

Callaghan**Innovation**

ANNUAL REPORT

TO 30 JUNE 2013

**WE ACCELERATE
COMMERCIALISATION
OF INNOVATION
BY FIRMS IN
NEW ZEALAND**

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Foreword

On 1 February 2013, Science and Innovation Minister Steven Joyce officially launched our new organisation with its mandate to accelerate the commercialisation of innovation by firms in New Zealand.

Our country needs to design and produce products and services that generate bigger global demand at higher prices. This is the key to increasing our GDP, creating more jobs and higher incomes, and building thriving communities. This is the compass that will steer all Callaghan Innovation's operations and strategic decisions.

In our first five months we took hold of this task and immersed ourselves in understanding the innovation challenges that New Zealand businesses face, as well as the gaps and opportunities in the innovation system. During this time, we also had the the huge task of assessing the range of capabilities that came into Callaghan Innovation on 1 February and where these capabilities would best support businesses and the innovation system.

At the time of preparation we are finalising our Business Case for 2013–2016. It takes the conversations we have had, the research we have done and the extensive knowledge we have built up, and delivers our answer to the challenges and the opportunities we have found.

In addition to focusing on the Business Case and the capability transition, we focused on supporting businesses through grants and funding, as well as through our research and technical services.

On all fronts, we have delivered.

We have successfully brought together our people, programmes, facilities and resources from the former Crown research institute, IRL (Industrial Research Limited), and from MBIE's (Ministry of Business, Innovation and Employment) Business Investments team. From 1 July the Better by Lean business improvement programme from NZTE (New Zealand Trade and Enterprise) has been incorporated into Callaghan Innovation and we now have a new partnership arrangement with ATEED (Auckland Tourism, Events and Economic Development) to jointly fund and manage The FoodBowl.

We have developed a strong and positive relationship with NZTE and will strengthen these links as we work in partnership to deliver on the Government's Business Growth Agenda. We have also forged a solid relationship with EDANZ (Economic Development Agencies of New Zealand) and Callaghan Innovation will be working closely with EDANZ and NZTE on areas of mutual interest, such as customer engagement and product and service development and delivery.

From the start, we had our people working together in shared offices, on a shared IT and phone system, and operating our 0800 4 CALLAGHAN number.

In addition to the critical work of managing our transition and shaping our future, our people have consistently delivered 'business as usual' at the same high standards.

For our Business R&D Grants team, the past five months have capped off a year that has seen an increase in overall research and development investment activity, most notably for new Targeted Project Grants, which have increased more than 20% from the previous year.

It is an exciting time in the business investment space as Callaghan Innovation prepares to roll out a range of changes to the R&D Grants programme announced by the Government in this year's Budget.

This represents investment into more than 400 companies where we have positively impacted the scale, quality and speed of their research and development programmes.

At year end, Callaghan Innovation has active R&D Grants investments of over \$273m, which leverage an associated private business R&D investment of over \$758m.

It is an exciting time in the business investment space as Callaghan Innovation prepares to roll out a range of changes to the R&D Grants programme announced by the Government in this year's Budget. These changes are designed to simplify the access for businesses to R&D support, incentivise more private sector R&D and improve the returns on public sector investment.

Across our Research and Technical Services (RTS) division, which was previously named Science, Engineering and Technology (SET), there are also many teams, projects and individuals worthy of recognition: teams such as GlycoSyn, who are engaging major new clients and delivering revenue of approximately \$8m this year; projects such as our work with the University of Liverpool to develop a new chemical approach to treat Alzheimer's disease; and people such as Dr Owen Catchpole from our Integrated Bioactive Technologies group, who was seconded to work in-house with Manuka Health, where he helped to transform their good ideas into new products with multi-million dollar potential.

One of the best illustrations of our collaborative approach and the commercial value of our work has been our success at the inaugural KiwiNet Research Commercialisation Awards in June. Callaghan Innovation-led projects won both of the categories they were contesting, taking out two of the five awards.

Our Ovine Automation Consortium project won the Commercialisation Collaboration Award – fitting for a project that also involves nine meat companies, our research partners Milmeq, research advisors AgResearch and the University of Auckland, and support from MIRINZ Inc (jointly owned by the MIA and Beef & Lamb), with funding from MBIE.

We also won the Research & Business Partnership Award for our advanced sonar technology work with Electronic Navigation Ltd (ENL). Our research team has been collaborating with ENL for well over ten years, leading to commercial success for ENL's WASSP multibeam sonar product, now exported to 39 countries. In 2010 we entered a five-year co-funding agreement to develop the next generation of sonar technologies.

Both awards demonstrate how we are contributing to accelerating the development of products with great export potential, drawing on collaboration both internally in Callaghan Innovation (with Accelerator Services staff instrumental in relationships, along with research teams), and externally, with individual organisations across industries.

An important focus area for Callaghan Innovation is our ongoing engagement with, and development of, the Māori business sector. Our approach to Māori engagement is built on the following three pou, or pillars: leadership, strategic partnerships and the continual monitoring of Māori business outcomes. We believe a thriving and competitive Māori economy will not only benefit local Māori communities, but will also have the knock-on effect of growing New Zealand's international economic footprint.

Over this five-month period, Callaghan Innovation's Māori engagement focus was to assist those Māori businesses and iwi who had existing relationships with the former IRL to plug into the future structure and the products and services available from Callaghan Innovation. A highlight was the hui with iwi, Māori organisations and Māori businesses defining their expectations of Callaghan Innovation.

Finally, in developing the Business Case, we had the following focal point: a connected innovation system, where the emphasis is not just on ideas, but faster commercialisation of those ideas; where innovative businesses have access to the markets, skills, capital and technology they need in order to accelerate the commercialisation of their innovations.

Sir Paul Callaghan, whose name we are honoured to have taken, championed the idea that science and innovation could empower small countries such as New Zealand to do astonishing things. We owe it to him to deliver on that promise. Five months into the job, we are well on our way.



Sue Suckling
Board Chair



Dr Mary Quin
Chief Executive

Our Strategic Direction

Priority One

The continuity of activities and services transferred into the Research and Technical Services (RTS) business unit formed the focus of Priority One. It covered contestable funding deliverables, research commitments, internal capability reviews and meeting financial performance targets.

The RTS business unit is the result of the transition of the former Crown research institute, IRL, into Callaghan Innovation.

During this time of change we were conscious of maintaining a business-as-usual approach with all our clients and potential clients. We can report that RTS continued to deliver products and services to our existing and new clients across various industry sectors.

Even though the continued effects of the global financial crisis led to a challenging economic environment in the High Value Manufacturing and Services (HVMS) sector, we partnered with 32 new commercial clients.

One of the major new contracts was with Masterton-based Māori enterprise, Watson & Son, to develop a new and scientifically validated product from manuka honey. Watson & Son have requested Callaghan Innovation's assistance to transfer their manufacturing technology back to New Zealand. Watson & Son was named the 2008 Deloitte/Unlimited Fast50 fastest growing company in New Zealand.

On the research front, a melanoma vaccine clinical trial protocol was approved by the Health and Disability Ethics Committee on Therapeutic Trials, following submission by the Malaghan Institute of Medical Research and with support from GlycoSyn (our industrial chemistry pilot plant) and the University of Auckland. GlycoSyn has now completed the manufacture and release of GMP (Good Manufacturing Practice) grade vaccine components. Patients are currently being recruited for the clinical trial.

Callaghan Innovation also signed a contract with Argenta New Zealand, an Auckland-based animal healthcare company, to develop a method for long-term delivery of minerals to the rumen of sheep, for use in a veterinary medicine. New Zealand livestock suffer from high incidences of mineral deficiencies, resulting in the slow growth and development of lambs, in particular.

We also won the KiwiNet Research & Business Partnership Award for our advanced sonar technology work with Electronic Navigation Ltd (ENL). Our research team has been collaborating with ENL for over ten years, leading to commercial success for ENL's WASSP multibeam sonar product, now exported to 39 countries.

Our research teams continued to deliver for existing clients, such as Ovine Automation Limited, Weta Digital, Spark Dental, Im-Able and many others.

During this period we participated in our last contestable round of funding. All proposals were internally peer reviewed and moderated prior to submission, and suggestions for external reviews were provided to MBIE.

Priority Two

Priority Two focused on the operational continuity of the Business R&D Grants business unit. This included selecting and contracting business R&D grants, as well as providing sound R&D grants advice and support to industry and stakeholders.

