Total income	187,737	189,529

Callaghan Innovation (parent entity) received operational funding from the Crown, via the Ministry of Business, Innovation and Employment, as set out in the Funding Agreement with the Ministry and the scope of relevant Government appropriations.

During 2022/23 other income related to a large number of co-funding agreements for projects, forums and workshops. In 2021/22 other income primarily related to Callaghan Innovation supporting Inland Revenue in the design, continuous improvement, and administration of the Research and Development Tax Incentive (RDTI) scheme.

3. Expenditure

	2023 $000	2022 Restated $000
Personnel costs		
Salary and wages	56,374	55,205
Contractors	7,820	7,040
Defined contribution plan employer contributions	1,522	1,483
Total expenditure	65,716	63,728

The prior year amounts have been reclassified for consistency with the current year presentation where Contractors have been separated from Salary and wages. These reclassifications had no effect on the reported results.

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.

	2023 $000	2022 $000
Severance payments	1,016	2,063

Severance payments were provided to 21 employees (2022: 43) during the financial year.

	2023 $000	2022 $000
Other expenses		
Consultancy	4,559	7,379
Premises and utility expenses	4,162	5,255
Rent and lease expenses	3,339	3,473
Repairs and maintenance	2,500	2,288
Directors' fees	260	295
Fees to PricewaterhouseCoopers		
- For auditing the financial statements	334	253
- Prior year audit fees paid in the current year	90	15
- Controls assurance services	22	16
- Other services	9	-
Intellectual property (patents)	121	96
(Gain)/Loss on disposal of fixed assets	(133)	845
Asset write-off	1,848	825
Donations	6	-
Foreign exchange loss/(gain)	290	(21)

Given the nature of its business, the Group invests in R&D throughout the year, with the cost of this R&D being reflected in various expense categories (primarily personnel and science project and subcontract costs).

The amount in respect of the year for other services provided by PricewaterhouseCoopers is $9,000, in relation to access to general training material through an online platform.

4. Grant Expense

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

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

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

	2023 $000	2022 $000
Grants approved (for which recipients can demonstrate they have met grant conditions, or it is probable this has occurred)	51,383	64,202
Total grant expense	**51,383**	**64,202**

5. Income Tax

Relevant accounting policies

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

Income tax expense is the aggregate of current period movements in relation to both current and deferred tax. Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

	2023 $000	2022 $000
Net deficit before tax of taxable entities - New Zealand Food Innovation Auckland Limited and New Zealand Food Innovation (South Island) Limited	(241)	(430)
Tax at rate of 28%	(67)	(120)
Non assessable income	(1,144)	(1,134)
Non deductible expenses	1,211	1,254
Total tax expense	**-**	**-**

The Group has unrecognised tax losses of $11,030,000 (2022: $11,030,000) relating to the earlier activity of a taxable subsidiary Callaghan Industrial Research Limited (CIRL, now non-trading). These tax losses are not recognised given CIRL is no longer trading and is not expected to generate taxable profits.

6. Equity

Capital contributions of $21,340,000 (2022: $25,035,000) were received during the 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 parent) and therefore has been treated as a capital contribution rather than revenue.

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 Income and Expenses when the associated hedge transaction affects surplus or deficit.

7. Cash and term deposits

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

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

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

	2023 $000	2022 $000
Cash at bank	12,890	7,396
Term deposits	41,225	60,723
Total cash and term deposits	**54,115**	**68,119**

The carrying value of cash at bank and term deposits approximates at their fair value. Cash balances represent funding for future capital expenditure, and income received in advance for ongoing programmes.

8. Trade and Other Receivables

	2023 $000	2022 Restated $000
Current		
Debtors	3,930	5,600
Less: Provision for impairment	(50)	(164)
	3,880	**5,436**
Accrued income	1,177	515
Other receivables	15	31
Prepayments	3,505	2,338
Goods and Services Tax (GST) receivable	461	-
Total trade and other receivables	**9,038**	**8,320**
Crown debtor - Grants (non-exchange)		
Ministry of Business Innovation and Employment - Grants receivable	20,220	28,663
Total current Government grants receivable	**20,220**	**28,663**
Non-current		
Prepayments	659	553
Total trade and other receivables	**659**	**553**

The carrying amount of trade receivables are equivalent to fair values. Trade receivables includes amounts due from related parties. Refer to Note 23 for details. Prepayments as at 30 June 2022 were restated to re-classify the portion expected to be recognised in surplus or deficit more than one year from balance date, from current to non-current.

(a) Provision for impairment

At 30 June 2023, the provision for impairment of trade receivables is $50,000 (2022: $164,000).

For the current financial year, the allowance for expected losses has been calculated based on the weighted historic loss rate over the last 5 years based on the number of days the debt is overdue. This change in estimate is due to a review of the calculation methodology. (2022: Calculated based on the historic loss rate of the total balance over the past 5 years at 0.86%).

	2023 $000	2022 $000
Opening balance	164	142
Released to cover balances written off	(151)	(5)
Additional provision expensed during the period	37	27
Closing balance	**50**	**164**

Callaghan Innovation | Annual Report 2023

(b) Past due but not impaired

At 30 June 2023, trade receivables of $553,000 (2022: $1,336,000) were past due but not impaired.

