

Annual Report 2015

The image shows a modern office interior with large windows and a polished floor. Two people are walking across the frame, their figures blurred to suggest motion. The office is furnished with a dark leather sofa and a wooden coffee table. A large, stylized logo is centered in the image, overlaid on the scene. The logo consists of the words "Callaghan" and "Innovation" in a bold, sans-serif font, with "Callaghan" in a lighter shade and "Innovation" in a darker shade. The background shows a bright, open-plan office space with large windows and modern lighting fixtures.

**Callaghan Innovation**

# Foreword

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In 2009, the late Sir Paul Callaghan wrote,

“More funding and more effective investment instruments are relatively easy to achieve. What is harder to achieve is a culture in which scientific and technological enterprise is valued, where business seeks to innovate, where scientists regard business as a valid outlet for their talents and where children aspire to be scientists, technologists and engineers.”



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# Increasing the innovation capacity of New Zealand businesses is the fast track route to economic growth.

At Callaghan Innovation, our role is to spearhead the growth of more innovative businesses and to help them grow bigger, faster and thus achieve greater returns for New Zealand.

Our Business Innovation Advisors have developed innovation plans for 157 companies to address their future innovation and growth needs. Of these, 61 plans were developed jointly with New Zealand Trade and Enterprise to provide seamless strategic advice, extending from product concept through to exporting.

This year we launched an innovation challenge called the C-Prize, with the support of top international filmmakers. The C-Prize challenge stimulates cutting-edge UAV solutions for the film industry.

Our National Technology Network managers and Sector managers have connected with over 400 businesses providing a wide range of assistance including connections to researchers, collaboration with other businesses, and technical advice.

We have also approved approximately \$165 million in growth, project and student grants for 523 businesses.

We are heartened by the results of a Statistics New Zealand Business Operations Survey released in April 2014. Most of those interviewed said that innovation increases revenue, productivity, market share and responsiveness to customers. Those that were innovating reported a higher percentage increase in sales, profitability, productivity and market share than those who were not. These are direct inputs to the goals of the Government's Business Growth Agenda.

These perceptions and experiences are important in allowing us to seed opportunities on fertile ground. We will continue to refine our service offering so that we deliver what will have the biggest impact for our customers.



Sue Suckling  
Chair

Dr Mary Quin  
Chief Executive

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# Key successes

523

Businesses approved to receive approximately \$165 million in grants

27  
18

Pre-incubation grants approved

Repayable grants approved

632

Research & technical contracts

222

NZ business research & technical contracts >\$5,000

157

Engagement plans developed with businesses

61

Joint engagement plans for businesses with NZTE

174

Global Expert searches for businesses

2488

Business contacts through our Customer Engagement Centre



# Our strategy

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Our mission is to accelerate the commercialisation of innovation by businesses in New Zealand.

**FOR THE 2014-15 YEAR WE FOCUSED ON DELIVERING FIVE STRATEGIC INITIATIVES.**

## Strategic initiative one

Build innovation skills and programmes for high-value manufacturing and services (HVMS) companies that want to grow, enabling these firms to transform their own rate of commercialisation.

## Strategic initiative two

Support clusters of firms with customised action plans to break through their shared barriers to innovation.

## Strategic initiative three

Build the product development skills of HVMS firms by creating technology networks that provide advice, facilities and outsourced research and development (R&D) services for firms.

## Strategic initiative four

Unleash the innovation potential of the Māori economy by making sure our services are 'fit for Māori'.

## Strategic initiative five

Inspire current and future generations of New Zealanders to become ambitious and confident global innovators.

**We have recently refined our strategy and have strengthened our performance measurement framework and indicators to monitor our progress.**

This is represented in our Statement of Intent 1 July 2015–30 June 2019. In order to achieve our mission and help New Zealand businesses succeed through technology, our attention and energy will be focused on:

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Delivering innovation services to businesses

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Building New Zealand's innovation capability

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

## What we delivered

# Strategic initiative one

**BUILD INNOVATION SKILLS AND PROGRAMMES FOR HVMS COMPANIES THAT WANT TO GROW, ENABLING THESE FIRMS TO TRANSFORM THEIR OWN RATE OF COMMERCIALISATION.**

**Innovation involves risk and requires talent. Over the last year we assessed the opportunities for companies to innovate and any gaps they may have in terms of skills and resources.**

We helped business owners to innovate by building their skills and confidence as well as sharing the financial risk they undertook. We encouraged business to initiate, maintain and grow their own innovation programmes.

Over 2014/15 we recruited four new business innovation advisors (BIAs) from the private sector. Our team of BIAs are business-savvy technical experts who help companies navigate each step on the path from an idea to a commercial reality. They help identify the services, technology and expertise companies need, and help make links with experts and resources – globally if need be. They play a key coordination role in the innovation system and work in partnership with New Zealand Trade and Enterprise.

Each BIA manages a portfolio of technology-focused businesses that have high growth potential, aspirations to innovate faster, and a business need that could benefit from the provision of Callaghan Innovation's services. The BIAs help to resolve the businesses' challenges by acting as honest brokers and also, by their engagement, help to further motivate the businesses.

As a result the BIA team worked closely with 157 companies during 2014/15 and developed a bespoke plan of action for each individual business.

Two digital accelerators – run by founder incubators Creative HQ in Wellington and The Icehouse in Auckland – were huge successes, attracting over 360 expressions of interest for the 19 final team spaces available.

An Auckland Demo Day was an absolute sell-out event, attracting over 300 potential investors. A Product Manufacturing Accelerator and Digital Accelerator are also currently underway in Lower Hutt, Wellington and Christchurch, respectively.



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## Skills and capability development

Over the last year, we offered all New Zealand businesses a suite of services that build business capability and confidence to innovate. These included:

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Higher Performance Working Initiative (HPWI)	Helps businesses achieve higher productivity through effective employee engagement and improved workplaces practices. During the last year, 53 businesses signed up to HPWI co-funding agreements.
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Better by Lean	Reviews business processes and management systems to improve productivity and to reduce waste. Over the last year, 36 businesses signed up to Lean co-funding agreements.
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Innovation Experts Series	Provides businesses with access to the world's leading innovation practitioners through targeted workshops. Over the last year, we brought Larry Keeley, Langdon Morris, Frank Wagner, and Tony Seba to New Zealand for seminars.
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IMProve	Helps businesses to benchmark their innovation management capabilities against those of international cohorts of similar businesses. Over the last year, we have completed 10 IMProve assessments and have 20 more businesses signed up.
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Agile Innovation	Helps businesses to improve their innovation planning, risk management, speed and measurement of product development. Over the last year, we designed and trialed this programme with a few businesses.
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Innovation IP	Helps businesses to develop a pragmatic and commercial approach to intellectual property and how to protect it. Over the last year, we designed, built and launched this exciting programme and had 66 businesses sign up.
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Global Expert	Over the last year, we completed 174 global searches to introduce companies to some of the world's leading innovation resources. Using our database we searched both public and private innovation resource providers to locate an appropriate provider. If a resource provider cannot be located within our database, then we search through other databases through our extensive international network of business partners.
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## Grants

Our R&D grants help companies offset some of the calculated risks of innovation. They encourage businesses to try things they might not otherwise have ventured. During 2014/15, our grants included:

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Growth Grants	Covers 20% of R&D costs up to \$5 million a year. They are available to businesses that invest over 1.5% of turnover in R&D. In the last year, we approved 85 Growth Grants for a total contract value of \$134,927,861 (excluding GST).
Project Grants	Covers up to 50% of R&D costs and are awarded primarily to businesses undertaking research for the first time. In the last year, we approved 302 Project Grants, at an average of 40% cover, for a total contract value of \$24,114,907 (excluding GST).
Student Grants	Help businesses access undergraduate and postgraduate students who can assist with R&D projects. In turn, the students gain experience in the business. In the last year, we supported businesses by approving 280 student grants, for a total contract value of \$6,402,790 (excluding GST).

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## Early-stage support

High-growth, early-stage businesses play an important role in generating employment growth, commercialising intellectual property (IP) and growing emerging sectors.

The Incubator Support Programme addresses New Zealand's lack of high-growth potential businesses by improving the chances of survival and growth of these businesses through the provision of capability building services via incubators.

Incubators fit broadly into two different models: founder incubators and technology incubators.

Founder incubators work with entrepreneurs by giving them access to support, networks and investments that can help them to test business ideas, validate them in the market and, when there is potential, build businesses. Over the last year, we have supported 147 start-up businesses that either are being incubated, or were incubated, in the five founder incubators across New Zealand.

Technology incubators are privately owned businesses that concentrate on commercialising complex intellectual property sourced primarily from publicly funded research organisations such as universities and Crown research institutes. They assess the commercial validity of these novel technologies, build a business around the intellectual property, and invest in these ventures in exchange for an equity stake. In the past year, Callaghan Innovation has approved 27 pre-incubation grants and 18 repayable loans valued at \$925,000 and \$7.82 million respectively, to be issued to early-stage, high-tech businesses through the three technology incubators.

Accelerators are 90-day programmes that provide coaching and mentoring in a highly pressurised environment for the teams to focus on rapid and intensive business development. At the end of these programmes, participating businesses often have an opportunity to pitch their idea to angel investors and venture capitalists, raising funding for the next stage of growth.



# SnapitHD

Seven years ago, two brothers began a business in a garage inventing a specialised security camera. With the help of Callaghan Innovation, SnapitHD now exports fisheries management cameras and employs nine staff.

Chris Rodley and his brother Andrew did not have expertise in camera hardware development at the outset – Chris was a teacher and Andrew a manager – but they had a love of innovative ideas and solving problems.

Callaghan Innovation provided the company with an advisor who helped them roadmap and plan the R&D, hire an experienced team and engage the best suppliers.

Co-funding for the R&D was also provided by Callaghan Innovation. As a result, SnapitHD was able to commercialise its cameras faster. The company is now working in partnership with 10 of New Zealand's largest fisheries companies to further refine their cameras and services.

SnapitHD won the Most Innovative Hi-Tech Agritech Product Award at the NZ Hi-Tech Awards in May 2015.

# Strategic initiative two

## SUPPORTING CLUSTERS OF FIRMS TO BREAK THROUGH THEIR SHARED BARRIERS TO INNOVATION.

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### **The relatively small size of New Zealand businesses means that investment in capital-intensive R&D facilities is relatively rare.**

Although HVMS businesses strive to be different from each other, many share a common need for technology and know-how. These businesses may belong to different industries or operate in different markets, but share a common technology challenge.

Over the last year we identified shared product development needs, supported strategic consortia, and acted as an innovation broker for clusters and businesses.

After identifying shared needs of businesses we facilitated the development of programmes and action plans, and provided resources and services. This reduced the R&D costs to individual companies, created synergies and promoted sharing of knowledge between non-rival businesses.

During 2014/15 Callaghan Innovation acted as a catalyst to help manufacturers of unmanned aerial vehicles (UAVs) form the UAVNZ industry association. UAVNZ has since helped set up a dedicated airspace for UAV testing and input into regulatory processes. It has also hosted a national UAV conference and tradeshow, and supports a website that connects suppliers and customers – [www.airshare.co.nz](http://www.airshare.co.nz)

To further stimulate the industry, we launched our first C-Prize – a competition to solve technical challenges affecting the use of UAVs in video and movie production. With the support of top international filmmakers, the C-Prize challenge stimulates cutting-edge UAV technology for the film industry. While this challenge is targeted for the screen industry, Callaghan Innovation's goal is to exponentially grow the use of UAVs in other industries. The C-Prize winner will be announced in late 2015.

In the last year we have helped businesses access the right advisor, partner, mentor or technology provider, using our extensive national and international networks.

During 2014/15 we led six innovation missions overseas. In October 2014, we organised two separate delegations to the United States. These included five microfabrication companies and 13 medical technology companies.

In November 2014, we supported an exploratory mission to Asia by a 20-member coalition of Māori mānuka honey interests. In June 2015, we led a delegation of Māori food business representatives to the United States and a group of advanced material and biotech companies to TechConnect World Innovation in Washington DC.

The purposes of these delegations were to introduce New Zealand businesses to the latest technology developments, lift their appetite for innovation, and build connections and partnerships.