The engagement with businesses around R&D grants has continued in a seamless manner since 1 February. All relevant Investment Management staff were transferred from MBIE at that time, and supporting information systems and contract preparation services were provided by MBIE.

The Innovation Board (previously known as the Business Investment Advisory Group) was retained to provide recommendations to the Callaghan Innovation Board on grant approvals. They confirmed the regional business partner contracts to ensure that Callaghan Innovation maintains good national coverage of advice and access to R&D Grants.

The past five months have capped off a year in which we have seen an increase in overall R&D investment, particularly in the area of new Targeted Project Grants, which have increased by more than 20% since last year. During this recent period, Callaghan Innovation approved 77 Targeted Project Grants totalling \$16m. Further Capability Grants of \$1.3m and Technology Transfer Vouchers of \$385k were also approved.

The student internship programme for 2013 was launched in June, seeking applications for 200 undergraduate grants and 70 postgraduate grants totalling more than \$3m.

At year end, Callaghan Innovation has active R&D Grants investments of over \$273m in 623 businesses that leverage an associated private business R&D investment of over \$758m.

Grants were awarded to companies across several industries; for example:

- **IT:** ADInstruments Ltd (\$2.9m) is developing a cloud-based platform for the research, pharmaceutical and medical education markets.
- **Environmental technology:** ArcActive Ltd (\$1.6m) specialises in de-carbonising technologies and is developing a manufacturing process for full-size lead carbon negative electrodes.
- **Biotechnology:** PolyBatics Ltd (\$0.85m) creates bioprocessing tools to enhance purity and increase the extraction efficiency of protein products.

The staff at the R&D Grants division worked closely with MBIE to plan for the introduction of changes to the Grants programme, as announced in the Government's May Budget, and which came into effect on 1 July 2013.

The three new policies for business R&D grants target businesses with a strong track record of R&D spending in New Zealand; support firms with smaller R&D programmes; and support undergraduate students, with the introduction of a student grant, to work in a commercial R&D environment.

Priority Three

Priority Three focused on laying the foundation for a long-term successful organisation through a number of change management projects:

1. Organisational design

At the establishment of Callaghan Innovation, the immediate priority for the organisational design workstream was to ensure that IRL and MBIE Business Investment staff merged into the new organisation on 1 February. This was achieved with no unplanned loss of key staff or any noticeable increase in exits during this time.

Since 1 February, there has been a significant emphasis on communication and engagement featuring all-staff briefings, newsletters from the Chair and CEO and a programme of organised, informal conversations between Callaghan Innovation leaders and staff.

The commencement of new CEO, Dr Mary Quin, in May 2013 provided another opportunity to engage with staff about the organisation, the future and their part in the significant contribution that Callaghan Innovation will make to New Zealand.

The Organisational Development (OD) programme, with its change support and communication elements, provides an expression of the desired organisational form, key characteristics and underpinning culture (capabilities, competencies, attributes and modus operandi), as well as the the process, including systems and costs, to achieve it over time. This task is ongoing.

2. Service and product development

A team comprising customer and industry-facing experts from across Callaghan Innovation was tasked with defining, designing and validating the product and services offering.

A systematic process was used to develop a Portfolio Strategy and a three-year Product and Services Roadmap, based on a clear understanding of industry needs and barriers, the current gaps in the market, and where Callaghan Innovation could play a role without duplicating or replicating existing services or products already available within the wider ecosystem. This process included some consultation and testing of concepts with a variety of key stakeholders, including industry leaders and Callaghan Innovation directors and executives.

Significant effort was also put into aligning Callaghan Innovation's offering with that of New Zealand Trade and Enterprise. The three-year Product and Services Roadmap was endorsed by the Board in May and has subsequently been incorporated into the Business Case.

3. Aligning science, engineering and technology capability

The science, engineering and technology (SET) alignment process was completed on time and under budget and its outcomes have been incorporated into the Business Case. The process involved each of the teams and groups within the SET Delivery (SETD, now renamed Research and Technical Services (RTS)) business unit of Callaghan Innovation reviewing their past focus and performance and recommending changes that could improve their effectiveness. This included the possibility of transferring to another part of the science system. The teams and groups provided a written summary and also presented their views to an advisory panel that included the Chair, two other Board members and the CEO.

4. External partners

The external partners workstream launched a pilot project to identify how Callaghan Innovation can successfully engage with demand and supply-side organisations to access their expertise, refer clients where they best suit their needs, and work on joint initiatives. The participants in the pilot project were Auckland Tourism, Events and Economic Development (ATEED), Canterbury Development Corporation (CDC), Grow Wellington, KiwiNet, Lincoln Agritech, Scion and UniServices.

As a result of these discussions, Memorandums of Understanding (MoUs) with the supply-side organisations have been agreed. These MoUs set out high-level outcomes for the organisations working together, principles that will govern these relationships, and how all parties will work together on joint initiatives.

Discussions with the supply-side organisations have focused on building a deeper understanding of the organisations' approach to customers. In addition, a joint meeting between NZTE, Callaghan Innovation and Economic Development Agencies New Zealand (EDANZ) was held in May. It was agreed that a leadership group would be set up between the three organisations to enable the parties to work on areas of mutual interest, including shared customer engagement and product and service development and delivery. The first meeting of the leadership group was held in early July.

5. Better public services

The key focus for Callaghan Innovation under the better public services workstream for the period to 30 June was to determine the feasibility of a joint customer relationship management (CRM) capability between Callaghan Innovation, NZTE and MBIE, in order to facilitate a seamless experience for firms that migrate from one service provider to another, or who become concurrent clients of Callaghan Innovation and NZTE.

The main deliverable, a feasibility study, was completed and high-level costings were developed for the implementation of a CRM system in Callaghan Innovation.

Other work relating to developing a shared back office with other government agencies has been put on hold until Callaghan Innovation's operation model is developed and approved.

6. Stakeholder communication

Building relationships and reputation has been an important focus since Callaghan Innovation's inception. The events and activity that underpinned our launch on 1 February was an important start to the subsequently extensive programme of work that has been delivered to support these goals.

Key highlights include an extensive series of engagements undertaken by the new Chief Executive, Dr Mary Quin, with leaders from the business and research sectors. Targeted engagement was also an important part of the development of the three-year Business Case, particularly the suite of new products and services.

Underpinning this activity has been the establishment of core communications capabilities and material, including a new website, corporate collateral, an e-zine, social media channels and stakeholder database.

Priority Four

Priority Four focused on the incorporation of further services into Callaghan Innovation, with specific reference to Better by Lean and The FoodBowl.

Better by Lean

We have been working closely with NZTE to transfer the Better by Lean programme into Callaghan Innovation. This work has been completed, with the scheme operating 'business as usual' from 1 July. Our commitment is to honour all existing contracts and to plan the integration of the programme into the service suite of Callaghan Innovation over time.

We welcome the opportunity to run the programme, as it strengthens the suite of services we offer to businesses and reinforces our links with NZTE.

The FoodBowl

Callaghan Innovation and ATEED reached an agreement that a joint venture was the best way to own, manage, fund and maximise The FoodBowl's impact on innovation and growth in the food and beverage sector.

This joint venture will enable us to work closely together and capitalise on the strengths and opportunities in the food and beverage sector – a star performer in the export sector over the past 15 years.

We agreed on seven work streams, which are focused on reviewing existing FoodBowl services and investigating the merits of expanding the scope of its activities into relevant R&D and tertiary education areas. Further information on The FoodBowl joint venture and development workstreams is documented in the Callaghan Innovation Business Case.

We anticipate it will be 'business as usual' in terms of The FoodBowl's functions, but we in Callaghan Innovation will be actively looking for opportunities to work more closely and effectively, in order to support the food and beverage sector to innovate and grow.

The partnership recognises the alignment between the goals of Callaghan Innovation and The FoodBowl. Callaghan Innovation already has a national interest in food and beverage innovation as funder and custodian of the New Zealand Food Innovation Network (NZFIN). The FoodBowl is part of NZFIN.

NZFIN was incorporated into Callaghan Innovation on 1 February 2013. Callaghan Innovation became its funder from 1 July 2013.

Māori Engagement

The development and growth of both the New Zealand and the Māori economies are closely linked, as improvements in one will add measurable benefits to the other.

Callaghan Innovation will ensure that it is actively supporting and addressing the needs of Māori businesses to grow and be competitive in the global market.