These relate to customers where there is no specific indication of credit risk (primarily government entities), however they will be covered in part by the general expected credit loss allowance. The aging of past due but not impaired trade receivables is as follows:

	2023 $000	2022 $000
Within 1 month	244	739
Within 1 to 3 months	198	382
Beyond 3 months	111	215
Closing balance	**553**	**1,336**

9. Deferred Taxation

Relevant accounting policies

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

10. Property, Plant and Equipment

Relevant accounting policies

Property, plant and equipment consists of land, freehold buildings, building auxiliary services, computer equipment, plant and scientific equipment, motor vehicles and office furniture, fittings and equipment. 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 the Group and the cost of the item can be measured reliably.

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

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

Disposals

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

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 the Group and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Income and Expenses.

Depreciation

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

Building Assets	**Estimated useful life**
Freehold buildings	10 - 40 years (depending on age)
Building auxiliary services	5 - 20 years
Plant Assets	
Computer equipment	2 - 5 years
Plant and scientific equipment	3 - 38 years
Motor vehicles	3 - 5 years
Office furniture, fittings and equipment	3 - 10 years

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 cash-generating/non-cash-generating asset's carrying amount exceeds its recoverable/recoverable service amount. The recoverable/recoverable service 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/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.

	Land Assets $000	**Building Assets $000**	**Plant Assets $000**	**CWIP Assets $000**	**Total Assets $000**
1 July 2022					
Cost	3,001	67,076	50,448	14,830	135,355
Accumulated depreciation and impairment	-	(17,040)	(30,961)	-	(48,001)
Carrying amount	**3,001**	**50,036**	**19,487**	**14,830**	**87,354**
For the year ended 30 June 2023					
Carrying amount at 1 July 2022	3,001	50,036	19,487	14,830	87,354
Additions	-	1,107	1,284	34,375	36,767
Transfers from CWIP	-	6,684	3,389	(10,073)	-
Disposals	-	-	(81)	-	(81)
Depreciation	-	(4,153)	(5,217)	-	(9,370)
Carrying amount at 30 June 2023	**3,001**	**53,674**	**18,862**	**39,132**	**114,669**
Cost	3,001	74,867	54,935	39,132	171,935
Accumulated depreciation and impairment	-	(21,193)	(36,073)	-	(57,266)
Carrying amount at 30 June 2023	**3,001**	**53,674**	**18,862**	**39,132**	**114,669**

	Land Assets $000	**Buildings Assets $000**	**Plant Assets $000**	**CWIP Assets $000**	**Total Assets $000**
1 July 2021					
Cost	3,001	45,614	47,343	18,625	114,583
Accumulated depreciation and impairment	-	(13,618)	(27,821)	-	(41,439)
Carrying amount	**3,001**	**31,996**	**19,522**	**18,625**	**73,144**
For the year ended 30 June 2023					
Carrying amount at 1 July 2022	3,001	31,996	19,522	18,625	73,144
Additions	-	287	2,678	21,260	24,225
Transfers from CWIP	-	21,458	3,597	(25,055)	-
Disposals	-	(27)	(1,237)	-	(1,264)
Impairment for discontinued operations	-	-	(32)	-	(32)
Depreciation for continuing operations at balance date	-	(3,678)	(5,041)	-	(8,719)
Carrying amount at 30 June 2022	**3,001**	**50,036**	**19,487**	**14,830**	**87,354**
Cost	3,001	67,076	50,448	14,830	135,355
Accumulated depreciation and impairment	-	(17,040)	(30,961)	-	(48,001)
Carrying amount at 30 June 2023	**3,001**	**50,036**	**19,487**	**14,830**	**87,354**

Capital Work in Progress (CWIP)

The majority of assets under CWIP are buildings ($34,898,000) and plant and science equipment ($4,234,000). (2022: buildings ($10,320,000) and plant and science equipment ($4,510,000).

Insurable values of fixed assets

The Group has established, maintained 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 $414 million (2022: $355 million), the Group is part of the collective Crown Research Institute placement, with a loss limit of $400 million (2022: $370 million). The earthquake insurance deductible is 5% for buildings built pre-2004 and 2.5% post-2004, with a minimum of $150,000 per location (2022: minimum of $150,000 per location).

11. Intangible Assets

Relevant accounting policies

R&D costs

Research costs are expensed as incurred.

Development expenditure for internally generated software is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in surplus or deficit as incurred.

Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

Any capitalised development costs are amortised over the period the related asset is expected to provide future economic benefit. Amortisation starts once the underlying asset being developed is available 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 any capitalised development costs is reviewed annually for indicators of impairment.

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.

Where software is acquired or developed under a Software as a Service model, it is only capitalised where all relevant definition and recognition criteria are met and in particular the Group has control over the asset being recognised. This will typically be where there is highly specialised customisation or configuration unique to the Group, and the Group has the ability to control its use over the expected useful life.

Computer software 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.