We supported visits to New Zealand by world-class experts in telematics and UAVs from Silicon Valley. We also assisted a visit by representatives from Google<sup>ixl</sup> – an R&D facility run by Google dedicated to making major technological advances. These experts were introduced to some of New Zealand's leading technology companies to increase their understanding of latest developments.



# AdvaMed Congress

In October 2014, Callaghan Innovation together with NZTE organised a delegation of 13 medical devices companies to the AdvaMed Congress in Chicago. Each year over 1,000 medical technology companies attend the Congress from around the world.

The purpose of our mission to AdvaMed was to help the delegates to stay abreast of latest developments in their industry, to establish international connections and to increase their understanding of the United States market.

As a result of the market intelligence gained, a number of delegates subsequently repositioned their business and innovation strategies to achieve better outcomes. From the introductions made, some of the delegates forged new partnerships with businesses overseas that will help them reach new markets more quickly.

Travelling overseas as a delegation, with a prior two-day workshop and briefings, helped to develop new relationships between the delegate members. This continued to create collaborative opportunities long after the trip.

# Strategic initiative three

**BUILDING THE PRODUCT DEVELOPMENT SKILLS OF HVMS FIRMS BY CREATING TECHNOLOGY NETWORKS THAT PROVIDE ADVICE, FACILITIES AND OUTSOURCED R&D SERVICES FOR FIRMS.**

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## **Over the last year, we have created a team that coordinates seven National Technology Networks.**

This group drives connections across New Zealand's R&D expertise in critical areas of technology such as information and communication technology (ICT), sensing and automation, food processing technologies, design and manufacturing, advanced materials, measurement and compliance technologies, and biotechnologies. These networks give businesses access to capital intensive facilities and equipment, outsourced R&D expertise and project management skills.

## **R&D services**

Callaghan Innovation's Research & Technical Services (RTS) business group delivered over \$50 million dollars of R&D services. Last year, direct commercial revenue was just under \$16 million from both domestic and commercial businesses.

Some of the research projects we have conducted for businesses include:

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Data analytics to allow movie chains to predict audience size and behaviour

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Acoustic research to develop a microphone system for one of the world's largest companies

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Designing and manufacturing a spectrograph for the Indian Institute of Astrophysics that will analyse the images from a telescope high on the Himalayas

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Commissioning a green energy solution on Mitiu-Somes Island in partnership with ESG Energy

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Manufacturing of pharmaceutical ingredients for businesses ranging from start-up to multinational.

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Our experts have provided advice and insight into many industries and businesses such as the New Zealand titanium industry, as part of the TiTeNZ research programme, as well as Manuka Health New Zealand. We provided research services to networks like Ovine Automation Limited, Bioprocessing Resource Alliance, Consortium of Medical Device Technologies and KiwiNet as part of our commercialisation function.

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## Networks

Our National Technology Network managers have been very active in connecting with industry and researchers to establish their networks and give Callaghan Innovation a strong understanding of the activities of the research community in New Zealand.

Over the past year, the group has connected with over 400 businesses providing a wide range of assistance including connections to researchers, collaborative projects and technical advice. Some examples include:

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Our Design & Manufacturing network manager has recently worked with a number of companies in the Hawke's Bay area to help them with manufacturing options and material solutions. These initial discussions have created a more connected environment for businesses in the region.

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Our ICT network manager has been working closely with NZTE to create collaborations between seven telematics companies in New Zealand. The alliance worked on common research plans and is now in a position to put together an application to Callaghan Innovation for grant funding for a collaborative project.

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In response to a proposal from NZ Steel, a significant end user of protective coating technologies, a workshop was organised by our Advanced Materials network manager. The workshop with industry and research provider representatives scoped the appetite for a collaborative programme around water-based protective coatings. There were 42 attendees with 18 businesses represented and 22 researchers from universities and Crown Research Institutes (CRIs).

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An opportunity to work with the British High Commission on the 'Sensors in the Environment' workshop was taken up by our Sensing & Automation network manager. The workshop had over 80 attendees. Thirteen New Zealand research organisations attended, along with five British researchers. A third of the attendees were from industry, as well as some from local government.

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Callaghan Innovation led an initiative to have New Zealand included as a third country member of the Enterprise Europe Network (EEN). The EEN is the world's largest business and innovation support network, operating across 54 countries. The EEN has a strong focus on small and medium-sized enterprises and it seeks to promote commercial, technological and research partnership agreements. Callaghan Innovation's objective is to help establish partnerships between European and New Zealand companies.

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## Facilities

We also made two major investments with the food industry in FoodWaikato and FoodSouth, both members of the New Zealand Food Innovation Network (NZFIN).

FoodWaikato provides a facility for trialing and producing advanced nutritional powders. The facility has been used by a wide range of companies, including milk producers and fruit and vegetable growers. Callaghan Innovation invested \$3 million for a 30 percent share in FoodWaikato this year, directly supporting further development of its spray drying facility. This will pave the way for companies to produce much higher value products estimated at over \$40 million of new export revenue a year.

FoodSouth began constructing a pilot plant in 2015 at Lincoln University, Christchurch, to support growth in the food and beverage industry in the South Island.

The FoodBowl in Auckland, which is also part of NZFIN, provides a facility that is readily accessible and affordable for food and beverage customers, to test out their products. In the past year, the FoodBowl has engaged with 288 businesses, facilitated 169 projects and interacted with 1,300 businesses. A total of 56 products have made it to market from the projects carried out at The FoodBowl in the past year.

Callaghan Innovation and Auckland Tourism Events and Economic Development (ATEED) continue to be joint shareholders of the FoodBowl.

Callaghan Innovation hosted a series of events as part of the 2015 Healthtech Week along with its partners, the Medical Technology Association of New Zealand, New Zealand Health IT and the Consortium of Medical Device Technologies. Healthtech Week was designed to showcase the best New Zealand has to offer in this sector and to encourage further collaboration and idea sharing to grow our medtech industry.

The week kicked off with the MedTech Centre of Research Excellence Day, aimed at researchers, clinicians and industry, bringing together those involved in R&D in one place to share ideas and to work together. This was followed by the New Zealand Healthcare Congress, which brought together a broad range of stakeholders to contribute to the conversation around what needs to be done to deliver world-class healthcare for New Zealand in the future. Participants then attended the Innovation and Investment Forum, which puts technology developers in touch with potential investment partners.

A new event at Healthtech week was the Entrepreneur's Bootcamp to upskill start-ups and entrepreneurs across the country. The Bootcamp addressed crucial business issues such as regulatory affairs, intellectual property and health economics. CEOs from some of New Zealand's best emerging medtech companies, ARANZ Medical and Simplhealth, shared their experiences which was an invaluable way for start-ups to learn from their peers. A total of 55 participants consisting of New Zealand start-ups, emerging companies and entrepreneurial university postgraduates attended the bootcamp session.





## High-tech company assistance

Callaghan Innovation provides businesses with a range of resources and services. Two of the high-tech businesses to which Callaghan Innovation provided research and development services and support this year were Movio and PredictHQ.

Movio is a global leader in marketing data analysis and campaign management for the film industry. Our big data specialists worked with Movio on crucial algorithms to help develop film recommendation software.

We provided a grant to help them to develop software as well as a grant for a student to look into customer segmentation. This helped Movio expand its R&D team and accelerate its development quicker than it would otherwise have been able to.

Movio has now rolled out a system to identify people's movie-watching patterns. This allows cinemas to recommend films to loyalty programme members and this system is expected to be worth up to \$2 million annually.

PredictHQ is a new global events intelligence platform that analyses events happening all over the world and then forecasts how they might affect businesses. To keep ahead of the customer service game they needed help adapting to a fast changing environment in order to generate better returns for their customers.

# Strategic initiative four

## UNLEASHING THE INNOVATION POTENTIAL OF THE MĀORI ECONOMY.

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**Māori business – whether owned or managed by Māori – is an essential and fast-growing part of the New Zealand economy. Callaghan Innovation ensures that we are actively supporting and addressing the needs of Māori business to grow and be competitive in the global economy.**

This year has been a significant one for building relationships and implementing initiatives with Māori business to unleash their innovation potential. We want their engagement with us, as part of a whole-of-government approach, to be seamless and fitting. We are one of the parties to a blueprint for Māori economic development strategy through to 2040 – He kai kei aku ringa.

The pou or pillars of Callaghan Innovation's strategy for the Māori economy are leadership, strategic partnerships and continuous engagement.

Our initiatives for Māori in the last year include supporting more Māori businesses to see the value of investing in R&D and new technologies. One initiative was the signing of three Memoranda of Understanding with key Māori entities. These have been instrumental in fostering relationships with key Māori organisations and enabled specific innovation projects to commence.

Another initiative was the secondment of Māori Innovation Officers from Māori entities, which aimed to encourage Māori entities to appoint a person within their entity to focus on innovation and also to give that person first-hand experience in the services that Callaghan Innovation provides. Other initiatives included an inaugural Māori Inspire event (see case study).

Callaghan Innovation is leading the Māori Food and Beverage and Māori Health Cluster and supports the Māori Mānuka Honey Cluster. Three technology delegations to the United States, led by the Māori Economy team included two Nuku ki te Puku Māori Food delegations and the Māori Health delegation. These delegations attracted over 50 Māori business participants and a number of innovation projects were initiated as a result.

Underpinning this has been the internal development of Callaghan Innovation staff in being more confident in engaging with Māori through the participation in the two-day Kia Māia marae-based programme.

Through these initiatives, we have seen a significant leap in demand by Māori for Callaghan Innovation services in our other areas of expertise such as programmes, grants, research services, engagement with BIAs and National Technology Network managers, and participation in technology delegations.



# Inspire event for Māori businesses

Callaghan Innovation held a first-of-its-kind Inspire event specifically aimed at Māori businesses in Auckland in May 2015. We brought experts from Stanford University's Business and Design School to speak on innovation and the use of design-thinking in business. A significant aim of the Inspire event was to generate an increased focus on innovation and to motivate businesses to become more ambitious.

The event was held over two days and representatives from 70 leading Māori businesses attended. The event included presentations from some of Māori's most innovative businesses and a site visit to Fisher and Paykel Healthcare's Innovation Hub. Practical workshops were held with the Stanford design experts. The Stanford group remained in New Zealand for a week and held workshops with Te Tumu Paeroa, Te Wānanga o Aotearoa and Callaghan Innovation RTS staff at Gracefield.

This past year we have put into action our intention to achieve 500 Māori start-ups within five years. The success of the Inspire event has led us to develop an event for younger generations in the coming year. We will also hold more Inspire events as a number of new networks were established through our first event.

# Strategic initiative five

## INSPIRING CURRENT AND FUTURE GENERATIONS OF NEW ZEALANDERS TO BECOME AMBITIOUS AND CONFIDENT GLOBAL INNOVATORS.

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**New Zealanders have exceptional levels of inventiveness and an ability to solve problems in innovative ways with limited resources. We want to support activity that inspires and motivates innovators and, in so doing, help build a culture that encourages and supports future innovation.**

Our Inspire programme aims to excite people by the possibilities innovation and high-growth hold. Our goal is to inspire New Zealand businesses to be ambitious about growth and pursue various forms of innovation and to increase the pipeline of future innovators and entrepreneurs.

The programme supports events, partnerships and sponsorships. One Inspire initiative we sponsored in the last year was Chiasma, a student-led organisation that builds links between universities and high-tech industries. It was launched in Auckland and Wellington and will soon have a presence in Dunedin. Almost 300 people attended the launch in Auckland to hear a talk by NZBIO CEO Dr Will Barker on 'The Future of New Zealand Science Industry'. Over 80 people attended the launch in Wellington for a debate on 'The Commercialisation of Science'. Through Chiasma Connect, mentorship programmes were established with 24 HVMS businesses.

Chiasma organises events such as Synapse, an annual networking evening for businesses, students and the Wellington Health Forum attended by over 1,000 people.