The key pou, or pillars, of Callaghan Innovation's Māori engagement strategy are leadership, strategic partnerships and the continual monitoring of Māori business outcomes. Māori participation in all Callaghan Innovation programmes requires detailed Māori engagement plans for each entity.

For FY 2012/13 Callaghan Innovation's Māori engagement focus was to assist those Māori businesses and iwi who had existing relationships with the former IRL to plug into the future structure and the products and services available from Callaghan Innovation. A highlight was the hui with iwi, Māori organisations and Māori businesses defining their expectations of Callaghan Innovation.

The arrival of our new Chief Executive, Dr Mary Quin, has seen a lot of support from both iwi and the Māori business sector. One of Dr Quin's earliest visits was at the request of Ngati Porou. In Gisborne, Peter Chrisp (CEO, NZTE), Dr Quin and staff from both organisations listened to the growth strategy for Te Rūnanga o Ngāti Porou.

Callaghan Innovation has been working closely with key Māori sector enablers, such as Icehouse's Māori business development unit, Te Puni Kōkiri, and Otago University on a research programme aimed at identifying key Māori business interests, their size and capability to engage in science and innovation.

Callaghan Innovation also piloted New Zealand's first Māori Enterprise Internship Programme, aimed at supporting science graduates into careers in the science system.

Key to the success of our future engagement with Māori businesses is the recruitment of the GM Māori Economy early in FY 2013/14. The GM Māori Economy will work closely with the Māori business strategy leaders in NZTE, MBIE and Te Puni Kōkiri to promote a 'one plan' approach for government and Māori businesses.

This approach is consistent with the contribution that these organisations are collectively making to the transformational actions in the Crown-Māori Economic Development Strategy and Action Plan *He kai kei aku ringa*, which is a blueprint through to 2040 for Māori economic development, designed to boost Māori economic performance and benefit all New Zealanders.

Our Organisational Health and Capability – Initiatives to 30 June

Area	Deliverables	Outcomes
Organisational design and integration of new organisation	<p>Chief Executive appointed.</p> <p>Māori name and whakatauki developed and endorsed by Māori.</p> <p>Organisational design available for consultation with staff.</p> <p>Advice to Board on interim measures for Christchurch accommodation.</p>	<p>Dr Mary Quin was appointed as CEO and took office on 3 May 2013.</p> <p>The process to decide on a Maori name and whakatauki has been altered to be a much more inclusive and engaging process between Māori and staff than initially envisaged. It will take place during FY 2013/14.</p> <p>After the release of the Business Case, a comprehensive change programme will be implemented.</p> <p>Interim measures for Christchurch accommodation were approved by the Board and subsequently implemented.</p>
Aligning SET capability	<p>SET alignment proposals developed by research teams considered and agreed by the Board, and implications incorporated into the Business Case.</p>	<p>The SET alignment process was completed on time and under budget. Its outcomes have been used to shape the Business Case.</p>
Better public services	<p>Draft requirements for IT, Customer Relationship Management (CRM) and other infrastructure determined in consultation with NZTE and MBIE.</p>	<p>Draft requirements for CRM determined in consultation with NZTE and MBIE. Other IT and infrastructure requirements will be determined in consultation with other parties in FY 2013/14 once the Business Case is approved.</p>
Stakeholder communication	<p>Weekly internal staff newsletters.</p> <p>Monthly open forums with Callaghan Innovation staff.</p> <p>At least three external newsletters to the innovation sector.</p> <p>New Chief Executive introduced to key stakeholders.</p> <p>Operational website and intranet.</p> <p>Customer database developed.</p>	<p>Internal newsletters from the CEO to staff were produced throughout the period.</p> <p>Five monthly staff forums were held by the Board Chair and Chief Executive.</p> <p>Three external newsletters and the first edition of Callaghan Innovation's e-zine <i>Accelerate</i> were distributed.</p> <p>Dr Mary Quin undertook a series of targeted engagements where she met more than 85 key stakeholders from the business, research and media sectors.</p> <p>A new website and intranet were operational on 1 February.</p> <p>A customer database was in place from 1 May.</p>

Governance

The Board is the governing body with the authority in Callaghan Innovation's name to exercise the powers and perform functions 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.

During the five months from 1 February 2013 to 30 June 2013, the Board consisted of Sue Suckling (Chairperson), Paul Lockey, Robin Hapi, Michele Allan, Richard Janes, Peter Hunter, Craig Richardson and Peter Maire. From 1 February 2013 to 2 May 2013 Sue Suckling assumed the Executive Chair role. The Chief Executive, Dr Mary Quin commenced her role on 3 May 2013.

The Minister of Science and Innovation appointed the Chief Executive of the Ministry of Business, Innovation and Employment as advisor to the Board. During the five-month period this role was delegated to Paul Stocks, DCE Science, Skills and Innovation.

The Board meets monthly and at other times when required. Three Committees of the Board have been established:

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 will be to oversee the initial review of all governance-related policies.

Board Terms and Committee Membership

	Board Term	Audit and Risk	Appointment and Remuneration	Governance
Sue Suckling Board Chair	31/01/2017	Ex-officio member	Chair	Ex-officio member
Paul Lockey	31/01/2017	Chair	-	-
Robin Hapi	31/01/2015	-	-	Chair
Michele Allan	31/01/2015	-	-	Member
Richard Janes	31/01/2016	Member	-	-
Peter Hunter	31/01/2016	-	Member	-
Craig Richardson	31/01/2016	Member	-	-
Peter Maire	31/01/2015	-	Member	-

Governance policies that are regularly reviewed underpin the approach of the Board's governance responsibilities. These 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 organisation changes and context.

Our People

Good Employer

A framework of 'Good Employer' policies and practices underpins Callaghan Innovation's performance.

The 'Good Employer' framework ensures an ongoing review of all our policies including:

- A safe and healthy environment
- Recruitment, selection and induction
- Employee development, education and training
- Remuneration, recognition and employment conditions
- Flexibility and work design
- Harassment and bullying prevention
- Leadership, accountability and culture development.

Workforce Profile

We have a diverse workforce made up of 26 nationalities, within which there are 123 females and 324 males. Female employees make up 27.5% of total employees, with the majority of females being between the ages of 41-45.

The improvements of systems and processes have been a priority, such as the integration of online recruitment through the StaffCV tool. StaffCV enables Callaghan Innovation to build a talent pool and streamline the recruitment process, ensuring that workflow and candidate management are greatly improved.

Change Management

A change support programme was run for managers and team leaders prior to the establishment of Callaghan Innovation. As the establishment of Callaghan Innovation progressed, members of the Senior Management team led discussions and Q&A sessions with staff through the Speakeasy forum on a variety of topics. The sessions were usually in response to feedback received from staff. The number of these forums steadily increased as work on Callaghan Innovation's Business Case progressed.

The existing Leadership Development Programme proceeded on a limited basis due to the focus on establishing Callaghan Innovation.

Integration between groups has been fostered and developed through various channels, with some areas establishing social clubs, sports teams and other informal after work get-togethers with staff from various sites.

Health and Safety

Callaghan Innovation's Health and Safety Toolkit has proved useful in raising awareness and prompting staff to take appropriate action. We have seen an increase in incident reporting, risk assessment, and reporting of hazardous substances and electrical hazards. Organisational wellness, including health and fitness programmes, is ongoing.

Equal Employment Opportunities Programme

We are committed to the development of an annual EEO programme that focuses on the elimination of one or more elements of workplace discrimination based on age, colour, disability, employment status, ethical belief, ethnic or national origins, family status, being in a marriage or a relationship with a particular person, marital status, political opinion, race, religious belief, sex and sexual orientation. The annual programme may focus on one or more of these.

Allocating and Administering of RS&T Funding

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 published on the Callaghan Innovation website on 7 March 2013.

One of the procedures is to maintain a register of projects in which our research subsidiary, Callaghan Innovation Research Limited, is a beneficiary of Business R&D grants.

In the period 1 February 2013 to 30 June 2013, Callaghan Innovation administered four business-led R&D funds. Across the four schemes no applications were approved where Callaghan Innovation Research Limited was identified as being contracted to provide R&D services to the company applying.

More details on the individual funding streams are:

Technology Development Grants. The fund reimbursed a company's eligible R&D expenditure. Assessment criteria were based on company and financial eligibility. Information on external R&D contractors is not sought, or used, in the grants process. This means there was no potential for conflict between Callaghan Innovation's role in awarding the grants and the operation of our research subsidiary.