	Acquired software $000	Internally generated software $000	CWIP $000	Total $000
1 July 2022 (Restated)				
Cost	4,431	1,229	6,138	11,798
Accumulated amortisation and impairment	(3,933)	(445)	-	(4,378)
Carrying amount	**498**	**784**	**6,138**	**7,420**
For the year ended 30 June 2023				
Carrying amount at 1 July 2022 (Restated)	498	784	6,138	7,420
Additions	165	-	2,394	2,559
Transfers from CWIP	-	41	(41)	-
Asset write-off	-	-	(1,848)	(1,848)
Amortisation	(392)	(194)	-	(586)
Carrying amount at 30 June 2023	**271**	**631**	**6,643**	**7,545**
Cost	4,596	1,270	6,643	12,509)
Accumulated amortisation and impairment	(4,325)	(639)	-	(4,964)
Carrying amount at 30 June 2023	**271**	**631**	**6,643**	**7,545**

	Acquired software $000	Internally generated software $000	CWIP $000	Total $000
1 July 2021 (Restated)				
Cost	4,453	305	4,755	9,513
Accumulated amortisation and impairment	(3,408)	(1)	-	(3,409)
Opening carrying amount	**1,045**	**304**	**4,755**	**6,104**
For the year ended 30 June 2022 (Restated)				
Carrying amount at 1 July 2021 (Restated)	1,045	304	4,755	6,104
Additions	23	-	3,132	3,155
Transfers from CWIP	-	924	(924)	-
Disposals	(4)	-	-	(4)
Impairment of assets	-	(306)	-	(306)
Asset write-off	-	-	(825)	(825)
Amortisation	(566)	(138)	-	(704)
Carrying amount at 30 June 2022 (Restated)	**498**	**784**	**6,138**	**7,420**
Cost	4,431	1,229	6,138	11,798
Accumulated amortisation and impairment	(3,933)	(445)	-	(4,378)
Carrying amount at 30 June 2022 (Restated)	**498**	**784**	**6,138**	**7,420**

Capital Work in Progress (CWIP)

The carrying amounts of internally generated software and CWIP at 1 July 2021 were restated. This was due to the RDTI platform of $1,294,000 which was practically complete as at 1 July 2021, but required additional development to meet Inland Revenue security requirements and final user acceptance testing from the project partner before implementation. This adjustment is reflected in the opening carrying amount of Internally Generated Software and CWIP and has no impact on the total balance.

An asset write-off of $1,874,870 was recognised against CWIP that relates to the Data Integration Platform. As a result of the rapidly changing technical landscape, a review of the feasibility of completion and maintenance of the Data Integration Platform was undertaken. The review found that the system did not align with the direction of the Group and extracting value from this project would lead to additional unnecessary costs and business disruption. As a result $1,874,870 of the carrying amount has been written off.

Refer to Note 10 for the accounting policies on impairment of intangible assets.

12. Investment in Controlled Entities

Relevant accounting policies

Basis of consolidation

The consolidated financial statements combine the financial statements of Callaghan Innovation and its controlled entities and associates (the Group) as at 30 June 2023.

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.

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

Name of entity	Principal activities	Interest held by the Group 2023	Interest held by the Group 2022
Non trading controlled entities			
Callaghan Innovation Research Limited	Non trading	100%	100%
Glycosyn Technologies Limited	Non trading - name protection	100%	100%
CIR NO.2 Limited (name changed from Kiwistar Optics Limited - Kiwistar sold in April 2022)	Non trading	100%	100%
New Zealand Food Innovation (South Island) Limited	Food innovation company	100%	100%
New Zealand Food Innovation Auckland Limited	Food innovation company	100%	100%

All controlled entities have 30 June balance dates and are incorporated in New Zealand.

13. Investment in Associates

Relevant accounting policies

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

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

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

Impairment in associates

The Group periodically reviews the fair value of its investment in its associate. If the carrying value of the Group's investment exceeds its share of the associate's net assets, an impairment is recognised in the Statement of Comprehensive Income and Expenses.

Details of associates

Associates comprise the following:

Name of entity	Principal activities	Interest held by the Group 2023	Interest held by the Group 2022
New Zealand Food Innovation (Waikato) Limited	Food innovation company	30%	30%

Investment in associates

The cost of Callaghan Innovation's investment in New Zealand Food Innovation (Waikato) Limited was $4,200,000, comprising share capital of $3,000,000 and a one off gain of $1,200,000 in 2018 following the majority shareholders contribution of additional capital.

The carrying value of Callaghan Innovation's investment in New Zealand Food Innovation (Waikato) Limited at 30 June 2023 is $3,303,000 (2022: $3,835,000). The share of deficit from the associate is as follows:

Name of entity	2023 $000	2022 $000
New Zealand Food Innovation (Waikato) Limited	(532)	(468)
Share of deficit	**(532)**	**(468)**

New Zealand Food Innovation (Waikato) Limited	2023 $000	2022 $000
Current assets	858	571
Non current assets	21,359	21,999
Current liabilities	(944)	(683)
Non current liabilities	(10,520)	(9,504)
Net assets	**10,753**	**12,383**
Total income	6,424	7,090
Total expenditure	(8,481)	(8,500)
Net deficit	**(2,057)**	**(1,410)**
Results of the associate		
Share of deficit	(532)	(468)
Interest in associate		
Carrying amount at beginning of year	3,835	4,303
Share of deficit	(532)	(468)
Carrying value at the end of the year	**3,303**	**3,835**

14. Discontinued Operation
Relevant accounting policies
A discontinued operation can occur when the operation and its cash flows can be clearly distinguished from the rest of the Group and it:

- Represents a separate major line of business or geographic area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Classification as discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the statement of comprehensive income and expenses is represented as if the operation had been discontinued from the start of the comparative year.