In 2014/15 our Inspire programme included:

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Sponsoring the Innovation Council roadshow to inspire businesses through their 'Innovation Heroes' programme which includes stories of successful New Zealand innovators

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Providing ongoing support for the TIN100 analysis of high-growth tech businesses, launch of its annual report and a series of TINTalks for businesses

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Partnering with Business Desk to increase the depth and breadth of innovation-related reporting in business news pages to raise awareness of the HVMS sector

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Holding a Māori Inspire two-day workshop for Māori business leaders on design-thinking and innovation to inspire greater ambition and innovation in Māori businesses

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Our Inspire events promote a culture of forward movement, and stimulate out-of-the-box thinking that we hope will propel our innovation sector to greater heights.



# Futureintech

Our sponsorship of Futureintech is an example of our efforts to inspire future generations to become ambitious and confident global innovators. Futureintech is an organisation that aims to build a strong science, technology, engineering and mathematics (STEM) workforce by encouraging secondary school students to take STEM subjects at university.

Futureintech serves to bridge the gap between students and industry needs by providing a forum through which professionals have the chance to create connections and inform students about the opportunities in their industries. In 2014, Futureintech connected with more than 58,000 students, 3,000 teachers and 400 careers advisors.

Over the last year, Futureintech aimed to increase the amount of industry-specific ambassadors in schools, ensure a strong representation of women as ambassadors and recruit entrepreneur ambassadors. The ambassadors are technologists, engineers and scientists who are relatively new to the workforce and able to share the educational journey that has enabled them to enter their chosen industries. Ambassadors made over 3,500 visits to schools across New Zealand.

An evaluation carried out by the University of Waikato and Massey University calculated that the ambassador programme was influential on student career decisions.

# Our partners/ networks/stakeholders

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

Key to this is ensuring we develop and maintain strong connections with our partners and other key stakeholders.

We did this by:

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Identifying key stakeholders and assigning staff to be relationship managers for them

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Signing 14 Memoranda of Understanding with organisations involved in innovation

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50 presentations and speeches

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Having regular meetings with our Stakeholder Advisory Group, from whom we obtain feedback on our plans in a wide range of areas

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Building extensive links with research providers through our National Technology Network managers and supporting and sponsoring industry events aimed at stakeholders, such as the Go Global conference and Morgo.

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# Callaghan Innovation and New Zealand Trade & Enterprise

Callaghan Innovation and NZTE work closely together as partnered organisations. We have continued to develop our partnership and have worked collaboratively to ensure joint customers have a seamless experience. This involves adopting a 'no wrong door' approach, sharing information through common data platforms and integrating our service suite.

**CallaghanInnovation**  
BUSINESS TECHNOLOGY SUCCESS

 **NEW ZEALAND**  
TRADE & ENTERPRISE

Market insights

Products  
and services  
development



Multiple  
overseas  
markets

Go to market

# Our people



We are a diverse workforce

**354**  
permanent  
employees

**+25**  
fixed-term  
employees

68% male



32% female

32 part-time employees



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During 2014/15 Callaghan Innovation invested in its Māori capability throughout the organisation reflecting how critical the Māori economy is to the New Zealand economy. This included the development of our whakatauākī (proverb) and undertaking activities such as Te Reo (Māori language) lessons and the Kia Māia cultural programme.

Our whakatauākī was put together by a Māori advisory team during 2014/15, led by Robin Hapi, and included experienced Māori language experts Trevor Moeke and Wiremu Doherty. Our whakatauākī captures Sir Paul Callaghan's legacy and enriches the identity of Callaghan Innovation by complementing our mission, values and customer value proposition. It is not a literal translation.

Our whakatauākī is:

***Rukuhia te wāhi ngaro hei maunga tātai whetū***  
(Explore the unknown, Pursue excellence)



**CallaghanInnovation**

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

### **Managing organisational health and capability**

Callaghan Innovation's most critical asset is its people. Throughout the past financial year, a key area of focus has been ensuring that our workforce is highly engaged and energised, and aligned with our vision and strategy.

Callaghan Innovation's mission has attracted and helped to retain a skilled and experienced workforce. We provide our people with the support and development they need, including learning and development across both technical and business domains has been a key priority.

We monitor engagement to identify any trends and collect information on key indicators of organisational health and capability, which is communicated to senior management.

### **Leadership and talent**

Most of our work is produced through partnerships and this requires our people to be business-minded, bold and connected.

Callaghan Innovation has made it a priority to invest in this capability, and is in the process of implementing a leadership and talent management framework. In 2015/16 these will be formally embedded into our performance management system.

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### **Good employer**

Callaghan Innovation is required to be a good employer under the Crown Entities Act 2004 and seeks an inclusive, high-performance, business-facing culture built on mutual trust and respect.

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

We have a range of policies covering:

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Equal employment opportunities and their promotion

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Professional code of ethics and expectations of performance

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Flexible working

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Career stages and review

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Protected disclosures

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The prevention of bullying and harassment

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Health and safety.

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### **A safe and healthy environment**

Health and Safety is a priority area, and we continue to invest in systems, processes and programmes of work to support this. For 2014/15, this has included the implementation of chemical inventory system, and a review of our health monitoring process.

Callaghan Innovation supports a range of activities that promote wellbeing. These include access to an Employee Assistance Support programme and a Winter Wellness programme.

### **Commitment to continuous improvement**

We constantly look for ways to improve how we do business and deliver value. Callaghan Innovation used the Performance Improvement Framework (PIF) self-review methodology as part of an overall ongoing improvement programme to identify and then drive performance improvements in 2014/15 and beyond.



# Governance

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## **Callaghan Innovation's Board is the governing body of the Crown Entity.**

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

The Board's members during the year 2014/15 were Sue Suckling (Chairperson), Paul Lockety, Robin Hapi, Michele Allan, Richard Janes, Peter Hunter, Craig Richardson and Sir Peter Maire who stepped down from the Board in May 2015.

The Minister of Science and Innovation appointed the Chief Executive of the Ministry of Business, Innovation and Employment as advisor to the Board. This role was delegated to Paul Stocks, DCE Science, Skills and Innovation. The Board meets bi-monthly and at other times when required.

There are four Board committees:

### **Audit and Risk**

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

### **Appointments and Remuneration**

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

### **Governance**

The primary function of this committee was to review all governance-related policies transitioned from the previous organisation. The committee has now completed its primary function and has been disbanded.

### **Grants Committee**

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

## Board terms and committee membership

Board members	Board term	Audit and risk	Appointment and remuneration	Governance	Grants
Sue Suckling (Board Chair)	31/01/2016	Ex-officio member	Chair	Ex-officio member	
Paul Lockey	31/01/2016	Chair	-	-	
Robin Hapi	31/01/2015*	-	-	Chair	Member (from 13/05/15)
Michele Allan	31/01/2015*	-	-	Member	
Richard Janes	31/01/2016	Member	-	-	Chair
Peter Hunter	31/01/2016	-	Member	-	
Craig Richardson	31/01/2016	Member	-	-	Member
Peter Maire (resigned)	13/05/2015	-	Member (until 13/5/15)	-	Member (until 13/05/15)

\* A member continues in office until a new Board member is appointed despite the expiry of his or her term in accordance with Section 32(3) of the Crown Entities Act.

Non-Board members	Term	Audit and risk	Appointment and remuneration	Governance	Grants
Peter Townsend	30/09/2015	-	-	-	Member
Dr Alastair MacCormick	30/09/2015	-	-	-	Member

### Table footnote:

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

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## Stakeholder Advisory Group

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

Members	Role	Organisation
Dr Andrew Coy (Chairperson)	Chief Executive Officer	Magritek
Paul Adams	Chairman and CEO	EverEdge IP
Tom Grealley	Consultant	Independent
Brett Hewlett	Chief Executive Officer	Comvita
Frank Owen	Independent Director and Innovation Advisor	Independent
Suse Reynolds	Executive Director	Angel Association of New Zealand
Charlotte Walshe	Chief Executive Officer	Dynamic Controls
Peter Landon-Lane	Chief Executive Officer	Plant and Food Research
Professor Claire Robinson	Pro Vice-Chancellor	Massey University

# Statement of Responsibility

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**The Callaghan Innovation Board is responsible for the preparation of the financial statements and the report on the Statement of Performance Expectations for the period 1 July 2014 to 30 June 2015, and the judgements used in them.**

The Board is also responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting. In the opinion of the Board, the financial statements and report on the Statement of Performance Expectations for the period from 1 July 2014 to 30 June 2015 fairly reflect the financial position and operations of Callaghan Innovation.



Sue Suckling  
Chair



Paul Lockety  
Board member

# Report on the Statement of Performance Expectations

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## **This report on the Statement of Performance Expectations reports progress against the performance measures contained in Callaghan Innovation's Statement of Performance Expectations (SPE) 1 July 2014–30 June 2015.**

We were established as a Crown agent on 1 February 2013 by the Callaghan Innovation Act 2012. After our second full year of operation we are pleased to be able to report we are making progress against the metrics set in our SPE for the year ending 30 June 2015.

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

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

As noted in the SPE the indicators and short-term outcomes are:

- increase BERD as a percentage of GDP by 2020
- increase the number of businesses (including Māori) conducting R&D by 2020
- increase percentage or number of businesses using the services of universities, CRIs and Callaghan Innovation by 2020
- decrease percentage number of firms (including Māori) reporting capital and skill constraints by 2020
- increase number of businesses (including Māori) innovating by 2020.

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

With the core building blocks in place, we have focused on further developing our suite of products and services in order to deliver value to our customers. At the same time we have continued to improve core systems and infrastructure to ensure we are a highly effective and efficient organisation.

The impacts from much of our work will not be seen immediately as many of our outcomes have growth targets to 2025 including:

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Increase value of HVMS exports from \$6.72b to \$10b by 2025

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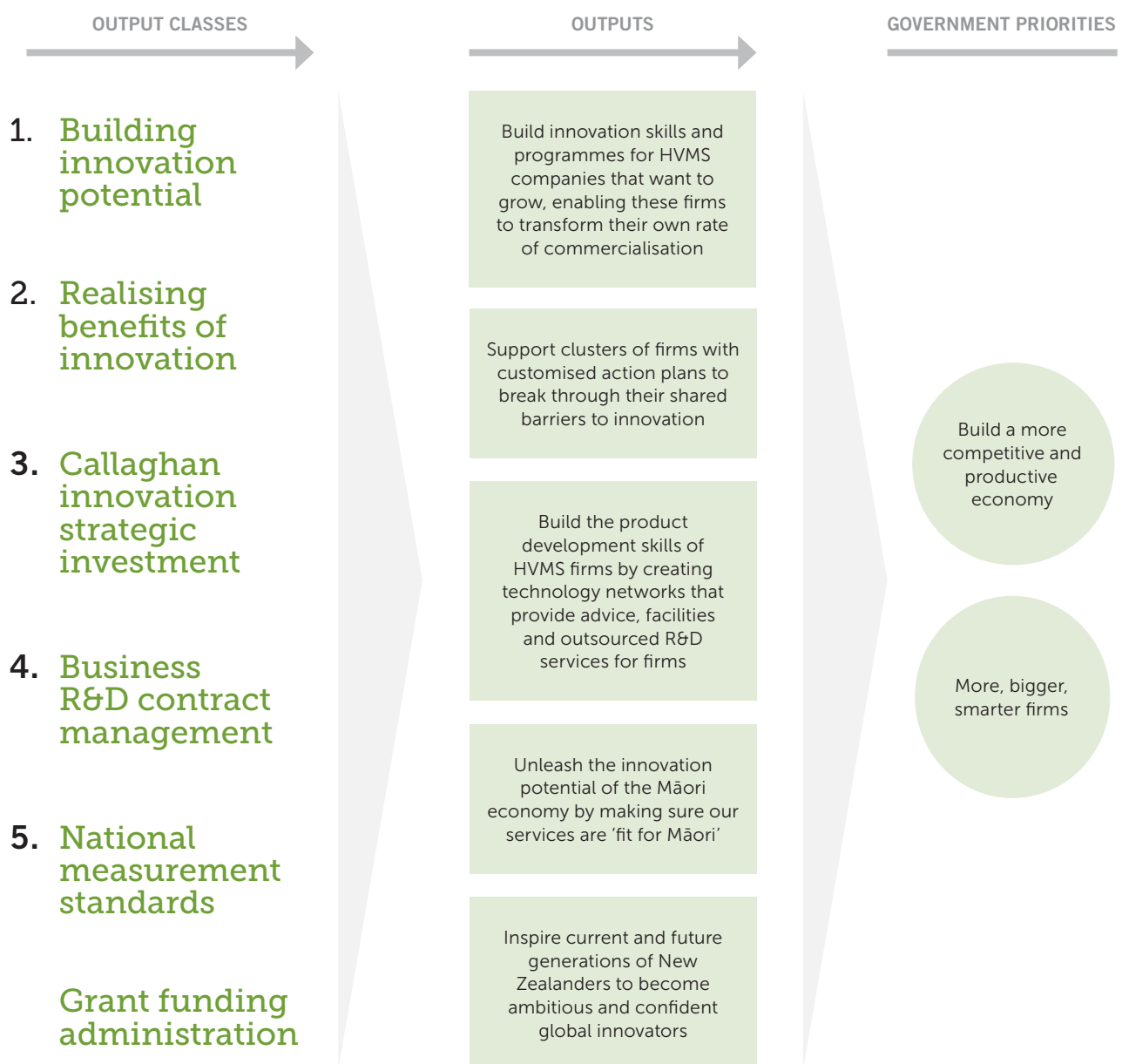
Increase number of companies in TIN200 with turnover >\$20m by 2025.