Project Grants. Applicants are required to identify external individuals and organisations that will provide R&D services as part of the proposed project. No applications listed Callaghan Innovation as an external provider.

Capability. Applicants are required to identify external individuals and organisations that will provide R&D services as part of the proposed project. No applications listed Callaghan Innovation as an external provider.

Technology Transfer Voucher. Applicants must be working with an approved Accredited Research Organisation, of which Callaghan Innovation Research Limited is one. No applications were approved; one application was declined where Callaghan Innovation was to complete R&D work.

The R&D Grants have been restructured and a different set of schemes is in place for FY 2013/14. Our transparency systems and procedures have been reviewed to ensure they remain fit for purpose.

Statement of Responsibility

The Callaghan Innovation Board is responsible for the preparation of the financial statements and statement of service performance for the five-month period from 1 February 2013 to 30 June 2013, and the judgements used in them.

The Board is also responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the Board, the financial statements and statement of service performance for the five-month period from 1 February 2013 to 30 June 2013 fairly reflect the financial position and operations of Callaghan Innovation.

On behalf of the Board:



Sue Suckling

Chair, Callaghan Innovation Board
3 September 2013



Richard Janes

Callaghan Innovation Board
3 September 2013

Statement of Service Performance

This statement of service performance reports against the performance measures in Callaghan Innovation's Statement of Intent for the period from 1 February to 30 June 2013.

Output Class – High Value Manufacturing and Services (HVMS) Research

Five months to 30 June 2013

\$000	Actual	Budget
Funding	16,476	16,818
Expenses	12,770	
Unspent	3,706	

Expenditure in this output class consisted of:

- Establishment and operating of Callaghan Innovation from 1 February to 30 June 2013
- Continuation of core-funded research and development outputs, previously delivered by Industrial Research Limited, by Callaghan Innovation Research Limited from 1 February to 30 June 2013.

The revenue variance reflects timing of Futureintech funding, which did not pass to Callaghan Innovation until 1 July 2013 when new appropriations were put in place.

'Under-expenditure' relates to timing of establishment processes, including CEO appointment, and efficiencies in operating costs where staff in existing roles also covered roles in the new organisation.

Output	Performance Measure	Standard	Outcome
Maintain continuity of service delivery in high-value manufacturing and services research	As per IRL 2012/2013 Statement of Corporate Intent.	Achieved	Achieved This covers continuation of R&D and related outputs delivered from core funding provided from the HVMS output class from 1 February to 30 June 2013. Core-funded projects and programmes continued throughout this period.
Advice to Ministers and SOI	<ul style="list-style-type: none"> • Business Case provided to Ministers by 30 June 2013. 	Achieved, in accordance with the five-month Business Case.	Achieved A Business Case was provided to Ministers on 28 June 2013.
	<ul style="list-style-type: none"> • Statement of Intent 2013/2015 published to deadlines. 		Achieved A Statement of Intent was provided to the Minister on 28 June 2013.

Output	Performance Measure	Standard	Outcome
New services and products	<ul style="list-style-type: none"> 0800 4 CALLAGHAN service operational. 	Achieved, in accordance with the five-month Business Case.	<p>Achieved</p> <p>This service was operational from 1 February 2013.</p>
	<ul style="list-style-type: none"> At least two stakeholder workshops held to inform development of new products and services. 		<p>Not achieved</p> <p>One-on-one meetings were held with a range of stakeholders instead.</p>
	<ul style="list-style-type: none"> Framework developed for provision of services with, and to, Māori. 		<p>Partly achieved</p> <p>Members of the Callaghan Innovation Board hosted a hui with Māori leaders and innovators on 11 April 2013 to inform its framework for supporting the Māori economy. This will be further developed in 2013/14.</p>
	<ul style="list-style-type: none"> Advice to Ministers on Strategic Investment Fund Proposal. 		<p>Partly achieved</p> <p>Mechanisms for strategic investment funding were considered as part of the wider funding model for Callaghan Innovation discussed with MBIE and Treasury officials. A revised Strategic Initiatives Fund was subsequently incorporated in the Business Case submitted to Ministers on 28 June 2013.</p>
	<ul style="list-style-type: none"> Advice to Ministers on Callaghan Innovation's role in supporting technology platforms. 		<p>Achieved</p> <p>Callaghan Innovation's role in supporting national technology networks (previously referred to as technology platforms) was considered as part of the Business Case to Ministers.</p>
External partner arrangements	<ul style="list-style-type: none"> Discussions completed with four supply-side providers to develop proposed modus operandi, to support implementation of new products and services. 	Achieved, in accordance with the five-month Business Case.	<p>Achieved</p> <p>Discussions were held with UniServices, KiwiNet, Scion and Lincoln Agritech.</p>

	<ul style="list-style-type: none"> Discussions completed with four business-facing organisations to develop proposed modus operandi, to support implementation of new products and services. 		<p>Partly achieved</p> <p>In conjunction with NZTE, we have discussed potential partnerships with regional business development agencies.</p>
	<ul style="list-style-type: none"> Māori engagement strategy developed. 		<p>Achieved</p> <p>Members of the Callaghan Innovation Board attended a hui with Māori leaders and innovators on 11 April 2013 to develop and form its Māori engagement strategy.</p>
Integration of Better by Lean	Implement processes to ensure transfer of Better by Lean programme from NZTE to Callaghan Innovation from 1 July 2013, with no loss of business continuity.	Achieved	<p>Achieved</p> <p>This service was transferred to Callaghan Innovation on 1 July.</p>
Transfer of The FoodBowl	Business case for transfer of The FoodBowl from ATEED to Callaghan Innovation on agreed terms, by 30 June 2013.	Included in Business Case to Ministers by 30 June 2013.	<p>Achieved</p> <p>A joint venture model was agreed with ATEED with a Memorandum of Understanding signed on 28 June 2013.</p> <p>A plan for The FoodBowl was included in the Business Case provided to Ministers on 28 June 2013.</p>

Output Class – National Measurement Standards

Five months to 30 June 2013

\$000	Actual	Budget
Funding	2,402	2,402
Expenses	2,402	
Unspent	0	

Expenditure in this output class provided for continuation of National Measurement Standards outputs until 30 June 2013, as set out in a contract between MBIE and Callaghan Innovation Research Limited.

Output	Performance Measures	Standard	Outcome
Maintain continuity of National Measurement Standards services	As per the IRL 2012/2013 Statement of Corporate Intent	Achieved	<p>Achieved</p> <p>Callaghan Innovation continued to deliver outputs as per the contract with MBIE.</p>

Output Class – Business Research and Development Contract Management

Five months to 30 June 2013

\$000	Actual	Budget
Funding	2,526	2,526
Expenses	2,281	
Unspent	245	

Expenditure in this output class covered administration costs for delivering business R&D grants transferred from MBIE on 1 February 2013. The surplus reflects lower costs in delivering grants.

Output	Performance Measures	Standard	Outcome
Maintain continuity of business R&D grant administration	Contracts managed so that 95% of contracts will be on track to achieve their objectives, and critical steps.	95% of contracts	Achieved
	All contracts are monitored in terms of their likelihood of delivering on the contract outcomes.	100% monitored	Achieved
	An independent advisory group will provide advice to Callaghan Innovation on investment decisions for all business R&D grants.	100% of proposals recommended	Achieved
	Protocols to ensure fairness and transparency in business R&D grants published in accordance with Section 15(2) of the Callaghan Innovation Act 2012.	Achieved	Achieved Guidelines were published on the Callaghan Innovation website.
	Applications for on-demand investments over \$250,000 are independently reviewed by experts.	100% of proposals recommended	Achieved
	For successful applicants, the time between receipt of a proposal for business R&D support (TechNZ, TDG or TTV) from a business and the finalisation of a contract will not exceed six months.	95% of proposals	Achieved