Any impairment losses for write-downs of non-current assets held for sale are recognised in the surplus or deficit. Any increases in fair value (less costs to sell) are recognised up to the level of any impairment losses that had been previously recognised.

Kiwistar discontinued operation
Kiwistar business (a business unit within the Group specialising in the manufacture of specialist optical equipment) was sold on 7 April 2022 and was reported in the prior period as a discontinued operation. The information set out below relates to the 2021/22 period and is for comparative purposes only.

(Deficit) / surplus from discontinued operation	2022 $000
Revenue	781
Expenses	(1,222)
Loss on remeasurement of assets and liabilities held for sale	(32)
Deficit	(473)
Gain from selling discontinued operation	6
Net deficit	**(467)**
Other comprehensive income and expenses	
Cash flow hedges (net of tax)	(43)
Total comprehensive income and expenses	**(510)**

15. Employee Benefits
Relevant accounting policies
Short-term employee entitlements
Employee entitlements that the Group expects to be settled within 12 months of balance date are measured at the undiscounted amount expected to be paid based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and retiring and long service leave entitlements expected to be settled within 12 months.

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

- Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information.
- The present value of estimated future cash flows. The discount rate is based on the risk-free discount rates published by the New Zealand Treasury which is an estimate of the average increase in remuneration for employees over the discount period.

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

Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the Group recognises a provision for costs for a restructuring that involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

	2023 $000	2022 $000
Current		
Employee entitlements	2,280	1,378
Long service and retiring leave	92	59
Annual leave	4,229	4,079
Total current employee benefits	**6,601**	**5,516**
Non current		
Long service and retiring leave	48	77
Total Employee benefits	**6,649**	**5,593**

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 5.43% in 2023 to 5.01% for years to 2035 (2022: 3.34% in 2022 to 4.43% for years to 2035). The inflation factor is based on the expected long term increase in remuneration for employees currently forecast at 3.35% (2022: 3.01%).

16. Funds Received in Advance

Relevant accounting policies

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

	2023 $000	2022 $000
Payable under exchange transactions		
Government income received in advance	9,428	16,831
Commercial revenue in advance	2,242	2,428
Total payable under exchange transactions	**11,670**	**19,259**
Payable under non-exchange transactions		
Government funding received in advance as agent	4,157	3,790
Total payable under non-exchange transactions	**4,157**	**3,790**
Total funds received in advance	**15,827**	**23,049**

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

17. Trade Creditors and Other Payables

	2023 $000	2022 $000
Payables under exchange transactions		
Trade creditors	2,239	4,019
Other payables	7,875	7,714
Total payables under exchange transactions	**10,114**	**11,733**
Payables under non-exchange transactions		
Goods and services tax (GST) payable	-	362
Total payables under non-exchange transactions	**-**	**362**
Total trade creditors and other payables	**10,114**	**12,095**

Trade payables include amounts due to related parties (see Note 23 for details).

18. Reconciliation of Surplus with Cash Flow from Operating Activities

	2023 $000	2022 $000
Net surplus/(deficit) for the period	**1,748**	**(5,379)**
Add/(less) non-cash items:		
Amortisation, depreciation and impairment	9,956	9,729
Share of deficit from associates	532	468
(Gain)/Loss on sale of fixed assets	(133)	845
Asset write-off	1,848	825
Add/(less) movements in working capital:		
Trade and other receivables	7,610	46,181
Inventory	(17)	(43)
Work in progress	34	518
Funds received in advance	(7,222)	6,183
Employee benefits	1,056	3
Trade and other payables	(10,312)	(44,404)
Provisions	(1,221)	2,020
Net cashflows from operating activities	**3,879**	**16,946**

19. Critical Accounting Estimates and Judgements

Critical accounting estimates and assumptions

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

(a) Grant obligations and debtor

At balance date, for each different grant type, an assessment is made of the probability and quantum of a grant recipient having incurred qualifying expenditure for which a claim has not yet been received. This assessment is based on historic data and customer forecasts and then recognised on a straight line basis over the term of the contract.

There are two new grants, New to R&D and Ārohia. These grants do not have sufficient historic data to make an assessment of the probability and quantum of incurred expenditure. These grants have been recognised on a straight line basis over the term of the contract.

Based upon this assessment an accrual for grants obligations is made and a receivable is recognised in the financial statements of $20,220,000 (2022: $28,663,000).

Payments against the 30 June 2023 accrual are expected to be made during the 2023/24 financial year.

	2023 $000	2022 $000
Payable and Receivable under non-exchange transactions		
Grant obligations and debtor	20,220	28,663
Total grant obligations	**20,220**	**28,663**

(b) Commercial revenue

Some commercial revenue for the Group is project based. Revenue is recognised based on the percentage of completion of the project which is estimated based on costs incurred to date. Where the costs of the project to date exceed the amount invoiced, but not the total billing for a job, accrued income is recognised.

Based upon this assessment revenue in advance of $2,242,000 (2022: $2,428,000) and accrued revenue of $775,000 (2022: $179,000) have been recognised at balance date.