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As a priority, we have been strengthening our performance measurement framework and indicators to monitor our progress. This includes collecting baseline data on HVMS businesses so that we can monitor the impacts of our services down to an individual business level. During our second year we have revised the description of our outputs classes to better align with our activities and these took effect from 1 July 2015.



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



## OUTPUT CLASS

# 1. Building innovation potential

This appropriation is limited to activities that build innovation potential through providing and enhancing access to information, training, mentoring, foresighting, networking and leadership across the innovation system, and facilitating human capital mobility, for both businesses and research, science and technology providers.

### Financial performance

	Budget Revenue 2014/15 – \$000	Business Case Revenue 2014/15 – \$000	Actual Revenue 2014/15 – \$000	Actual Expenditure 2014/15 – \$000	Actual Surplus 2014/15 – \$000
Appropriation	9,078	9,078	9,078	-	-
Other	263	-	629	-	-
<b>Total</b>	<b>9,341</b>	<b>9,078</b>	<b>9,707</b>	<b>8,976</b>	<b>731</b>

### Performance measures

Quantity	Performance standard	Result
Delivery of a programme of events, sponsorships, and information services, in accordance with Callaghan Innovation's business case and strategy	Programme delivered in accordance with programme plan	Achieved Callaghan Innovation delivered a range of events, sponsorships and internship programmes. Some major achievements include our in sponsorship of the Innovation Council road show to inspire businesses through stories of successful New Zealand innovations, ongoing support for TIN100 analysis of high-growth tech businesses, Māori Inspire events for Māori business leaders.
Number of business-related contacts to Customer Engagement Centre seeking access to business services	> 100 average per month	Achieved The number of business-related contacts to Customer Engagement Centre seeking access to business services has been consistently above 170 per month.
Percentage of students and businesses with positive experiences through the internship programme	80% positive experience	Achieved 80% of students and businesses reported positive experiences.

## OUTPUT CLASS

# 2. Realising the benefits of innovation

This appropriation is limited to activities that build the level of, and returns from, science and technology-driven innovation through providing tailored brokerage and access to advice, technical services and facilities, and creating linkages, projects and collaborations between business and industry and research, science and technology providers.

### Financial performance

	Budget Revenue 2014/15 – \$000	Business Case Revenue 2014/15 – \$000	Actual Revenue 2014/15 – \$000	Actual Expenditure 2014/15 – \$000	Actual Surplus 2014/15 – \$000
Appropriation	23,300	23,300	16,000	-	-
Other	277	-	784	-	-
<b>Total</b>	<b>23,577</b>	<b>23,300</b>	<b>16,784</b>	<b>16,730</b>	<b>54</b>

### Performance measures

Quantity	Performance standard	Result
Business expenditure on R&D as a percentage of GDP as measured in the biennial business R&D survey – every second year	Increase above previously surveyed level	Not Achieved <ul style="list-style-type: none"> <li>Business expenditure on R&amp;D (BERD) is 0.54% of GDP, reported in the 2014 Statistics New Zealand Biennial R&amp;D survey.</li> <li>The increase in BERD was outpaced by the growth in GDP. Consequently BERD as a percentage of GDP has fallen to 0.54%, down from 0.58% in 2012.</li> </ul>
Number and proportion of businesses with products and process innovations, and percentage of sales from new or significantly improved goods and services, as measured in the biennial innovation module of the Business Operations survey (reported in 2014/15)	Increase above previously surveyed level	Statistics not updated as survey data will not be available until next year. <ul style="list-style-type: none"> <li>46% of businesses innovated (implemented or developed new or significantly improved goods, services, or methods) as per the 2013 Statistics New Zealand Biennial Innovation Survey.</li> <li>Of business that implemented new product innovations: <ul style="list-style-type: none"> <li>57% had sales of 1-10% (of total sales)</li> <li>26% had sales of 11-30% (of total sales)</li> <li>8% had sales of 31-100% (of total sales)</li> <li>9% had zero or don't know.</li> </ul> </li> </ul>

<p>Number of New Zealand businesses accessing Accelerator Services</p>	<p>Established Baseline</p>	<p>Achieved          Businesses accessing Accelerator Services:</p> <ul style="list-style-type: none"> <li>- 157 businesses through Business Innovation Advisors</li> <li>- 36 businesses through Better by Lean</li> <li>- 53 businesses through HPWI</li> <li>- 417 businesses through the National Technology Networks</li> <li>- 174 businesses through Global Expert</li> <li>- 580 businesses applied for grants</li> <li>- Incubators 18 repayable loans to start-up businesses</li> <li>- 27 pre-incubation loan applications</li> </ul> <p>Note: Some businesses have engaged with more than one of our Accelerator Services.</p>
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## OUTPUT CLASS

# 3. Callaghan Innovation strategic investment

This appropriation is limited to the development and maintenance of science, engineering, technology, design and other strategic capabilities required to develop, deliver, improve and evaluate its services and activities to meet the immediate and future needs of business and industry, and to facilitate its interactions with research, science and technology providers.

### Financial performance

	Budget Revenue 2014/15 – \$000	Business Case Revenue 2014/15 – \$000	Actual Revenue 2014/15 – \$000	Actual Expenditure 2014/15 – \$000	Actual Surplus 2014/15 – \$000
Appropriation	19,523	18,523	23,123	-	-
Other	23,857	27,149	25,082	-	-
<b>Total</b>	<b>43,380</b>	<b>45,672</b>	<b>48,205</b>	<b>47,811</b>	<b>394</b>

### Performance measures

Quantity	Performance standard	Result
Rolling review of the relevance of research and technical services to business are completed	Two reviews completed	Reviews have been deferred to 31 December 2015.
Private sector co-funding and commercial revenue leveraged	>40%	Achieved <ul style="list-style-type: none"> <li>For commercial projects leveraged with Strategic Initiative funding the commercial funding percentage was 52%</li> <li>For offshore commercial projects the commercial funding percentage was 100%.</li> </ul>
Number and Percentage of New Zealand businesses accessing research and technical services <sup>1</sup>	Established Baseline	Partially Achieved 180 New Zealand businesses accessed research and technical services. Percentage could not be accurately measured as the total number of unique businesses accessing Callaghan Innovation's services is not available for 2014/15.

<sup>1</sup> Percentage is based on total number of New Zealand businesses that use Callaghan Innovation's services and are accessing Research and Technical Services.

OUTPUT CLASS

# 4. Business R&D contract management

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

**Financial performance**

	Budget Revenue 2014/15 – \$000	Business Case Revenue 2014/15 – \$000	Actual Revenue 2014/15 – \$000	Actual Expenditure 2014/15 – \$000	Actual Surplus 2014/15 – \$000
Appropriation	6,831	6,256	10,531	-	-
Other	265	-	1,007	-	-
<b>Total</b>	<b>7,096</b>	<b>6,256</b>	<b>11,538</b>	<b>11,043</b>	<b>495</b>

**Performance measures**

Quantity	Performance standard	Result
Grants allocated consistent with Ministerial direction	100% grants	Achieved 100% grants allocated consistent with Ministerial direction.
Contracts are monitored and managed to maximise the likelihood of delivering on the contracts (applies to contracts greater than six months in duration)	100%	Achieved All grants contracts monitored and any remedial action taken.
Applications for on-demand investments over \$250,000 are independently reviewed by experts	100% of proposals	Achieved 100% of R&D project grants above \$250,000 were independently reviewed.

## OUTPUT CLASS

# 5. National measurement standards

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

### Financial performance

	Budget Revenue 2014/15 – \$000	Business Case Revenue 2014/15 – \$000	Actual Revenue 2014/15 – \$000	Actual Expenditure 2014/15 – \$000	Actual Surplus 2014/15 – \$000
Appropriation	5,764	5,764	5,764	-	-
Other	750	-	622	-	-
<b>Total</b>	<b>6,514</b>	<b>5,764</b>	<b>6,386</b>	<b>5,641</b>	<b>746</b>

### Performance measures

Quantity	Performance standard	Result
Provision of national measurements and standards and related services in accordance with the Minister's statutory obligations under section 4 of the Measurement Standards Act, reported six-monthly to the Minister	Reports accepted	Achieved Reports accepted.
Maintenance of national measurement standards in accordance with the resolutions and recommendations of the Metre Convention with all technical procedures related to the measurement standards validated and reviewed six-monthly	Reviews completed	Achieved <ul style="list-style-type: none"> <li>• Annual Report to MBIE by 30 June 2015</li> <li>• 50% of processes validated and reviewed by 20 December 2014</li> <li>• 100% of processes validated and reviewed by 30 June 2015.</li> </ul>

# Grant funding administration

## Growth Grants

Quantity	Performance standard	Result
Percentage of businesses receiving a Growth Grant that maintain or increase their R&D expenditure over the grant period	70%	<p>Achieved</p> <ul style="list-style-type: none"> <li>• 77% of the 114 companies who have submitted a claim against their Growth Grant have maintained or increased their R&amp;D expenditure</li> <li>• Based on the average eligible R&amp;D expenditure in the two years before their Growth Grant compared with the average value of claims made.</li> </ul>

## Targeted business R&D funding

Quantity	Performance standard	Result
Percentage of maturing R&D projects contracts that are assessed as delivering as agreed	90%	<p>Not achieved – achieved 88%</p> <ul style="list-style-type: none"> <li>• 484 out of 561 contracts have had final reports submitted and approved by 30 June 2015.</li> <li>• This is a FY cumulative measure of the number of final report conditions met compared with the number due.</li> </ul>
Funds invested in active student internships	95%	<p>Achieved</p> <ul style="list-style-type: none"> <li>• The R&amp;D Student Internship (Experience &amp; Career) programme has a level of over-subscription built into the programme (246 and 82 places were approved). We aim to fill 270 spaces between the two programmes: <ul style="list-style-type: none"> <li>- 200 Experience @ \$6,400 = \$1,280,000</li> <li>- 70 Career @ \$30,000 = \$2,100,000</li> </ul> </li> <li>• The value is based on the number of students found by the company to fill approved places.</li> <li>• 97% of funds invested active student internships, This SPE measure has been based on the new number of students found by companies compared with the 270 spaces we aimed to fill.</li> <li>• There is a disparity between the two types of internships. <ul style="list-style-type: none"> <li>- Career Grants had 84% of places filled</li> <li>- Experience Grants had 117% of places filled.</li> </ul> </li> </ul> <p>As a consequence we may reduce the level of over-subscription or increase the number of places we expect to fill in future years.</p>



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## Accelerating start-ups

Quantity	Performance standard	Result
First technology-focused incubator established	In place	Achieved Three technology incubators have been established.
Percentage of incubator contracts that are assessed as delivering as required	90%	Achieved The technology incubators are performing according to their KPIs in their contracts.

## Repayable grants

Quantity	Performance standard	Result
Process in place for allocation and management of repayable grants	In place	Achieved Callaghan Innovation has established a process for allocation and management of repayable grants.