Statement of Comprehensive Income

For the five months ended 30 June 2013

	Notes	GROUP 2013 ACTUAL \$000	GROUP 2013 BUDGET Unaudited \$000	PARENT 2013 ACTUAL \$000
Continuing operations				
Revenue from the Crown	2	28,680	30,235	11,054
Revenue from the Crown - grants		39,589	-	39,589
Commercial revenue	2	7,263	7,875	11
Total revenue		75,532	38,110	50,654
Other income	2	862	1,322	-
		76,394	39,432	50,654
Personnel costs	3	(17,902)	(20,365)	(2,897)
Science project and subcontract costs		(6,522)	(9,440)	(2,025)
Other expenses	3	(7,147)	(6,980)	(1,063)
Depreciation and amortisation expense	9,10	(2,522)	(2,640)	(101)
Grant expense	4	(39,589)	-	(39,589)
		2,712	7	4,979
Finance income		182	143	51
Impairment on investment in associate	12	(417)	-	-
Operating profit before income tax		2,477	150	5,030
Income tax credit	5	352	-	-
		2,829	150	5,030
Operating surplus for the period				
Other comprehensive (loss) income				
Cash flow hedges (net of tax)		(219)	-	-
Total comprehensive income		2,610	150	5,030

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

Statement of Changes in Equity

For the five months ended 30 June 2013

GROUP	Notes	GENERAL FUNDS \$000	HEDGE RESERVE \$000	TOTAL EQUITY \$000
Balance as at 1 February 2013		-	-	-
Acquisition of Callaghan Innovation Research Limited	24	40,543	30	40,573
Operating surplus		2,829	-	2,829
Other comprehensive income				
Cash flow hedge reserve (net of tax)		-	(219)	(219)
Total comprehensive income		2,829	(189)	2,610
Balance as at 30 June 2013		43,372	(189)	43,183

PARENT	Notes	GENERAL FUNDS \$000	HEDGE RESERVE \$000	TOTAL EQUITY \$000
Balance as at 1 February 2013		-	-	-
Acquisition of Callaghan Innovation Research Limited	24	40,573	-	40,573
Operating surplus		5,030	-	5,030
Other comprehensive income				
Cash flow hedge reserve (net of tax)		-	-	-
Total comprehensive income		5,030	-	5,030
Balance as at 30 June 2013		45,603	-	45,603

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

Statement of Financial Position

As at 30 June 2013

	Notes	GROUP 2013 ACTUAL \$000	GROUP 2013 BUDGET Unaudited \$000	PARENT 2013 ACTUAL \$000
EQUITY				
General funds	7	43,372	40,780	45,603
Hedge reserve	7	(189)	-	-
TOTAL EQUITY		43,183	40,780	45,603
<i>Represented by:</i>				
CURRENT ASSETS				
Cash and cash equivalents	6	14,629	5,751	5,723
Trade and other receivables	8	5,894	5,624	108
Crown debtor – grants	8	33,365	-	33,365
Work in progress		416	1,472	-
Inventories		260	198	-
Total current assets		54,564	13,045	39,196
NON-CURRENT ASSETS				
Investment in subsidiaries	11,24	-	-	40,573
Investment in associates	12	-	445	-
Property, plant and equipment	9	34,288	39,475	834
Intangible assets	10	1,130	1,455	32
Deferred tax	15	223	-	-
Total non-current assets		35,641	41,375	41,439
TOTAL ASSETS		90,205	54,420	80,635
CURRENT LIABILITIES				
Trade creditors and other payables	16	5,113	4,877	861
Advance from subsidiary	-	-	-	453
Employee benefits	13	4,241	3,394	337
Grant obligations	18	33,365	-	33,365
Derivative financial instruments	19	189	-	-
Income in advance	14	3,704	2,519	-
Total current liabilities		46,612	10,790	35,016
NON-CURRENT LIABILITIES				
Employee benefits	13	410	2,850	16
Total non-current liabilities		410	2,850	16
TOTAL LIABILITIES		47,022	13,640	35,032
NET ASSETS		43,183	40,780	45,603

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

For and on behalf of the members of the Board, which authorised the issue of the financial statements on 3 September 2013.



Sue Suckling
Chair, Callaghan Innovation Board



Richard Janes
Callaghan Innovation Board

Cash Flow Statement

For the five months ended 30 June 2013

	Notes	GROUP 2013 ACTUAL \$000	GROUP 2013 BUDGET Unaudited \$000	PARENT 2013 ACTUAL \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
<i>Cash was provided from:</i>				
Receipts from Crown operating		26,320	30,360	11,054
Receipts from Crown – grants		39,861	-	39,861
Receipts from commercial customers		9,472	7,603	3
Interest received		182	143	22
		<u>75,835</u>	<u>38,106</u>	<u>50,940</u>
<i>Cash was applied to:</i>				
Payments to suppliers		(11,086)	(16,169)	(2,248)
Payments to employees		(16,370)	(20,613)	(2,594)
Payments to grant recipients		(39,861)	-	(39,861)
		<u>(67,317)</u>	<u>(36,782)</u>	<u>(44,703)</u>
Net cash flows from operating activities	17	8,518	1,324	6,237
CASH FLOWS FROM INVESTING ACTIVITIES				
<i>Cash was provided from:</i>				
Sale of property, plant and equipment		10	-	-
Advance from subsidiary		-	-	453
Acquisition of subsidiary net of cash acquired	24	10,526	-	-
		<u>10,536</u>	<u>-</u>	<u>453</u>
<i>Cash was applied to:</i>				
Purchase of property, plant and equipment		(4,283)	(6,739)	(932)
Purchase of intangible assets		(142)	-	(35)
		<u>(4,425)</u>	<u>(6,739)</u>	<u>(967)</u>
Net cash flows from investing activities		6,111	(6,739)	(514)
Net increase/(decrease) in cash and cash equivalents		14,629	(5,415)	5,723
Cash and cash equivalents at the beginning of the period		-	11,166	-
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		14,629	5,751	5,723
<i>Cash balance at end of the period comprises:</i>				
Cash, call deposits and bank overdraft		14,629	5,751	5,723
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		14,629	5,751	5,723

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

Notes to the Financial Statements

For the five months ended 30 June 2013

1. REPORTING ENTITY

Callaghan Innovation is a Crown entity as defined by the Crown Entities Act 2004 and is domiciled in New Zealand. Callaghan Innovation's ultimate parent is the New Zealand Crown.

Callaghan Innovation (the Parent) commenced activities 1 February 2013. On 1 February 2013 Callaghan Innovation took a 100% interest in Industrial Research Limited, which was subsequently renamed Callaghan Innovation Research Limited (note 24).

The consolidated financial statements of the group consist of the parent entity and Callaghan Innovation Research Limited and its subsidiaries.

Callaghan Innovation's primary objective is leadership and scene setting in the innovation space within New Zealand, as opposed to making a financial return. Callaghan Innovation is a public benefit entity for the purposes of New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

These consolidated financial statements have been approved for issue by the Board of Directors on 3 September 2013.

Basis of Preparation

Statement of Compliance

The financial statements of Callaghan Innovation and Group have been prepared in accordance with the Crown Entities Act 2004 and the Callaghan Innovation Act 2012. These financial statements have been prepared in accordance with NZ IFRS as appropriate for public benefit entities.

Measurement base

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of certain investments and financial instruments as identified in specific accounting policies and accompanying notes. The areas involving a higher degree of judgements or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 18.

Future changes to accounting standards applicable to Public Benefit Entities (PBEs)

The External Reporting Board (XRB) has adopted a multi-standards framework for financial reporting. From 1 July 2014, Public Sector Public Benefit Entities will be required to apply new accounting standards based on international Public Sector Accounting Standards (IPSAS).

In May 2013, the XRB promulgated new standards that put into operation the new financial reporting framework for PBEs. A full assessment of the impact of the proposed IPSAS-based framework has not been undertaken. The preliminary assessment of Callaghan Innovation is that the new standards will not result in a significant change when they come into effect on 1 July 2014.

In light of its decision to adopt a multi-standards approach, the XRB has determined that new IFRS-based accounting standards, or changes to existing IFRS-based accounting standards with a mandatory effective date of 1 January 2012 or later, may be applied by profit-oriented entities only. For example, Public Benefit Entities are prohibited from applying NZ IFRS 13 Fair Value Measurement, which was promulgated in 2011 and which has a mandatory application date for annual periods beginning on or after 1 January 2013.

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Callaghan Innovation (the Parent) and its subsidiaries and associates as at 30 June 2013 ('the Group').

Subsidiaries are all 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 subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All inter-company balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

Where there is loss of control of a subsidiary, 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 subsidiaries by the Group where it is not a business combination under common control. The cost of an acquisition is measured at fair value of the assets given and liabilities incurred at the date of exchange. Identifiable assets and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

The predecessor accounting method is applied for business combinations under common control. Identifiable assets and liabilities assumed in business combinations under common control are measured at the carrying amount in the acquiree's financial record at the acquisition date. The consolidated financial performance includes the acquired entity's results from the date of acquisition.