Critical judgement in applying the Group's accounting policy

(a) Agent vs principal in Crown pass through funding

The Group receives funding for grants and the National Science Challenge (NSC). The Group's view is that it is acting as principal in these transactions given it is the Group's responsibility to allocate the funding, manage the contracts and deal directly with the funding recipients.

Conversely, the Group also administers the New Zealand Product Accelerator (NZPA) and Bioresource Processing Alliance (BPA) however in this case the funding is passed through to, or held on behalf of, another entity that is responsible for allocating the funding. While the Group has an administration and (in the case of the BPA) a contracting role, the responsibility for fund allocation decisions and programme management and governance sits with another entity. As a result, the Group is considered to be acting as an agent in these transactions and the income is recognised net of expenses.

Callaghan Innovation | Annual Report 2023

In 2022/23 the Group also received funding for the new Industry 4.0 programme. While significant portions of this funding are paid out to industry partners responsible for delivering a mobile showcase and a series of demonstration sites, this work is performed under the oversight and control of Callaghan Innovation. As a result, the Group is considered to be principal in these transactions and the gross income and expenses are recognised in the Statement of Comprehensive Income and Expenses.

(b) Agent vs principal for the R&D Loan Scheme

In 2020/21, the Group administered a loan scheme that was initiated as a COVID-19 response in 2020 to enable R&D performing companies to maintain their R&D programmes. Under the Scheme, Callaghan Innovation issued loans to companies to enable them to maintain investment in R&D, subject to settings established under a Ministerial Direction. These settings included an interest rate of 3% and a maximum loan term of 10 years. Any principal or interest recovered from customers through the Scheme must be returned to the Ministry of Business, Innovation and Employment. Given the broad decision making powers and financial exposure sitting with the Ministry of Business, Innovation and Employment, and Callaghan Innovation's explicit administrative role, management has concluded the Group is acting as the Ministry of Business, Innovation and Employment's agent in issuing the loans. As a result, the loans and any resulting (deficit) / surplus impacts – such as fair value changes, expected credit losses or interest income – are not recognised in the Group's financial statements. All repayments received go to Callaghan Innovation's trust bank account held by the Ministry of Business, Innovation and Employment. If Callaghan Innovation does temporarily hold any funds through either the issuance of loans or return of interest or principal, it is recognised with an equal and offsetting asset and liability to the Ministry of Business, Innovation and Employment.

As at 30 June 2023, Callaghan Innovation has issued 455 loans totalling $148.965m of which $13.941m has been repaid (2022: 455 loans totalling $148.965m of which $12.038m has been repaid). The loans were all issued before close of 30 June 2021 and the scheme is now closed.

20. Financial Instruments by Category

Relevant accounting policies

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.

Financial instruments

Classification:

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

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Financial assets are measured at Fair Value through Other Comprehensive Revenue & Expenditure (FVOCRE) if it meets both of the following conditions and is not designated as Fair Value through Surplus & Deficit (FVTSD):

- It is held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets not classified as measured at amortised cost or FVOCRE as described above are measured at FVTSD. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost as at FVTSD if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

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

Impairment losses are presented as a separate line item in the Statement of Comprehensive Income and Expenses. For assets that are held at FVTSD, gains and losses are recognised in the Statement of Comprehensive Income and Expenses and presented net within other gains/(losses) in the period in which they arise, unless included in a hedge relationship. For all other financial instruments gains and losses from interest, foreign exchange and other fair value movements are separately reported in the Statement of Comprehensive Income and Expenses. Transaction costs are expensed as they are incurred.

Financial Assets

Trade receivables

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

Loss allowance for expected credit losses

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

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

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

Cash and cash equivalents

Cash and cash equivalents are recognised at amortised cost. Cash and cash equivalents include cash on hand, bank accounts and deposits with an original maturity of no more than three months. They are reported initially and subsequently at the amount invested, which is deemed a reasonable approximation of fair value given the funds are available when required.

Term deposits

Term deposits are cash deposits with banks which are not classified as cash and cash equivalents given the original maturity of the deposit. The amount invested is a reasonable approximation of fair value given they are settled within six months.

Callaghan Innovation | Annual Report 2023

Financial Liabilities

Trade and other payables

Trade and other payables are recognised at amortised cost. Carrying value is typically adopted as a reasonable approximation of fair value given they are generally settled within two months.

Fair Values

The fair value hierarchy disaggregates fair value into the following three levels:

- **Level 1:** Quoted unadjusted prices in active markets for identical instruments
- **Level 2:** Inputs that are not level 1 that are observable either directly or indirectly
- **Level 3:** Inputs that are not observable

Derivative financial instruments

Derivatives are initially recognised at fair value on the trade dates that derivative contracts are entered into and are subsequently re-measured to their fair value. Fair Values are based on broker quotes as at reporting date. 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).

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Income and Expenses. Amounts accumulated in equity are recycled to the Statement of Comprehensive Income and Expenses in the periods when the hedged items will affect surplus or deficit (for instance when a forecast sale that is hedged takes place). However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

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

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments may not qualify for hedge accounting, or hedge accounting has not been adopted. Changes in the fair value of those derivatives that don't qualify for hedge accounting are recognised immediately in surplus or deficit in the Statement of Comprehensive Income and Expenses. The Group had no derivative transactions which did not qualify for hedge accounting during the 2023 and 2022 financial years.