# Financial statements

## STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	Group 2015		Group 2014
		Actual	Budget	Actual
		\$000	\$000	\$000
			Unaudited	
<b>Revenue</b>				
Funding from the Crown	2	73,636	70,780	77,513
Funding from the Crown - grants		138,477	154,900	108,871
Commercial and other revenue	2	18,990	19,128	16,963
Interest revenue		1,423	577	845
<b>Total revenue</b>		<b>232,526</b>	<b>245,385</b>	<b>204,192</b>
<b>Total revenue</b>		<b>232,526</b>	<b>245,385</b>	<b>204,192</b>
<b>Expenditure</b>				
Personnel costs	3	(41,599)	(42,691)	(40,809)
Science project and subcontract costs		(21,546)	(18,820)	(23,444)
Other expenses	3	(22,893)	(21,652)	(16,004)
Depreciation and amortisation expense	9, 10	(5,171)	(6,442)	(5,831)
Grant expense	5	(138,477)	(154,900)	(108,871)
<b>Total operating expenditure</b>		<b>(229,686)</b>	<b>(244,505)</b>	<b>(194,959)</b>
Fundamental science teams' transfer expense	4	-	-	(12,660)
Acquisition (loss) gain	12	(700)	-	4,400
Share of surplus from joint venture and associate	12	281	-	217
<b>Surplus before income tax</b>		<b>2,421</b>	<b>880</b>	<b>1,190</b>
Income tax expense		-	-	(225)
<b>Surplus for the period</b>		<b>2,421</b>	<b>880</b>	<b>965</b>
<b>Other comprehensive revenue and expense</b>				
Cash flow hedges (net of tax)		(453)	-	268
<b>Total comprehensive revenue and expense</b>		<b>1,968</b>	<b>880</b>	<b>1,233</b>

EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET ARE PROVIDED IN NOTE 23.  
THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2015

<u>GROUP</u>	Notes	Contributed capital \$000	Accumulated surplus \$000	Hedge reserve \$000	Total equity \$000
Balance as at 1 July 2013		40,573	2,799	(189)	43,183
Surplus for the year		-	965	-	965
<b>Other comprehensive revenue</b>					
Cash flow hedge reserve		-	-	268	268
<b>Total comprehensive revenue and expense for the year</b>		40,573	3,764	79	44,416
<b>Balance as at 30 June 2014</b>		40,573	3,764	79	44,416
Balance as at 1 July 2014		40,573	3,764	79	44,416
Surplus for the year		-	2,421	-	2,421
<b>Other comprehensive revenue</b>					
Cash flow hedge reserve		-	-	(453)	(453)
<b>Total comprehensive revenue and expense for the year</b>		40,573	6,185	(374)	46,384
<b>Other transactions</b>					
Capital contribution		8,000	-	-	8,000
<b>Balance as at 30 June 2015</b>	7	<b>48,573</b>	<b>6,185</b>	<b>(374)</b>	<b>54,384</b>
<b>GROUP BUDGET</b>					
Balance as at 1 July 2013		40,573	(3,345)	-	37,228
Surplus for the year		-	192	-	192
<b>Other comprehensive revenue</b>					
Cash flow hedge reserve		-	-	6	6
<b>Total comprehensive revenue and expense for the year</b>		40,573	192	6	37,426
<b>Balance as at 30 June 2014</b>		40,573	(3,153)	6	37,426
Balance as at 1 July 2014		40,573	(3,153)	6	37,426
Surplus for the year		-	880	-	880
<b>Other comprehensive revenue</b>					
Cash flow hedge reserve		-	-	-	-
<b>Total comprehensive revenue and expense for the year</b>		40,573	(2,273)	6	38,306
<b>Other transactions</b>					
Capital contribution		9,000	-	-	9,000
<b>Balance as at 30 June 2015</b>	7	<b>49,573</b>	<b>(2,273)</b>	<b>6</b>	<b>47,306</b>

EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET ARE PROVIDED IN NOTE 23.  
THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Notes	Group 2015		Group 2014
		Actual	Budget	Actual
		\$000	\$000	\$000
			Unaudited	
<b>EQUITY</b>				
Contributed capital	7	48,573	49,573	40,573
Accumulated surplus (deficit)	7	6,185	(2,273)	3,764
Hedge reserve	7	(374)	6	79
<b>TOTAL EQUITY</b>		<b>54,384</b>	<b>47,306</b>	<b>44,416</b>
<i>Represented by:</i>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	6	24,716	8,778	17,280
Trade and other receivables	8	6,152	3,860	4,988
Crown debtor – grants	8	65,668	67,019	44,834
Derivative financial instruments	19	-	-	79
Work in progress		621	722	523
Inventories		237	252	254
<b>Total current assets</b>		<b>97,394</b>	<b>80,631</b>	<b>67,958</b>
<b>NON-CURRENT ASSETS</b>				
Trade and other receivables	8	1,773	-	2,344
Investment in joint ventures and associates	12	7,198	-	4,617
Property plant and equipment	9	32,216	42,716	29,183
Intangible assets	10	1,773	4,576	970
Deferred tax		-	193	-
<b>Total non-current assets</b>		<b>42,960</b>	<b>47,485</b>	<b>37,114</b>
<b>TOTAL ASSETS</b>		<b>140,354</b>	<b>128,116</b>	<b>105,072</b>

EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET ARE PROVIDED IN NOTE 23.  
THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

	Notes	Group 2015		Group 2014
		Actual \$000	Budget \$000	Actual \$000
		Unaudited		
<b><u>CURRENT LIABILITIES</u></b>				
Trade creditors and other payables	15	11,857	6,365	8,861
Derivative financial instruments	19	374	-	-
Employee benefits	13	3,141	4,101	3,524
Grant obligations	17	65,668	67,019	44,834
Income in advance	14	4,601	2,708	3,071
<b>Total current liabilities</b>		<b>85,641</b>	<b>80,193</b>	<b>60,290</b>
<b><u>NON-CURRENT LIABILITIES</u></b>				
Employee benefits	13	329	617	366
<b>Total non-current liabilities</b>		<b>329</b>	<b>617</b>	<b>366</b>
<b>TOTAL LIABILITIES</b>		<b>85,970</b>	<b>80,810</b>	<b>60,656</b>
<b><u>NET ASSETS</u></b>		<b>54,384</b>	<b>47,306</b>	<b>44,416</b>

For and on behalf of the members of the Board, which authorised the issue of the financial statements on 1st September 2015.



Sue Suckling  
Chair, Callaghan Innovation Board



Paul Lockey  
Callaghan Innovation Board

EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET ARE PROVIDED IN NOTE 23.  
THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2015

	Notes	Group 2015		Group 2014
		Actual \$000	Budget \$000	Actual \$000
			Unaudited	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<i>Cash was provided from:</i>				
Receipts from the Crown operating		74,391	79,464	76,977
Receipts from the Crown – grants		117,644	154,900	97,401
Receipts from commercial customers		17,445	20,762	14,037
Interest received		1,423	577	846
		210,903	255,703	189,261
<i>Cash was applied to:</i>				
Payments to suppliers		(41,173)	(50,818)	(33,168)
Payments to employees		(42,165)	(41,761)	(40,736)
Payments to grant recipients		(117,644)	(154,900)	(97,401)
		(200,982)	(247,479)	(171,305)
<b>Net cash flow from operating activities</b>	16	<b>9,921</b>	<b>8,224</b>	<b>17,956</b>

EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET ARE PROVIDED IN NOTE 23.  
THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

	Notes	Group 2015		Group 2014
		Actual \$000	Budget \$000	Actual \$000
			Unaudited	
<b><u>CASH FLOW FROM INVESTING ACTIVITIES</u></b>				
<i>Cash was provided from:</i>				
Sale of property, plant and equipment		34	-	95
Finance lease received		1,701	-	1,351
		1,735	-	1,446
<i>Cash was applied to:</i>				
Purchase of property, plant and equipment		(8,013)	(17,237)	(3,888)
Purchase of intangible assets		(1,207)	-	(203)
Investment in associate		(3,000)	-	-
Payment on transferring fundamental science team	4	-	-	(12,660)
		(12,220)	(17,237)	(16,751)
<b>Net cash flow from investing activities</b>		<b>(10,485)</b>	<b>(17,237)</b>	<b>(15,305)</b>
<b><u>CASH FLOW FROM FINANCING ACTIVITIES</u></b>				
<i>Cash was provided from:</i>				
Capital contribution		8,000	9,000	-
		8,000	9,000	-
		8,000	9,000	-
<b>Net increase/(decrease)in cash and cash equivalents</b>		<b>7,436</b>	<b>(13)</b>	<b>2,651</b>
Cash and cash equivalents at the beginning of the year		17,280	8,791	14,629
<b><u>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</u></b>				
<i>Cash balance at the end of the year comprises:</i>				
Cash and term deposits	6	24,716	8,778	17,280
<b><u>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</u></b>		<b>24,716</b>	<b>8,778</b>	<b>17,280</b>

EXPLANATIONS OF MAJOR VARIANCES AGAINST BUDGET ARE PROVIDED IN NOTE 23.  
THE ACCOMPANYING ACCOUNTING POLICIES AND NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

# Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2014

## 1. STATEMENT OF ACCOUNTING POLICIES

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### **REPORTING ENTITY**

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

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

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

Callaghan Innovation does not operate to make a financial return.

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

### **BASIS OF PREPARATION**

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

#### **Statement of compliance**

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

Prior to 30 June 2014 Callaghan Innovation prepared financial statements based on NZ IFRS and other applicable Financial Reporting Standards as appropriate for public benefit entities. New Public Sector standards are applicable for financial periods beginning on or after 1 July 2014.

Callaghan Innovation transitioned to Tier 1 Public Sector Public Benefit Entity (PBE) accounting standards in preparing these financial statements at 30 June 2015. These financial statements comply with Public Sector PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the new Public Sector PBE accounting standards.

There are no changes to recognition, measurement and presentation arising from the transition to Public Sector PBE standards.

#### **Functional presentation currency and rounding**

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

#### **Standards issued and not yet effective and early adopted**

In October 2014, the PBE suite of accounting standards was updated to incorporate requirements and guidance for the not for profit sector.

These updated standards apply to PBE's with reporting periods beginning on or after 1 April 2015. Callaghan Innovation expects there will be no change in applying these updated accounting standards.

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **REVENUE**

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

#### **Revenue from the Crown - operational funding**

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

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

#### **Grants (Crown revenue)**

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

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

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

Revenue from research contract services is recognised by reference to the stage of completion. The stage of completion is measured by reference to project milestones or costs incurred to date as a percentage of the total cost for each contract. Where the contract outcome cannot be measured reliably revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### **Interest**

Interest income is recognised using the effective interest method.



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### ***Royalty and licensing income***

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

### ***Rental revenue and other income***

Lease receipts under an operating sublease are recognised as revenue on a straight line basis over lease term.

### **GRANTS EXPENDITURE**

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

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

### **BASIS OF CONSOLIDATION**

The consolidated financial statements combine the financial statements of Callaghan Innovation its controlled entities, associates and joint ventures as at 30 June 2015 ("the Group").

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

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

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

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

### **INVESTMENT IN JOINT VENTURES**

A joint venture is the agreed sharing of control over an activity by a binding arrangement accounted for using the equity method from the date on which it becomes a joint venture. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as follows:

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

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

### **INVESTMENT IN ASSOCIATES**

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

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

### **INVESTMENT IN CONTROLLED ENTITIES**

Investments in controlled entities are accounted for at cost less impairment. Cost includes direct attributable costs of investment. Acquisition related costs are expensed as incurred. The results of controlled entities are accounted for by Callaghan Innovation on the basis of dividend received and receivable.

Impairment testing of the investments in controlled entities is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive revenue of the controlled entities in the period the dividend is declared

or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## **FOREIGN CURRENCY**

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

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

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

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

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

## **PROPERTY, PLANT AND EQUIPMENT**

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

### **Additions**

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to Callaghan Innovation and the cost of the item can be measured reliably.

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

### **Disposals**

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

## **Subsequent costs**

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to Callaghan Innovation and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Revenue and Expense.