Revenue

Revenue is measured at fair value of consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from the Crown – operations grants

Callaghan Innovation is primarily funded through grant revenue received from the Crown which is restricted in its use for the purpose of Callaghan Innovation meeting its objectives as specified in the Statement of Intent.

Research and Development grants

Research and Development grants received are recognised in the income statement when the requirements under the grants have been met. Any grants for which the requirements have not been completed are carried as liabilities until all conditions have been fulfilled.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is to compensate.

Rendering of goods and services (commercial revenue)

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

Revenue from research contract services is recognised by reference to the stage of completion. Stage of completion is measured by reference to project milestones or cost incurred to date as a percentage of 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 as the interest accrues (using the effective interest method which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Grants Expenditure

Grants are approved and administered by Callaghan Innovation for a variety of purposes and periods. Grant expenditure is recognised in the Statement of Comprehensive Income when the third party recipient can demonstrate they have met the grant conditions. A commitment is disclosed in the notes to the accounts for those grant contracts awarded but yet to be drawn down.

Investment in Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of 20-50% of the voting rights.

The Group investment in associates is accounted for under the equity method of accounting in the consolidated financial statements.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Separate Financial Statements

In the financial statements of the Parent, investments in subsidiaries and associates are recorded at historical cost less any provision for impairment.

Foreign Currency

Both the functional and presentation currency of Callaghan Innovation and its subsidiaries is New Zealand dollars (NZ\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Exchange gains and 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 date 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.

Property, Plant and Equipment

Property, plant and equipment asset classes consist of land, freehold buildings, building auxiliary services, computer equipment, plant and scientific equipment, motor vehicles and office furniture, fittings and equipment and capital work in progress. Capital work in progress represents funds invested in capital assets not yet completed. 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 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. Where an asset is acquired at no cost or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the statement of comprehensive income.

Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that 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 income.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the cost 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:

<i>Land is not depreciated</i>	Estimated useful life
Freehold buildings	10 to 40 years (dependent on age)
Building auxiliary services	8 to 20 years
Computer equipment	3 to 5 years
Plant and scientific equipment	3 to 15 years
Motor vehicles	3 to 5 years
Office furniture, fittings and equipment	3 to 10 years

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

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and 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). 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 Non-Financial Assets

Plant and equipment and intangible assets 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.

Value in use is depreciated replacement cost for an asset where its future economic benefits or service potential are not primarily dependent on its ability to generate net cash inflows and where Callaghan Innovation would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the statement of comprehensive income.

For assets not carried at a revalued amount the reversal of an impairment loss is recognised in the statement of comprehensive income.

Recoverable Amount of Non-Current Assets

At each reporting date, the Group assesses whether there is any indication that a non-current asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or Groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial Assets

The Group classifies its financial assets in the following categories: at fair value through profit and 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 and loss

Financial assets at fair value through profit and loss are financial assets held for trading and those designated at fair value through profit and 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 so 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 maturities greater than 12 months after the balance sheet date. These are

classified as non-current assets. The Group's loans and receivables comprise 'cash and cash equivalents' and 'trade and other receivables' in the balance sheet (note 19).

Regular purchases and sales of financial assets are recognised on the trade date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are carried at amortised cost using the effective interest method.

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

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, 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 the 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 income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the 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 income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each item to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis

Net realisable value 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.

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.

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 assets 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 income. 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.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and Other Payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Grants Obligation

Grants obligation is recognised when the third party recipient can demonstrate they have met the grant conditions.

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 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.

Restructuring

A provision for restructuring is recognised when an approved detailed formal plan for the restructuring has either been announced publicly to those affected, or for which implementation has already commenced.

Operating Leases

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. Lease payments under an operating lease are recognised as an expense on a straight line basis over the term of the lease in the statement of comprehensive income.

Employee Entitlements

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 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

Defined contribution scheme

Obligations for contributions to KiwiSaver and the Government Superannuation Fund are recognised as an expense in the statement of comprehensive income as incurred.

Income Tax

The tax expense for the period comprises current and deferred tax. The income tax expense for the period is the tax payable on the current period's taxable income based on the tax rate enacted for that period. This is then adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

Deferred income tax is provided in full using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax is provided in full for all taxable temporary differences:

- Except if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction effects neither accounting or taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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 IRD is included as part receivables or payables in the statement of financial position. The net GST paid to or received from the IRD 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.

Budget Figures

The budget figures are as per Callaghan Innovation's Statement of Intent as approved by the Board at the commencement of the reporting period. The budget of Callaghan Innovation is based on the outputs of the organisation as a whole and is therefore presented on a group basis only. The budget figures have been prepared in accordance with NZ IFRS using accounting policies that are consistent with those adopted by Callaghan Innovation in preparation of the financial statements.

Cost of Services Statements

The costs of services statements, as reported in the statement of service performance, report the net cost for the outputs of Callaghan Innovation. They are represented by the costs of providing the output less all revenue that can be allocated to these activities. Callaghan Innovation has derived the net cost of service for each of its significant activities using the cost allocation system outlined below.

Cost Allocation Policy

Direct costs are charged directly to related activities.

Notes to the Financial Statements continued

2. REVENUE

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
CROWN AND OTHER REVENUE		
Ministry of Business, Innovation and Employment - Operations	11,054	11,054
Ministry of Business, Innovation and Employment - Research and development funding	17,396	-
Ministry of Business, Innovation and Employment - Research and development grants	39,589	39,589
The Royal Society of New Zealand	230	-
Total Crown and other revenue	68,269	50,643

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

Callaghan Innovation received funding from the Crown for grants as set out in the Statement of Intent, and the scope of the relevant government appropriations.

Commercial revenue

Commercial - domestic	4,204	9
Commercial - overseas	2,940	2
Royalty and licensing income	119	-
Total commercial revenue	7,263	11
Total revenue	75,532	50,654

OTHER INCOME

Property and equipment rental	445	-
Other income	417	-
Total other income	862	-
TOTAL INCOME	76,394	50,654

3. EXPENDITURE

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Personnel costs include:		
Salary and wages	16,630	2,767
Defined contribution plan employer contributions	388	28

Notes to the Financial Statements continued

Severance payments

Severance payments include any consideration (monetary or non-monetary) provided to any employee in respect of the employee's agreement to the termination of their employment with Callaghan Innovation.

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Severance payments	-	-
Number of employees	-	-

Other expenses include:

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Repairs and maintenance	779	5
Premises and utility expenses	1,946	237
Auditors' fees		
- for auditing the financial statements	78	47
- assurance and related services	15	15
Bad and doubtful debts	137	-
Directors' fees*	198	194
Rent and lease expenses	981	230
Loss on disposal of fixed assets	3	-
Impairment of capital work in progress	495	-
Foreign exchange losses	25	-
Intellectual property (patents)	249	-

*Directors acted in the capacity of executive director during the transition phase of establishing Callaghan Innovation over the reporting period 1 February 2013 to 30 June 2013. Directors were paid a daily fixed rate for days worked over the establishment period.

4. GRANTS EXPENSE

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Grants approved for which recipients can demonstrate they have met grant conditions	39,589	39,589
Total grants expense	39,589	39,589

5. TAXATION

GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
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Major components of income tax expense for the period ended 30 June 2013

Income statement

<i>Current income tax</i>		
Current income tax charge	-	-
<i>Deferred income tax</i>		
Temporary differences	(352)	-
Total tax expense reported in the income statement	(352)	-

Reconciliation of income tax expense

Operating profit before income tax	2,477	-
Tax at current rate of 28%	694	-
Adjustment to taxation:		
Group operating surplus not subject to income tax	(1,408)	-
Non deductible expenses	21	-
Earnings of associates / joint venture	117	-
Deferred tax adjustments in respect to prior periods	286	-
Effective portion cash flow hedge	(62)	-
Total tax (credit)	(352)	-

The parent Callaghan Innovation (a Crown agency) is exempt from payment of income tax.

6. CASH AND CASH EQUIVALENTS

GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
-------------------------------	--------------------------------

Cash at bank and in hand	2,629	723
Term deposits	12,000	5,000
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	14,629	5,723

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

Cash, cash equivalents and bank overdrafts include the following for the purposes of the statement of cash flows.

GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
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Cash at bank and in hand	2,629	723
Term deposits	12,000	5,000
	14,629	5,723

Notes to the Financial Statements continued

7. EQUITY

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
GENERAL FUNDS		
Balance at 1 February	-	-
Acquisition Callaghan Innovation Research Limited	40,543	40,573
Surplus for the period	2,829	5,030
BALANCE AT 30 JUNE	43,372	45,603
HEDGE RESERVE		
Balance at 1 February	-	-
Acquisition Callaghan Innovation Research Limited	30	-
Fair value (loss) for the period	(219)	-
BALANCE AT 30 JUNE	(189)	-
TOTAL EQUITY AT 30 JUNE	43,183	45,603

On 1 February 2013 Callaghan Innovation, a Crown agency, was created. On the same day, Callaghan Innovation Research Limited became a subsidiary of Callaghan Innovation.

The hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge.

The amounts are recognised in the statement of comprehensive income when the associated hedge transaction affects profit or loss.

8. TRADE AND OTHER RECEIVABLES

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Current		
Debtors	3,556	8
Less: Provision for impairment	(29)	-
	3,527	8
Accrued income	603	29
Income tax receivable	1	-
Other receivables	43	13
Prepayments	1,720	58
	5,894	108
Crown debtor grants		
MBIE – grants receivable	33,365	33,365
Total current and non-current Crown grants receivable	33,365	33,365

The carrying amount of trade receivables are equivalent to fair values.
Trade receivables includes amounts due from related parties (see note 22 for details).

Crown debtor grants are due from MBIE to pay grants administered by Callaghan Innovation, and MBIE pays funds to Callaghan Innovation just before the grant is paid to the recipient.

(a) Provision for impairment

At 30 June 2013 trade receivables of \$29,000 were considered impaired.
The impaired receivables were from a number of customers.

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Opening balance	-	-
Recognised during the period	29	-
Released	-	-
Utilised	-	-
CLOSING BALANCE	29	-

(b) Past due but not impaired

At 30 June 2013 trade receivables of \$652,000 were past due but not impaired.
These relate to a number of independent customers for whom there is no recent history of default.
The aging of trade receivables is as follows:

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Within 1 month	563	-
Within 1 to 3 months	65	-
Beyond 3 months	53	-

Notes to the Financial Statements continued

9. PROPERTY, PLANT AND EQUIPMENT

PARENT	Land Assets \$000	Buildings Assets \$000	Plant Assets \$000	Capital Work In Progress \$000	Total Actual \$000
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1 February 2013

Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Carrying amount	-	-	-	-	-

For the five months ended 30 June 2013

Carrying amount at 1 February 2013	-	-	-	-	-
Additions	-	194	738	-	932
Transfers from capital work in progress	-	-	-	-	-
Depreciation	-	(31)	(67)	-	(98)
Carrying amount at 30 June 2013	-	163	671	-	834
Cost	-	194	738	-	932
Accumulated depreciation	-	(31)	(67)	-	(98)
Carrying amount	-	163	671	-	834

GROUP	Land Assets \$000	Buildings Assets \$000	Plant Assets \$000	Capital Work In Progress \$000	Total Actual \$000
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1 February 2013

Cost	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-
Carrying amount	-	-	-	-	-

For the five months ended 30 June 2013

Carrying amount at 1 February 2013	-	-	-	-	-
Acquisition of Industrial Research Limited assets 1 Feb 2013	3,001	12,651	15,107	2,079	32,838
Additions	-	460	2,639	1,204	4,303
Transfers from capital work in progress	-	140	412	(576)	(24)
Asset impairment	-	-	-	(495)	(495)
Disposals	-	-	(5)	-	(5)
Depreciation	-	(815)	(1,514)	-	(2,329)
Carrying amount at 30 June 2013	3,001	12,436	16,639	2,212	34,288
Cost	3,001	43,902	57,859	2,212	106,974
Accumulated depreciation	-	(31,466)	(41,220)	-	(72,686)
Carrying amount	3,001	12,436	16,639	2,212	34,288

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 \$100 million. The earthquake deductible is \$10 million.

10. INTANGIBLE ASSETS

	GROUP 2013 Purchased Software \$'000	PARENT 2013 Purchased Software \$'000
Balance at 1 February 2013		
Cost	-	-
Accumulated amortisation	-	-
Opening carrying amount	-	-
For the five months ended 30 June 2013		
Acquisition of Industrial Research Limited assets 1 Feb 2013	1,177	-
Additions	119	35
Capital work in progress	23	-
Amortisation charge	(189)	(3)
Balance at 30 June 2013		
Cost	6,090	35
Accumulated amortisation	(4,960)	(3)
Closing carrying amount	1,130	32

11. INVESTMENT IN SUBSIDIARIES

The Parent's investment in subsidiaries comprises shares at cost. Subsidiaries comprise:

Name of entity	Principal activities	Interest held by the Group 30 June 2013
Callaghan Innovation Research Limited	Research contracts – trading	100%
Measurement Standards Laboratory of	Non-operating – name protection	
New Zealand Limited		100%
Industrial Research Pty Limited	Research contracts – trading	100%
GlycoSyn Technologies Limited	Non-operating – name protection	100%
Bio-Sol Limited	Non-operating – for involvement in consortium	100%

All subsidiaries have 30 June balance dates.

Industrial Research Pty Limited is incorporated in Australia. All other subsidiary entities are incorporated in New Zealand.

Notes to the Financial Statements continued

12. INVESTMENT IN ASSOCIATES

GROUP 2013

Details of associates

Associates comprise the following:

Name of entity	Principal Activities	
HTS-110 Limited	Commercialisation of superconductor activity	35.73%
General Cable Superconductors Limited	High temperature superconductor cable manufacturer	49.00%

The Group investment in HTS-110 Limited is nil as the investment is considered impaired.

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

Results of associates

GROUP 2013
\$000

Investment write-down	(417)
	(417)
Interests in associates	
Carrying amount at beginning of period	-
Acquisition of Callaghan Innovation Research Limited	417
Investment write-down	(417)
	-

13. EMPLOYEE BENEFITS ACCRUAL

GROUP 2013
\$000

PARENT 2013
\$000

Current

Employee entitlements	1,512	172
Long service and retiring leave	187	10
Annual leave	2,460	155
Sick leave	82	-
	4,241	337

Non-current

Long service and retiring leave

410 **16**

14. INCOME IN ADVANCE

GROUP 2013
\$000

PARENT 2013
\$000

Government and other revenue received in advance

3,704 **-**

Income in advance represents income received from government and other customers for project work not completed at 30 June.

15. DEFERRED TAX

GROUP 2013
\$000

Deferred tax

Recognised:

Buildings tax depreciation	(1,842)
Work in progress	(117)
Tax depreciation – plant	700
Provisions and accruals	900
Intellectual property and other	582
	<hr/>
	223

The analysis of deferred tax assets and deferred tax liabilities is as follows:

GROUP 2013
\$000

Deferred tax liability

Deferred tax liability to be recovered after 12 months	(1,776)
Deferred tax liability to be recovered within 12 months	(183)

Deferred tax asset

Deferred tax asset to be recovered after 12 months	1,444
Deferred tax asset to be recovered within 12 months	738

Tax losses

New Zealand	8,467
Tax effect of tax losses	
New Zealand 28%	2,371
Portion of tax benefit recognised	-
Portion of tax benefit not recognised	2,371

Unrecognised income tax losses are available subject to the requirements of applicable tax legislation being met.

Deferred tax balances relate to the taxable operations of subsidiary Callaghan Innovation Research Limited.

The Parent Callaghan Innovation is exempt from paying income tax.

Notes to the Financial Statements continued

16. TRADE AND OTHER PAYABLES

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Trade creditors	1,916	141
Goods and services tax (GST) payable	561	207
Other payables and accruals	2,636	513
Total trade and other payables	5,113	861

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

Trade payables includes amounts due to related parties (see note 24 for details).

17. RECONCILIATION OF PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Operating profit for the period	2,829	5,030
<i>Add/(less) non-cash items:</i>		
Depreciation	2,329	98
Amortisation of intangible assets	189	3
Impairment site redevelopment	495	-
Movement in deferred tax	(352)	-
Impairment of investment in associate	417	-
<i>Add/(less) movements in working capital:</i>		
Trade and other receivables	(32,105)	(33,424)
Inventory	729	-
Work in progress	27	-
Income in advance	(1,282)	-
Employee benefits	1,486	278
Trade and other payables	33,975	34,252
Derivative financial instrument	(219)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	8,518	6,237

18. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

(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 2013 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 2013 at \$571,000.