Financial assets	2023 $000	2022 $000
Financial Assets at FVOCRE		
Derivative financial instruments	53	83
Financial Assets at Amortised Cost		
Cash and term deposits	54,115	68,119
Crown debtor - Grants	20,220	28,663
Trade and other receivables	5,072	5,982
Total Financial assets	**79,460**	**102,847**

Financial Liabilities	2023 $000	2022 $000
Financial Liabilities at FVOCRE		
Derivative financial instruments	15	142
Financial Liabilities at Amortised Cost		
Trade Creditors and other payables	10,114	11,733
Grant obligations	20,220	28,663
Employee benefits	6,649	5,593
Total Financial liabilities	**36,998**	**46,131**

The only financial instruments held at fair value are forward foreign exchange contracts. At year end these comprised assets of $53,000 and liabilities of $15,000 (2022: $83,000 asset, $142,000 liability). These are level 2 instruments in the fair value hierarchy and have been valued using balance date financial institution valuations. These valuations are a reasonable approximation of the carrying amount.

21. Financial Risk Management

The Group's activities expose it to a variety of financial risks including market (currency and interest rate), credit and liquidity risk. The Group's overall risk management programme seeks to minimise potential adverse effects of these risks 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.

(a) Market risk

Foreign exchange risk

Callaghan Innovation is exposed to foreign exchange risk through: commercial revenue streams denominated in foreign currencies; operational costs requiring payment in foreign currencies; and capital expenditure requiring payment in foreign currencies.

The Group's primary objective in managing foreign currency risk is to provide certainty of New Zealand dollar net cash flows. To manage foreign exchange risk, the Group uses forward exchange contracts to hedge anticipated cash flows for all committed foreign currency sale and purchase transactions greater than NZ$50,000.

Callaghan Innovation | Annual Report 2023

Details of forward foreign exchange contracts outstanding at balance date are set out below:

	2023		2022	
Outstanding contracts	Currency $000	Contract value NZD $000	Currency $000	Contract value NZD $000
Bank buys				
United States dollar	948	1,535	1,638	2,524
Australian dollar	-	-	467	493
Euro	-	-	43	76
Bank sells				
United States dollar	315	489	184	271
Australian dollar	-	-	187	203
Euro	-	-	128	208

All forward foreign exchange contracts are due for settlement within 12 months of balance date.
Any reasonably possible changes in foreign exchange rates would not have a material impact on the financial performance or position of the Group.

(b) Interest rate risk

Callaghan is exposed to interest rate risk through the interest income earned on cash and term deposits. Any reasonably possible changes in interest rates would not have a material impact on the interest income earned on short term deposits.

(c) Credit risk

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

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

- All Treasury counterparties (for hedge transactions or deposits) must be approved by the Board.
- All counterparties must have a minimum long term credit rating by Standard & Poor's of A-, or equivalent from another internationally recognised rating agency, unless specifically approved by the Board.
- No more than 75% of total investment funds available can be placed with a single counterparty.
- All investments must be made with New Zealand registered trading banks.

There are no significant concentrations of credit risk other than the receivable from the Ministry of Business, Innovation and Employment in respect of grants.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCRE are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 180 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(d) Liquidity risk

Liquidity risk is the risk that the Group cannot meet its cash based obligations in an orderly manner as they arise. The Group maintains sufficient liquid bank deposits to conservatively manage its cashflow requirements without the requirement for bank credit facilities.

The table below analyses Callaghan Innovation's liabilities and net settled derivative financial liabilities that will be settled, based on the remaining period at balance date to the contractual or expected maturity date. The amounts disclosed are the contractual, undiscounted cash flows.

	2023 Less than one year $000	2022 Less than one year $000
Trade and other payables	(10,114)	(11,733)
Grant obligations	(20,220)	(28,663)
Employee benefits	(6,601)	(5,516)

	2023 More than one year $000	2022 More than one year $000
Employee benefits	(48)	(77)

The Group's derivative financial instruments will be settled on a gross basis within 12 months of balance date and are set out below. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2023 Less than one year $000	2022 Less than one year $000
Forward foreign exchange contracts		
- Cash flow hedges		
Inflow	2,024	3,813
Outflow	(1,987)	(3,872)

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

22. Capital Risk Management

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

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

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

23. Related Party Disclosures

General

Callaghan Innovation is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are:
- within a normal supplier or client/recipient relationship; and
- on terms and conditions no more or less favourable than those that it is reasonable to expect the Group would have adopted in dealing with the party at arm's length in the same circumstances.

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 associates	2023 $000	2022 $000
Sales of services and general recoveries		
- New Zealand Food Innovation (Waikato) Limited	4	36
Payment of operational and project funding		
- New Zealand Food Innovation (Waikato) Limited	(80)	(80)

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

Key Management Personnel Costs	2023 $000	2022 $000
Board members		
Remuneration	260	295
Executive Leadership Team		
Remuneration	4,180	3,726
Total Key Management Personnel Costs	**4,440**	**4,021**
Full time equivalent (FTE) personnel		
Board Members	11.3	13.5
Executive Leadership Team	17.4	13.6
Total FTE personnel	**28.7**	**27.1**

24. Commitments and Contingencies
Capital Commitments

	2023 $000	2022 $000
Commitments for approved capital expenditure not yet spent:		
Buildings	11,988	21,259
Plant	1,469	1,819
Total Capital Commitments	**13,457**	**23,078**

Operating Commitments
Relevant accounting policies
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 the Group are classified as operating leases. Payments under operating leases are recognised as an expense on a straight line basis over the lease term. Commitments for non-cancellable operating lease commitments:

	2023 $000	2022 $000
Not later than one year	2,737	2,297
Later than one year and not later than five years	7,715	8,043
Later than five years	-	1,014
Total operating lease commitments	**10,452**	**11,354**

The Group leases properties and vehicles in the normal course of its business. The significant leases held by the Group are for premises, which have a non-cancellable leasing period ranging from 3 to 12 years.