## **Depreciation**

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

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

## **INTANGIBLE ASSETS**

### **Research and development costs**

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure from the point at which the asset is ready to use the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

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

The amortisation period and amortisation method for development costs are reviewed at each financial year end. If the useful life or method of consumption is different from that in the previous assessment, changes are made accordingly. The carrying value of development costs is reviewed for indicators of impairment annually.

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### ***Computer software***

Acquired computer software is capitalised on the basis of the costs incurred to acquire and gain the right to use the specific software.

Computer software development costs recognised as assets are amortised over their estimated useful lives (between three and five years).

The costs of maintaining computer software are expensed as incurred.

### ***Patents***

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

## **IMPAIRMENT OF PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS**

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

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

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

### ***Cash-generating assets***

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

### ***Non-cash-generating assets***

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

## **FINANCIAL ASSETS**

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

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

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

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

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

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

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

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

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

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

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

## **DE-RECOGNITION OF FINANCIAL INSTRUMENTS**

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

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## **DERIVATIVE FINANCIAL INSTRUMENTS**

Derivatives are initially recognised at fair value on the dates that derivative contracts are entered into and are subsequently re-measured to their fair value.

The method of recognising a resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

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

## **CASH FLOW HEDGE**

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

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

## **DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING**

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

## **INVENTORIES**

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

## **WORK-IN-PROGRESS**

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

## **TRADE AND OTHER RECEIVABLES**

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

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

## **CASH AND CASH EQUIVALENTS**

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

## **TRADE AND OTHER PAYABLES**

Short-term payables are recorded at their face value.

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## **PROVISIONS**

Callaghan Innovation recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

## **LEASES**

### ***Finance leases – lessor***

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

The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

### ***Operating leases – lessor***

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

### ***Operating leases – lessee***

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to Callaghan Innovation are classified as operating leases.

## **EMPLOYEE BENEFITS**

### ***Short-term employee entitlements***

Employee entitlements that Callaghan Innovation expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retirement and long service leave entitlements expected to be settled within 12 months and sick leave. Callaghan Innovation recognises a liability for sick leave to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year.

The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date to the extent that Callaghan Innovation anticipates it will be used by staff to cover those future absences.

### ***Long-term employee entitlements***

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis.

The calculations are based on:

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

## **SUPERANNUATION SCHEMES**

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

## **INCOME TAX**

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

## **GOODS AND SERVICES TAX (GST)**

All items in the financial statements are presented exclusive of GST, except for trade receivables and trade payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax then it is recognised as part of the related asset or expense. The net amount of GST recoverable from or payable to the Inland Revenue Department is included as part receivables or payables in the Statement of Financial Position. The net GST paid to or received from the Inland Revenue Department including the GST relating to investing or financing activities is classified as an operating cash flow in the Statement of Cash Flows. Commitments and contingencies are disclosed exclusive of GST.

## 2. REVENUE

	Group 2015	Group 2014
	Actual \$000	Actual \$000
<b><u>CROWN REVENUE - EXCHANGE TRANSACTIONS</u></b>		
Ministry of Business, Innovation and Employment - Other operational funding including Research and Development	73,636	77,254
The Royal Society of New Zealand	-	259
<b><u>CROWN REVENUE - NON EXCHANGE TRANSACTIONS</u></b>		
Ministry of Business, Innovation and Employment - Research and Development Grants	138,477	108,871
<b>Total Crown and other revenue</b>	<b>212,113</b>	<b>186,384</b>
<b><u>COMMERCIAL AND OTHER REVENUE - EXCHANGE TRANSACTIONS</u></b>		
Commercial - domestic	5,703	6,887
Commercial - overseas	10,241	7,302
Royalty and licensing income	324	345
Property and equipment rental	1,192	1,110
Other revenue	1,530	1,319
Interest revenue	1,423	845
<b>Total commercial and other revenue</b>	<b>20,413</b>	<b>17,808</b>
<b>Total Revenue</b>	<b>232,526</b>	<b>204,192</b>

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

Callaghan Innovation received grant funding from the Crown to pay research and development grants as set out in the Statement of Intent and the scope of the relevant Government appropriations.

### 3. EXPENDITURE

	Group 2015	Group 2014
	Actual \$000	Actual \$000
<b>PERSONNEL COSTS INCLUDE:</b>		
Salary and wages	38,062	37,301
Defined contribution plan employer contributions	1,045	1,016
	39,107	38,317
<b>SEVERANCE PAYMENTS</b>		
Severance payments include any consideration (monetary or non-monetary) provided to any employee in respect of the termination of their employment with Callaghan Innovation.		
Severance payments	744	769
Number of employees	20	14
<b>OTHER EXPENSES INCLUDE:</b>		
Repairs and maintenance	3,042	2,088
Premises and utility expenses	2,975	2,879
Auditors' fees		
- For auditing the financial statements	136	149
- Operational process review	-	25
- Other services	29	-
Bad and doubtful debts	35	113
Directors' fees	249	264
Rent and lease expenses	2,786	2,179
Donations	3	1
Loss on disposal of fixed assets	180	334
Foreign exchange losses	30	62
Intellectual property (patents)	209	513

#### 4. FUNDAMENTAL SCIENCE TEAMS TRANSFER EXPENSE

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	Group 2015	Group 2014
	Actual \$000	Actual \$000
Fundamental science teams' transfer expense	-	12,660

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

#### 5. GRANTS EXPENSE

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Grants approved for which recipients can demonstrate they have met grant conditions.	138,477	108,871
Total grants expense	138,477	108,871

#### 6. CASH AND CASH EQUIVALENTS

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Cash at bank	4,216	4,780
Term deposits	20,500	12,500
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>24,716</b>	<b>17,280</b>

Various term deposits were held at 30 June 2015 for periods of between 125 and 243 days.

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



## 7. EQUITY

	Group 2015	Group 2014
	Actual \$000	Actual \$000
<b>CONTRIBUTED CAPITAL</b>		
Balance at 1 July 2014	40,573	40,573
Capital contribution	8,000	-
<b>BALANCE AT 30 JUNE 2015</b>	<b>48,573</b>	<b>40,573</b>
<b>ACCUMULATED SURPLUS</b>		
Balance at 1 July 2014	3,764	2,799
Surplus for the period	2,421	965
<b>BALANCE AT 30 JUNE 2015</b>	<b>6,185</b>	<b>3,764</b>
<b>HEDGE RESERVE</b>		
Balance at 1 July 2014	79	(189)
Fair value (loss) gain for the period	(453)	268
<b>BALANCE AT 30 JUNE 2015</b>	<b>(374)</b>	<b>79</b>
<b>TOTAL EQUITY AT 30 JUNE 2015</b>	<b>54,384</b>	<b>44,416</b>

A capital contribution of \$8,000,000 was paid to Callaghan Innovation in 2015. Funds were received as follows, \$5,000,000 on 31 October 2014, and \$3,000,000 on 30 November 2014. The capital contribution funded by a capital appropriation from the Ministry of Business Innovation and Employment was used to fund a 30% equity share in New Zealand Food Innovation (Waikato) Limited (see note 12 for details of investment in associate companies) and the purchase and development of assets by, and for the use, of Callaghan Innovation.

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

## 8. TRADE AND OTHER RECEIVABLES

	Group 2015	Group 2014
	Actual \$000	Actual \$000
<b>CURRENT</b>		
Debtors	3,977	3,114
Less: Provision for impairment	(177)	(142)
	3,800	2,972
Accrued income	626	432
Other receivables	162	29
Prepayments	992	1,125
Finance leases - gross receivables	831	750
Unearned finance income	(259)	(320)
	572	430
	<b>6,152</b>	<b>4,988</b>
<b>CROWN DEBTOR GRANTS</b>		
Ministry of Business Innovation and Employment - grants receivable	65,668	44,834
Total current and non-current Government grants receivable	<b>65,668</b>	<b>44,834</b>
<b>Non current receivables</b>		
Finance leases - gross receivables	2,076	2,908
Unearned finance income	(303)	(564)
	1,773	2,344
<b>GROSS RECEIVABLES FROM FINANCE LEASES</b>		
- Less than 1 year	831	750
- Greater than 1 year but less than 5 years	2,076	2,908
- Greater than 5 years	-	-
	2,907	3,658
Unearned finance income	(562)	(884)
Net investment in finance leases	<b>2,345</b>	<b>2,774</b>

	Group 2015	Group 2014
	Actual \$000	Actual \$000
<b>NET INVESTMENT IN FINANCE LEASES:</b>		
- Less than 1 year	572	430
- Greater than 1 year but less than 5 years	1,773	2,344
- Greater than 5 years	-	-
	<b>2,345</b>	<b>2,774</b>
<p>The carrying amount of trade receivables are equivalent to fair values. Trade receivables includes amounts due from related parties see note 22 for details.</p>		
<b>(a) Provision for impairment</b>		
At 30 June 2015 trade receivables of \$177,000 were considered impaired.		
The impaired receivables were from a number of customers.		
Opening balance	142	29
Recognised during the period	35	113
<b>CLOSING BALANCE</b>	<b>177</b>	<b>142</b>
<b>(b) Past due but not impaired</b>		
At 30 June 2015 trade receivables of \$1,146,000 (2014: \$728,000) were past due but not impaired.		
These relate to a number of independent customers for whom there is no recent history of default.		
The aging of trade receivables is as follows:		
Within 1 month	700	555
Within 1 to 3 months	200	127
Beyond 3 months	246	46
	<b>1,146</b>	<b>728</b>

## 9. PROPERTY, PLANT AND EQUIPMENT

	Land Assets	Buildings Assets	Plant Assets	Capital Work in Progress	Total Actual
	\$000	\$000	\$000	\$000	\$000
<b>GROUP</b>					
<b>1 July 2014</b>					
Cost	3,001	13,897	14,788	792	32,478
Accumulated depreciation	-	(1,286)	(2,009)	-	(3,295)
Carrying amount	3,001	12,611	12,779	792	29,183
<b>For the year ended 30 June 2015</b>					
Carrying amount at 1 July 2014	3,001	12,611	12,779	792	29,183
Additions	-	1,119	4,165	2,736	8,020
Transfers from capital work in progress	-	1,790	621	(2,418)	(7)
Disposals	-	(16)	(147)	-	(163)
Depreciation	-	(1,422)	(3,395)	-	(4,817)
Carrying amount at 30 June 2015	3,001	14,082	14,023	1,110	32,216
Cost	3,001	16,789	19,381	1,110	40,281
Accumulated depreciation	-	(2,707)	(5,358)	-	(8,065)
Carrying amount	3,001	14,082	14,023	1,110	32,216
<b>GROUP</b>					
<b>1 July 2013</b>					
Cost	3,001	13,251	18,153	2,212	36,617
Accumulated depreciation	-	(815)	(1,514)	-	(2,329)
Carrying amount	3,001	12,436	16,639	2,212	34,288
<b>For the year ended 30 June 2014</b>					
Carrying amount at 1 July 2013	3,001	12,436	16,639	2,212	34,288
Additions	-	653	2,485	750	3,888
Transfers from capital work in progress	-	1,557	613	(2,170)	-
Disposals	-	(74)	(3,438)	-	(3,512)
Depreciation	-	(1,961)	(3,520)	-	(5,481)
Carrying amount at 30 June 2014	3,001	12,611	12,779	792	29,183
Cost	3,001	13,897	14,788	792	32,478
Accumulated depreciation	-	(1,286)	(2,009)	-	(3,295)
Carrying amount	3,001	12,611	12,779	792	29,183

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### Capital work in progress

The majority of assets under capital work in progress are plant which is \$950,000 (2014: \$726,000)

### Insurable values of fixed assets

The Group has established, maintains and regularly reviews comprehensive cover for business insurance. As part of this cover, it insures its fixed assets at either demolition, indemnity or replacement values. In line with other businesses in the Wellington region, the Group faces higher rates of exclusions on the fixed asset replacement policies. The Group has total insurable assets of \$243 million with an earthquake loss limit of \$75 million. The earthquake insurance deductible is \$10 million.

	Group 2015	Group 2014
	Actual \$000	Actual \$000
The category of building assets leased by the group to third parties under operating leases with the following carrying amounts:		
Cost	5,310	4,767
Accumulated depreciation	(2,533)	(2,123)
Depreciation charge for the year	(125)	(117)
Net book amount	2,652	2,527

## 10. INTANGIBLE ASSETS

	Group 2015	Group 2014
	Software \$000	Software \$000
<b>BALANCE AT 1 JULY 2014</b>		
Cost	1,143	6,090
Accumulated amortisation	(173)	(4,960)
Opening carrying amount	970	1,130
<b>For the year ended 30 June 2015</b>		
Additions	1,200	203
Transfers from capital work in progress	7	-
Disposals	(50)	(13)
Amortisation charge	(354)	(350)
<b>BALANCE AT 30 JUNE 2015</b>		
Cost	2,303	1,143
Accumulated amortisation	(530)	(173)
Closing carrying amount	<b>1,773</b>	<b>970</b>

## 11. INVESTMENT IN CONTROLLED ENTITIES

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

Name of entity	Principal activities	Interest held by the Group
		30 June 2015
		%
<b>NON TRADING CONTROLLED ENTITIES</b>		
Callaghan Innovation Research Limited	Research contracts - ceased trading 1 December 2013.	100%
Measurement Standards Laboratory of New Zealand Limited	Non-operating - name protection	100%
Glycosyn Technologies Limited	Non-operating - name protection	100%
Bio-Sol Limited	Non-operating	100%

All controlled entities have 30 June balance dates.

All controlled entities are incorporated in New Zealand.

## 12 INVESTMENT IN JOINT VENTURES AND ASSOCIATES

Details of associates		Group 2014	Group 2013
Associates comprise the following:		%	%
Name of entity	Principal activities		
General Cable Superconductors Limited	High temperature superconductor cable manufacturer - non trading		
New Zealand Food Innovation (Waikato) Limited	Food innovation company	30.00%	-
New Zealand Food Innovation (South Island) Limited	Food innovation company	49.90%	-

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

### Investment in associates

On 13 October 2014 Callaghan Innovation purchased a 30% shareholding in New Zealand Food Innovation (Waikato) Limited for \$3,000,000.

As Callaghan Innovation does not control but has significant influence over New Zealand Food Innovation (Waikato) Limited, its interest in the associate is accounted for via the equity method. The fair value of the identifiable assets and liabilities of New Zealand Food Innovation (Waikato) Limited was determined via independent valuation on acquisition. A purchase impairment of \$700,000 was recognised in the Statement of Comprehensive Revenue and Expense in the current year to recognise the difference between fair value and the purchase price of \$3,000,000.

	Actual 2015
<u>NEW ZEALAND FOOD INNOVATION (WAIKATO) LIMITED</u>	\$000
Current assets	413
Non current assets	19,311
Current liabilities	(1,206)
Non current liabilities	(14,169)
Total revenue	3,708
Total expenditure	(3,744)
Net (deficit)	(36)
<b>Results of the associate</b>	
Share of deficit	(11)
<b>Interest in associate</b>	
Carrying amount at beginning of year	-
Acquisition at fair value	3,000
Impairment of acquisition value during the year	(700)
Share of deficit	(11)
Carrying value at the end of the year	2,289

On 30th November 2014 Callaghan Innovation purchased a 49.9% shareholding in New Zealand Food Innovation (South Island) Limited for \$1.00.

As Callaghan Innovation does not control but has significant influence over New Zealand Food Innovation (South Island) Limited, its interest in the associate is accounted for via the equity method.

	Actual 2015
<b>NEW ZEALAND FOOD INNOVATION (SOUTH ISLAND) LIMITED</b>	\$000
Current assets	2,957
Non current assets	16
Current liabilities	(2,578)
Total revenue	911
Expenditure	(518)
Net surplus	393
<b>Results of the associate</b>	
Share of surplus	196
<b>Interest in associate</b>	
Carrying amount at beginning of year	-
Acquisition at fair value	-
Share of surplus	196
Carrying value at the end of the year	196

#### Investment in joint venture

On 1 August 2013 Callaghan Innovation purchased a 67% shareholding in New Zealand Food Innovation (Auckland) Limited for \$1.00. While Callaghan Innovation is the majority owner of New Zealand Food Innovation (Auckland) Limited, the shareholder agreement requires the unanimous consent of all owners for strategic financial and operating decisions. As Callaghan Innovation jointly controls New Zealand Food Innovation (Auckland) Limited and its interest in the joint venture is accounted for via the equity method.

The fair value of the identifiable assets and liabilities of New Zealand Food Innovation (Auckland) Limited was determined via independent valuation on acquisition. A purchase gain of \$4,400,000 was recognised in the Statement of Comprehensive Revenue and Expenses in the 2014 financial year to recognise the difference between fair value and the purchase price of \$1.00.

	Actual 2015	Actual 2014
<b>NEW ZEALAND FOOD INNOVATION (AUCKLAND) LIMITED</b>	\$000	\$000
<b>Total</b>		
Current assets	1,275	1,114
Non current assets	7,405	7,453
Current liabilities	448	452
Non current liabilities	2,031	2,057
<b>Results of the joint venture</b>		
Revenue	3,808	3,174
Expenditure	(3,665)	(2,845)
Net surplus	143	329
Share of surplus	96	217
<b>Interest in joint venture</b>		
Carrying amount at beginning of year	4,617	4,400
Share of total recognised revenues and expenses	96	217
Carrying value at the end of the year	4,713	4,617

All joint venture and associates have 30 June balance dates.



### 13. EMPLOYEE BENEFITS

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	Group 2015	Group 2014
	\$000	\$000
<b><u>CURRENT</u></b>		
Employee entitlements	208	1,231
Long service and retiring leave	191	146
Annual leave	2,533	2,072
Sick leave	209	75
	<b>3,141</b>	<b>3,524</b>
<b><u>NON CURRENT</u></b>		
Long service and retiring leave	<b>329</b>	<b>366</b>

### 14. INCOME IN ADVANCE

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#### Payable under exchange transactions

Government and other revenue received in advance	<b>4,601</b>	<b>3,071</b>
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Income in advance represents income received from government and other customers for project work not completed at 30 June.

## 15. TRADE AND OTHER PAYABLES

	Group 2015	Group 2014
	Actual \$000	Actual \$000
<b><u>PAYABLES UNDER EXCHANGE TRANSACTIONS</u></b>		
Trade creditors	3,872	2,839
Other payables	7,694	5,395
<b>Total payables under exchange transactions</b>	<b>11,566</b>	<b>8,234</b>
<b><u>PAYABLES UNDER NON-EXCHANGE TRANSACTIONS</u></b>		
Goods and services tax (GST) payable	291	627
<b>Total payables under non-exchange transactions</b>	<b>291</b>	<b>627</b>
	<b>11,857</b>	<b>8,861</b>

### Total trade and other payables

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

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

## 16. RECONCILIATION OF SURPLUS WITH CASHFLOW FROM OPERATING ACTIVITIES

	Group 2015	Group 2014
	Actual \$000	Actual \$000
<b>NET SURPLUS FOR THE PERIOD</b>	2,421	965
<i>Add/(less) non-cash items:</i>		
Joint venture acquisition gain	-	(4,400)
Depreciation	4,817	5,481
Amortisation of intangible assets	354	350
Impairment in associate	700	-
Movement in deferred tax	-	225
Science team transfer reclassify as investing activity	-	12,660
Share of surplus joint venture and associate	(281)	(217)
Loss on sale of fixed assets	180	334
Property and equipment rental income	(1,192)	(1,110)
<i>Add/(less) movements in working capital:</i>		
Trade and other receivables	(21,936)	(10,507)
Inventory	17	6
Work in progress	(97)	(107)
Income in advance	1,530	(633)
Employee benefits	(420)	(311)
Trade and other payables	24,281	14,952
Derivative financial instrument	(453)	268
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>9,921</b>	<b>17,956</b>

## 17. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

The fair value of long service and retiring leave liability is determined by use of estimates of retiring age, probability of meeting retirement criteria and discounting future estimated payments. The liability at 30 June 2015 was calculated internally using a discounted cash flow model reviewed by an external actuary. Using the discounted cash flow model the liability was calculated for 2015 at \$520,000 (2014: \$512,000).

Adjusting the discount rate down/up 1.0% results in a decrease/increase of the 2015 retiring/long service leave liability balance and end of period surplus of \$10,000 decrease/increase (2014: \$23,000 decrease/increase).

#### (b) Grant obligations and debtor

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

Based upon this assessment an accrual for grants obligations are made to the financial statements, 2015 \$65,668,000 (2014: \$44,834,000).

Payments against the 30 June 2015 accrual are expected to be made during the 2015/16 financial year.

	Group 2015	Group 2014
	Actual \$000	Actual \$000
<b>Payable under non-exchange transactions</b>		
Grant obligations	65,668	44,834
<b>Total grant obligations</b>	<b>65,668</b>	<b>44,834</b>

#### (c) Associate company valuation

Management reviewed its investment in associate New Zealand Food Innovation (Waikato) Limited. The review consisted of a formal valuation completed by external consultants. The investment value at 21 October 2014 was assessed at \$2,300,000. This valuation was \$700,000 below cost.

The subsequent loss has been recognised in the Statement of Revenue and Expense.

#### (d) Revenue

Some revenue for the Group is project based. Revenue is recognised on an accruals basis, this involves posting revenue to the Statement of Comprehensive Revenue and Expense only when it is earned. Managers review projects and provide an assessment of project status.

Based upon this assessment revenue in advance adjustments are made to the financial statements 2015: \$4,601,000 (2014: \$3,071,000).

### CRITICAL JUDGEMENT IN APPLYING THE GROUP'S ACCOUNTING POLICY

#### (a) Grants (Crown revenue)

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

## 18. FINANCIAL INSTRUMENTS BY CATEGORY

	Group	
	\$000	\$000
<b>AS AT 30 JUNE 2015</b>		
<b>Financial assets</b>		
Cash and cash equivalents	24,716	-
Crown debtor - grants	65,668	-
Debtors and other receivables	6,933	-
	97,317	-
	Liabilities measured at amortised cost	Derivatives used for hedging
<b>Financial liabilities</b>		
Creditors and other payables	11,566	-
Grant obligations	65,668	-
Employee leave benefits	2,950	-
Derivative financial instruments	-	374
	80,184	374
	Loans and receivables	Derivatives used for hedging
<b>AS AT 30 JUNE 2014</b>		
<b>Financial assets</b>		
Cash and cash equivalents	17,280	-
Crown debtor - grants	44,834	-
Debtors and other receivables	6,207	-
Derivative financial instruments	-	79
	68,321	79
	Liabilities measured at amortised cost	Derivatives used for hedging
<b>Financial liabilities</b>		
Creditors and other payables	8,861	-
Grant obligations	44,834	-
Employee leave benefits	3,378	-
	57,073	-

The only financial liabilities held at fair value are foreign exchange contracts \$374,000 liability (2014: \$79,000 asset). These are level 2 instruments in the fair value hierarchy and have been valued using balance date financial institution valuations.

## 19. FINANCIAL RISK MANAGEMENT

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

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

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

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

### (a) Market risk

#### Foreign exchange risk

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

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

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

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

Forward exchange contract volatility on designated hedged transactions is accounted for through the cash flow hedge reserve. For the period ended 30 June the balance of the cash flow hedge reserve representing unexpired designated hedged foreign exchange contracts was \$374,000 (loss) (2014: \$79,000 gain).

At 30 June 2015, if the currency had strengthened/weakened by 10% against the US dollar with other variables held constant, surplus for the period (Group) would have been: strengthened \$207,000 lower, weakened \$253,000 higher (2014: strengthened \$112,000 lower, weakened \$136,000 higher) as the result of foreign exchange translation of US dollar denominated trade receivables/payables.

At 30 June 2015, if the currency had strengthened/weakened by 10% against the Australian dollar with other variables held constant, surplus for the period (Group) would have been: strengthened \$2,000 lower, weakened \$3,000 lower (2014: strengthened \$nil lower, weakened \$1,000 higher) as the result of translation of Australian dollar denominated trade receivables/payables.