The Group's non-cancellable operating leases have varying terms, escalation clauses, and renewal rights.

There are no restrictions placed on the Group by any of its leasing arrangements.

Callaghan Innovation | Annual Report 2023

Grant commitments	2023 $000	2022 $000
Grant commitments for those grant contracts awarded but yet to be drawn down or accrued	33,672	38,135

An operating commitment is disclosed for those grant contracts awarded but yet to be drawn down either in full or in part.

The commitments include potential payments to grant recipients under the Project, Student, New to R&D, Transitional Support Payments, Repayable Grants for Start-ups and Innovation Development Grant Schemes.

Operating lease rental receivables - Group company as lessor	2023 $000	2022 $000
Not later than one year	1,286	1,153
Later than 1 year and not later than 5 years	573	1,697
Total operating lease Rental Receivables	**1,859**	**2,850**

The Group leases property under various agreements.

Contingencies
Contingent liabilities
There were no trade performance facilities in place at 30 June 2023 (2022: nil).

Contingent assets	2023 $000	2022 $000
Repayable incubator grants	34,255	27,684

Incubator grants are repayable once the grant recipient's business 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. Upon receipt of any repayments, these are paid back to the Ministry of Business, Innovation and Employment. These grants commenced in 2014/15 and given the long term nature of the investments being made, there is limited information available to date that would allow the Group to assess the timing, likelihood and quantum of any future repayments.

25. Provisions

	Demolition $000	Restructuring $000	Waste Disposal $000	Warranties $000	Total $000
Balance at 1 July 2022	1,314	546	109	247	2,216
Provisions made during the year	-	832	-	29	861
Provisions used during the year	(1,314)	(383)	(91)	(276)	(2,064)
Provisions reversed during the year	-	-	(18)	-	(18)
Balance at 30 June 2023	-	995	-	-	995
Current	-	995	-	-	995
Total provisions	-	995	-	-	995

Demolition provision

The demolition for E Block and McKay was completed during 2022/23 and the full value of the provision was used during the year.

Restructuring provision

During 2022/23 Callaghan Innovation's Executive Leadership Team approved a detailed and formal restructuring plan, which was announced in May 2023 and commenced in June 2023. The restructuring plan and associated payments was completed in August 2023. The provision represents the estimated cost for redundancy payments arising from the restructure.

The restructuring from the previous financial year was completed during 2022/23, and $383,000 of the provision was used during the year. The $163,000 unused portion of the provision will be carried over into the 2023/24 year when it is expected to be paid out in January 2024.

Waste disposal provision

The waste disposal was carried out during 2022/23 and the cost came to a total of $91,000. The unused provision of $18,000 was reversed and has been included in "Waste Disposal".

Warranty provision

During 2022/23 the Group paid out $276,000 in warranty repairs. The excess of $29,000 above the warranty provision has been expensed during 2022/23.

26. Major Budget Variances

Explanation of major budget variations are provided below for the Statement of Comprehensive Income and Expenses, Statement of Financial Position and Statement of Cash Flows. The budget is published in the Callaghan Innovation Statement of Intent and Statement of Performance Expectations for the 12 months ended 30 June 2023.

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 Income and Expenses

Funding from the Crown is above budget ($15.9m) as a result of the speed up in delivery in comparison to budget in the delivery of the National Science Challenge ($6.8m), Innovation Development Grant operational funding ($5.0m) due to reclassification of revenue stream from grants revenue and unbudgeted AgriTech and Digital ITP revenue ($3.1m).

Funding from the Crown - Grants is under budget ($52.2m) as a result lower activity in comparison to budget in Innovation Development Grant ($16.8m), RDTI Transitional Support ($20.2m), Repayable Grants ($8.1m) and Project and Student Grants ($7.4m). These have been offset by equal and opposite variances in expenditure and have not impacted the net deficit.

Commercial revenue and Other revenue tracked very close to budget for the year. Slightly lower commercial revenues in the Callaghan Innovation Parent were offset by higher revenues in both Food Innovation Auckland and Food Innovation South Island.

Personnel costs are higher ($3.1m) than planned due to higher than anticipated contractor costs ($4.0m) and unbudgeted severance ($1.0m). This was partially offset by lower than budgeted salary and related costs ($1.9m).

Higher subcontractor costs ($6.0m) higher than budget were primarily driven by the National Science Challenge, and is reflected in the additional National Science Challenge revenue recognised this year.

Other Expenses ($9.1m) higher than budget included increased costs across professional services ($2.9m), property ($1.4m), asset write offs ($1.8m), software licences ($1.1m), travel ($0.6m), legal fees ($0.4m) and Insurance ($0.4m).

Depreciation is below budget for the year ($2.6m) following the slower than planned progress in the Digital Transformation and Innovation Expertise capital programmes. This was partially offset by asset write offs ($1.8m).

Statement of Financial Position and Statement of Changes in Equity

Grant debtors and obligations are lower than budget due to lower grants demand across all our grant appropriations.

Funds received in advance were lower than expected due to National Science Challenge delivering projects quicker than anticipated ($6.5m). This is also reflected in the Groups cash balances which are $7.0m lower than budget.

Statement of Cash Flows

Variances against budget have followed many of the trends outlined above, including key Crown revenue and operating expense movements.

Reconciliation of Crown income: Statement of Service Performance to Statement of Comprehensive Income and Expenses

For the twelve months ended 30 June	Output class	2023 $000	2022 $000
Revenue by output class in the Statement of Service Performance			
Building business innovation	1	45,685	35,318
Research and development and facilities for business and industry	2	28,384	32,184
National Science Challenge	2	15,743	15,480
Business Research and Development contract management	3	8,015	8,014
National measurement standards	4	8,986	8,567
Industry 4.0	5	1,620	1,434
Total output class revenue per the Statement of Service Performance		**108,433**	**100,997**
Enabling Māori Framework		-	373
Digital Industry Transformation Plans		2,408	774
EECA - Battery Electric Vehicle Project		162	-
Agritech Industry Transformation Programme funding		707	1,839
Total Crown Revenue per Statement of Comprehensive Income and Expenses		**111,710**	**103,983**

Reconciliation of Expenditure: Statement of Service Performance to Statement of Comprehensive Income and Expenses

For the twelve months ended 30 June	Output class	2023 $000	2022 $000
Expenditure by output class in the Statement of Service Performance			
Building business innovation	1	33,217	32,196
Research and development and facilities for business and industry	2	57,599	61,189
National Science Challenge	2	15,743	15,480
Business Research and Development contract management	3	6,000	12,436
National measurement standards	4	10,883	9,679
Industry 4.0	5	1,700	1,284
Total output class expenditure per the Statement of Service Performance		**125,142**	**132,264**
Grant Expenditure		51,383	64,202
Non Output Class Expenditure		8,932	(2,493)
Total operating expenditure per Statement of Comprehensive Income and Expenses		**185,457**	**193,973**

27. Events after the Balance Sheet Date

On 17 July 2023 the Callaghan Innovation Board resolved to sell the Group's 30% shareholding in New Zealand Food Innovation Waikato Limited. As at the date of signing the financial statements, management has not yet identified a potential buyer or initiated an active programme to sell the entity.

Subsequent to this decision, the performance of the Associate has deteriorated significantly and the majority shareholder is no longer willing to provide additional funding. The Directors of the Associate are investigating their options, including putting the entity into voluntary administration while they continue to seek a potential buyer.

We are unable to quantify the potential impact of these decisions, as there is a range of possible outcomes including impairment. This will be finalised in the 2023/24 financial year.

Independent auditor's report

To the readers of Callaghan Innovation's group financial statements and performance information for the year ended 30 June 2023

The Auditor-General is the auditor of Callaghan Innovation and its controlled entities (the "Group"). The Auditor-General has appointed me, Christopher Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 66 to 103, that comprise the statement of financial position as at 30 June 2023, the statement of comprehensive income and expenses, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements including a summary of significant accounting policies and other explanatory information; and
- the performance information which reports against the Group's statement of performance expectations and appropriations for the year ended 30 June 2023 on pages 47 to 61.

In our opinion

- the financial statements of the Group:
  - ➢ present fairly, in all material respects:
    - its financial position as at 30 June 2023; 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 Benefit Entity Reporting Standards; and
- the Group's performance information for the year ended 30 June 2023:
  - ➢ presents fairly, in all material respects for each class of reportable outputs:
    - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
  - ➢ presents fairly, in all material respects, for the appropriations:
    - what has been achieved with the appropriations; and
    - the actual expenses or capital expenditure incurred compared with the expenses or capital expenditure appropriated or forecast to be incurred; and
  - ➢ complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 28 September 2023. 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 the performance information, we comment on other information, and we explain our independence.

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Basis for our 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 Directors for the financial statements and the 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 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 the 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 merge or to terminate the activities of the Group, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

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

Our objectives are to obtain reasonable assurance about whether the financial statements and the 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 the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the Group's statement of performance expectations and relevant Estimates and Supplementary Estimates of Appropriations 2022/2023.

We did not evaluate the security and controls over the electronic publication of the financial statements and the 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 the 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 evaluate the appropriateness of the performance information which reports against the Group's statement of performance expectations and appropriations.
- 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 and the performance information 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 the performance information, including the disclosures, and whether the financial statements and the 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 the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and 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.

Callaghan Innovation | Annual Report 2023

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 103, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the 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 the 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 the 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 Standard 1: *International Code of Ethics for Assurance Practitioners (including Independence Standards (New Zealand) (PES 1)* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out a controls assurance engagement and provided Group employees access to generic technical training courses, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Christopher Barber

Christopher Barber
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

PricewaterhouseCoopers

Callaghan Innovation
Te Pokapū Auaha