At 30 June 2015, the Group has forward foreign exchange contracts for the sale and purchase of currencies to cover firm foreign currency denominated receipts and payments. Details of forward foreign exchange contracts outstanding at balance date are:

	Group 2015		Group 2014	
	Currency (Thousands)	Contract value NZD \$000	Currency (Thousands)	Contract value NZD \$000
<b>OUTSTANDING CONTRACTS</b>				
<b>Bank buys</b>				
United States dollar	3,651	5,035	2,027	2,382
British pound	-	-	15	32
Singapore dollar	-	-	395	412
Euro	62	103	-	-
Australian dollar	136	147	160	176
<b>Bank sells</b>				
United States dollar	95	123	-	-

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

**(b) Interest rate risk**

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

**(c) Credit risk**

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

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

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

There are no significant concentrations of credit risk.

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**(d) Liquidity risk**

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

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

The Group's financial assets and liabilities and net settled derivative financial liabilities are due within 12 months of balance date.

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

	Group 2015	Group 2014
	Less than one year \$000	Less than one year \$000
Cash and cash equivalents	24,716	17,280
Trade and other receivables	6,152	3,863
Crown debtor - grants	65,668	44,834
Derivatives used for hedging	-	79
Trade and other payables	(11,857)	(8,861)
Grant obligations	(65,668)	(44,834)
Employee benefits	(3,141)	(3,378)

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

Forward foreign exchange contracts - cash flow hedges		
Inflow	5,285	3,002
Outflow	(123)	-

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



## 20. CAPITAL RISK MANAGEMENT

The Group capital comprises general funds which represents capital invested by the Crown and accumulated funds. Equity is represented by net assets.

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

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

## 21. RELATED PARTY DISCLOSURES

### GENERAL

Callaghan Innovation is a wholly owned entity of the Crown.

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

	Group 2015	Group 2014
	\$000	\$000
<b>TRANSACTIONS WITH JOINT VENTURES AND ASSOCIATES</b>		
<b>Sales of services and general recoveries</b>		
- New Zealand Food Innovation Auckland Limited	-	12
<b>Operational and project funding</b>		
- New Zealand Food Innovation Auckland Limited	2,157	2,236
- New Zealand Food Innovation (South Island) Limited	2,400	-
	<b>4,557</b>	<b>2,236</b>
All trading transactions with New Zealand Food Innovation Auckland Limited are on a commercial basis.		
<b>KEY MANAGEMENT PERSONNEL COSTS</b>		
<b>Board members</b>		
Remuneration	249	254
Full time equivalent members	1.0	1.0
<b>Leadership team</b>		
Remuneration	2,293	1,918
Termination benefits	-	91
Other benefits other than remuneration and other short term cash benefits	-	-
Total full time equivalent personnel	6.9	5.9
	<b>2,542</b>	<b>2,263</b>

## 22. COMMITMENTS AND CONTINGENCIES

	Group 2015	Group 2014
<b>CAPITAL COMMITMENTS</b>	\$000	\$000
Commitments for capital expenditure budgeted and approved		
Buildings	833	1,465
Plant	6,570	2,322
<b>TOTAL CAPITAL COMMITMENTS</b>	<b>7,403</b>	<b>3,787</b>
Capital commitments are items of buildings, plant and equipment capital expenditure authorised by the Board, but not spent at 30 June.		
<b>OPERATING COMMITMENTS</b>		
Commitments for non-cancellable operating leases, grant contractual obligations and other operating commitments:		
Not later than one year	2,493	2,100
Later than one year and not later than five years	4,365	4,639
Later than five years	1,667	2,354
<b>TOTAL OPERATING COMMITMENTS</b>	<b>8,525</b>	<b>9,093</b>
Leased assets comprise computer hardware, computer software, office equipment and property.		
<b>Grant commitments</b>		
Grant commitments for those grant contracts awarded but yet to be drawn down	193,723	216,566
<b>Operating leases rental receivables - group company as lessor</b>		
No later than 1 year	1,142	1,447
Later than 1 year and no later than 5 years	596	1,872
Later than 5 years	-	-
The Group leases property under various agreements which terminate between 2015 and 2018.	<b>1,738</b>	<b>3,319</b>
<b>CONTINGENCIES</b>		
Contingent asset	2,040	-

### Repayable incubator grants

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

## 23. MAJOR BUDGET VARIANCE

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Explanation of major budget variations in the Statement of Comprehensive Statement of Revenue and Expense, Statement of Financial Position, and Statement of Cash Flows. The budget is from the Callaghan Innovation Group Statement of Intent and Statement of Performance Expectations for the 12 months ended 30 June 2015. The budget figures have been prepared in accordance with NZ GAAP using accounting policies that are consistent with those adopted by the Board in preparing these financial statements.

### STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Revenue from the Crown is above budget due to unbudgeted Crown funding received to be invested in New Zealand Food Innovation (South Island) Limited and unbudgeted Technology Incubator operational funding.

Revenue from the Crown - Crown grants funding was below budget due to lower than planned R&D grants expenditure.

Commercial and other revenue is below budget due to lower demand domestically for Callaghan Innovation research services and products.

The lower domestic commercial revenue was partially offset by higher overseas commercial revenue.

Personnel costs are below budget due to the lower number of staff employed in the Research and Technical Services and Accelerator Services groups.

Science project and subcontract costs are above budget due to funding paid to New Zealand Food Innovation South Island Limited and increased science costs servicing overseas based clients.

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

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

### STATEMENT OF FINANCIAL POSITION

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

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

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

Income in advance is above budget due to higher than planned unspent Crown funding.

Equity is higher than budget due to the above budget operating surplus for 2015.

### STATEMENT OF CASH FLOWS

Lower operating payments are due to lower than budget payments to suppliers.

Lower investing activities cash outflow is due to below budget capital expenditure.

**RECONCILIATION: STATEMENT OF PERFORMANCE EXPECTATIONS TO STATEMENT  
OF COMPREHENSIVE REVENUE AND EXPENSE**

		2015
For the twelve months ended 30 June 2015		\$000
<b>Statement of Service Performance Expectations: Outputs</b>	Output class	
Building innovation potential	1	9,078
Realising the benefits of innovation	2	16,000
Callaghan Innovation strategic investment	3	23,123
Business R&D contract management	4	10,531
National measurement standards	5	5,764
<b>Total output revenue</b>		<b>64,496</b>
Revenue from the Crown - Grants income		124,761
Revenue from the Crown - Incubator funding		13,716
Revenue from the Crown - Science contestable funding		6,384
Crown high performance and other funding		2,756
Other revenue, including interest		20,413
<b>Total revenue per Statement of Comprehensive Revenue and Expense</b>		<b>232,526</b>
Minus:		
Personnel costs		(41,599)
Science project and subcontract costs		(21,546)
Other expenses		(22,893)
Depreciation and amortisation expense		(5,171)
Grant expense		(138,477)
<b>Total expenses per Statement of Comprehensive Revenue and Expense</b>		<b>(229,686)</b>
Acquisition impairment		(700)
Share of surplus from joint venture		281
<b>Surplus for the year</b>		<b>2,421</b>

## 24. EVENTS AFTER THE BALANCE SHEET DATE

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On the 12 August 2015 Callaghan Innovation received a Statement of Defence and Counterclaim from a grants recipient in respect of which Callaghan Innovation has terminated a funding agreement. The defence addresses a challenge Callaghan Innovation is making to an arrangement the company has made with its creditors and the counterclaim addresses termination of the funding agreement and defamation. The amount of the counterclaim is still unknown however Callaghan Innovation intends to strongly contest the counterclaim on the grounds that the termination was justified. Callaghan Innovation is preparing a response to the counterclaim and it is likely legal proceedings will follow.

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

# Independent Auditor's Report

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## To the readers of Callaghan Innovation Group's Financial Statements and Statement of Performance Expectations for the year ended 30 June 2015

The Auditor-General is the auditor of Callaghan Innovation and its New Zealand domiciled subsidiaries and other controlled entities. The Auditor-General has appointed me, Karen Shires, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and the statement of performance expectations of the group consisting of Callaghan Innovation and its subsidiaries and other controlled entities (collectively referred to as 'the Group'), on her behalf.

### Opinion on the financial statements and the statement of performance expectations

We have audited:

- the financial statements of the Group on pages 38 to 73, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of performance expectations of the Group on pages 28 to 37.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2015; and
    - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Sector Public Benefit Entity Standards.
- the statement of performance expectations:
  - presents fairly, in all material respects, the Group's performance for the year ended 30 June 2015, including for each class of reportable outputs:
    - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year; and
    - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year.
  - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 1 September 2015. This is the date at which our opinion is expressed.

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

## **Basis of opinion**

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

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the statement of performance expectations. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the statement of performance expectations, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and statement of performance expectations in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the adequacy of the disclosures in the financial statements and the statement of performance expectations; and
- the overall presentation of the financial statements and the statement of performance expectations.

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

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

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## Responsibilities of the Board

The Board is responsible for preparing financial statements and a statement of performance expectations that:

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

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

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

## Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the statement of performance expectations and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

## Independence

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

We are independent of the Group. Our firm carries out other services for the Group in the areas of forensic services and advisory services in relation to long term incentive plans and research and development definition criteria. The provision of these other services has not impaired our independence.



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



# Statutory reporting requirements

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## **Ministerial directions (section 151(1)(f) crown entities act 2004)**

Callaghan Innovation received no new ministerial directions during the financial year ended 30 June 2015. Current Ministerial directions applicable to Callaghan Innovation can be found on our website.

## **Systems and procedures for administration of government grants**

Section 15 of the Callaghan Innovation Act requires that we report on the systems and procedures that provide fairness and transparency around the administration of government research, science and technology (RS&T) grants. We have developed systems and procedures to adhere to these requirements and thus ensure fairness and transparency in the process. These measures were reviewed and updated when the grants were restructured and these were republished on the Callaghan Innovation website in December 2013.

One of our procedures is for our Grants Committee members to maintain a conflicts register which is updated regularly at the Grants Committee meetings. Any conflict between grant recipients and committee members requires the committee member to recuse themselves from the decision-making process. A further procedure is the maintenance of a projects register in which our Callaghan Innovation Research and Technical Services group is a beneficiary of Business R&D grants. In the period 1 July 2014 to 30 June 2015, Callaghan Innovation administered four business-led R&D funds. Across the four schemes eight applications were approved where our Research and Technical Services group was identified as being contracted to provide R&D services to the company applying, to a total value of \$362,300.

More details on the individual funding streams are:

### **R&D Growth Grants**

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

### **R&D Project Grants**

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

### **R&D Student Grants**

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

### **Incubators**

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

## **Enforcements of acts (section 20(3) Crown Entities Act 2004)**

No natural person acts were enforced against Callaghan Innovation in reliance of section 20 of the Crown Entities Act 2004 for the financial year ended 30 June 2015.

## Employee remuneration

The table below shows the number of Callaghan Innovation employees who received remuneration and/or benefits (excluding redundancy and cessations payments) of \$100,000 or more for the financial year ended 30 June 2015.<sup>2</sup>

\$570,000 – \$579,999	1
\$380,000 – \$389,999	1
\$350,000 – \$359,999	1
\$260,000 – \$269,999	1
\$240,000 – \$249,000	1
\$230,000 – \$239,999	1
\$220,000 – \$229,999	2
\$210,000 – \$219,999	1
\$190,000 – \$199,999	1
\$180,000 – \$189,999	5
\$170,000 – \$179,999	4
\$160,000 – \$169,999	6
\$150,000 – \$159,999	7
\$140,000 – \$149,999	11
\$130,000 – \$139,999	10
\$120,000 – \$129,999	12
\$110,000 – \$119,999	27
\$100,000 – \$109,999	36

## Board of Directors remuneration

Callaghan Innovation Board of Directors	FY15 (\$)
Sue Suckling – Board Chair	\$58,000
Paul Lockey	\$28,000
Robin Hapi	\$28,000
Michele Allan	\$28,000
Richard Janes	\$28,000
Peter Hunter	\$28,000
Craig Richardson	\$28,000
Peter Maire	\$23,333

## Grants Committee (non-board members) remuneration

Callaghan Innovation non-board members	FY15 (\$)
Peter Townsend	\$5,200
Dr Alastair MacCormick	\$5,902

<sup>2</sup> Note there were 27 pay periods for the period 1 July 2014 – 30 June 2015.

Contact us: 0800 422 552  
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callaghaninnovation.govt.nz

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