Adjusting the discount rate down/up 1.0% results in a increase/decrease of the 2013 retiring/long service leave liability balance and hence end of period surplus before tax of \$22,000 decreases/increases.

(b) Deferred tax asset recognition

Callaghan Innovation Research Limited has gross tax losses of \$8,467,000. The Directors are of the opinion that due to the uncertainty of the Company generating future taxable profits, it is not prudent to recognise the available tax losses as a deferred tax asset.

(c) Grants obligations

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 (2013: \$33,365,000).

Payments against the 30 June 2013 accrual are expected to be made during the 2013/14 financial year.

	GROUP 2013 ACTUAL \$000	PARENT 2013 ACTUAL \$000
Grants obligations	33,365	33,365
Total grant obligations	33,365	33,365

Critical judgements in applying the entity's accounting policies

Revenue

A significant source of revenue for the Group is project-based. Revenue is recognised on an accruals basis, this involves posting revenue to the income statement 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 (2013: \$3,704,000).

Notes to the Financial Statements continued

19. FINANCIAL INSTRUMENTS BY CATEGORY

	GROUP		PARENT	
	Loans and Receivables \$000	Derivatives used for hedging \$000	Loans and Receivables \$000	Derivatives used for hedging \$000
As at 30 June 2013				
Financial assets				
Cash and cash equivalents	14,629	-	5,723	-
Crown debtor - grants	33,365	-	33,365	-
Debtors and other receivables	4,173	-	50	-
	<u>52,167</u>	<u>-</u>	<u>39,138</u>	<u>-</u>

	GROUP		PARENT	
	Loans and Receivables \$000	Derivatives used for hedging \$000	Loans and Receivables \$000	Derivatives used for hedging \$000
Financial Liabilities				
Creditors and other payables	5,113	-	861	-
Grants obligations	33,365	-	33,365	-
Employee leave benefits	4,054	-	327	-
Derivative financial instruments	-	189	-	-
	<u>42,532</u>	<u>189</u>	<u>34,553</u>	<u>-</u>

The only financial liabilities held at fair value are foreign exchange contracts \$219,000 liability, these are level 2 instruments in the fair value hierarchy.

20. FINANCIAL RISK MANAGEMENT

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

The Group's overall risk management programme focuses on the unpredictability of financial markets and 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 by the finance group under policies approved by the Board of Directors. Finance identifies, evaluates and hedges financial risks in consultation with operational units. The Board provides written principles and advice for overall risk management, as well as written 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 protect against the risk that the eventual New Zealand dollar net cash flows will be adversely affected by changes in foreign currency exchange rates. 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 \$188,000 (loss).

At 30 June 2013, if the currency had strengthened/weakened by 10% against the US dollar with all other variables held constant, post tax profit for the period (Group) would have been: strengthened \$24,000 lower, weakened \$29,000 higher as the result of foreign exchange gains/losses on translation of US dollar denominated trade receivables/payables.

At 30 June 2013, if the currency had strengthened/weakened by 10% against the Australian dollar with all other variables held constant, post tax profit for the period (Group) would have been: strengthened \$17,000 lower, weakened \$21,000 higher as the result of foreign exchange gains/losses on translation of Australian dollar denominated trade receivables/payables.

At 30 June 2013, the Group has forward foreign exchange contracts for the sale and purchase of currencies to cover firm foreign currency denominated receipts and payments. Details of forward foreign exchange contracts outstanding at balance date are:

Outstanding contracts	GROUP	
	2013 Foreign currency (Thousands)	2013 Contract value NZD\$000
Bank buys		
United States dollar	2,516	3,039
British pound	51	102
Singapore dollar	691	709
Australian dollar	82	100
Bank sells		
United States dollar	79	100
Euro	240	388
Australian dollar	45	57

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

(b) Interest rate risk

The Group has significant 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.

Notes to the Financial Statements continued

(c) Credit risk

Financial instruments which potentially subject the Parent and the Group to credit risk principally consist of cash and cash equivalents, trade and other receivables, interest rate swaps, options 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
- controlling the level and spread of trade and other receivables outstanding.

As a result of these controls there are no significant concentrations of credit risk.

(d) Liquidity risk

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

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group finance maintains flexibility in funding by maintaining availability under committed credit lines.

The table below shows the credit limit and balance of the one major counterparty at balance sheet date:

	GROUP 30 Jun 2013	
	Credit limit \$000	Balance \$000
ANZ Bank (Standard and Poor's AA-)	1,100	-

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 Less than 1 Year \$000	PARENT Less than 1 Year \$000
Cash and cash equivalents	14,629	5,723
Trade and other receivables	4,173	50
Crown debtor – grants	33,365	33,365
Derivatives used for hedging	(189)	-
Trade and other payables	(5,113)	(861)
Grant obligations	(33,365)	(33,365)
Employee benefits	(4,054)	(327)

The Group's derivative financial instruments which will be settled on a gross basis within 12 months of balance date.

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

	GROUP Less than 1 Year \$000
Forward foreign exchange contracts	
– cash flow hedges	
Inflow	3,950
Outflow	(545)

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

21. CAPITAL RISK MANAGEMENT

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

The Group's capital requirements are restricted by the Crown Entities Act 2004, which restricts shareholding in the Group to the Crown and imposes restrictions in relation to borrowings, acquisition of securities and issuing guarantees and indemnities.

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

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

22. RELATED PARTY DISCLOSURES

KEY MANAGEMENT PERSONNEL COSTS

	GROUP 2013 \$000
Remuneration and other short term benefits	1,042
Directors fees (non-executive Directors)	194
Other benefits other than remuneration and other short-term cash benefits	-
	<u>1,236</u>

The table above includes the remuneration of the Chief Executive and members of the executive management team.

General

The Crown is the 100% owner of Callaghan Innovation. All transactions with other state-owned enterprises and government departments and agencies are at arm's length.

There were no significant related party transactions during the five-month period other than those disclosed in these financial statements. No related party debts have been written off or forgiven during the period.

All members of the Group are considered to be related parties of Callaghan Innovation. This includes the subsidiaries identified in note 11 and associated entities in note 12.

Parent

During the period the Parent company recorded expenditure of \$865,000, being reimbursement for expenses to Callaghan Innovation Research Limited.

There were no other transactions recorded with subsidiary companies.

Amount due to Callaghan Innovation Research Limited at 30 June 2013 was \$453,000.

Group

GROUP 2013
\$000

With entities associated with directors or entities associated with directors close family members.

Transactions during the period were:

Sales of services and general recoveries	383
Purchase of services	184
Amounts due from related parties	58
Amounts owed to related parties	23

Goods are sold based on prices and terms that would be available to third parties.

Goods and services are purchased from other related parties on normal commercial terms and conditions.

Transactions with associate companies

GROUP 2013
\$000

The Group is a 35.73% shareholder in HTS-110 Limited. All trading transactions with HTS-110 Limited are on a commercial basis.

Sales of services and general recoveries	317
Purchase of services	387
Amounts owed to HTS-110 Limited	101
Amounts due from HTS-110 Limited	148

23. COMMITMENTS AND CONTINGENCIES

CAPITAL COMMITMENTS

GROUP 2013
\$000

Commitments for capital expenditure contracted	2,188
TOTAL CAPITAL COMMITMENTS	2,188

Capital commitments are items of buildings, plant and equipment capital expenditure authorised by the Board, but not spent at 30 June.

OPERATING COMMITMENTS

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

	GROUP 2013 \$000
Not later than one period	1,518
Later than one period and not later than five periods	3,131
Later than five periods	-
TOTAL OPERATING COMMITMENTS	4,649

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

GRANT COMMITMENTS

GROUP 2013
\$000

Grant commitments for those grant contracts awarded but yet to be drawn down	104,969
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CONTINGENCIES

There were no known contingent liabilities at balance date.

24. ACQUISITION OF CALLAGHAN INNOVATION LIMITED

On 1 February 2013, Callaghan Innovation acquired 100% of the equity interest in Industrial Research Limited (subsequently renamed Callaghan Innovation Research Limited), which is classified as a business combination under common control as all entities involved are controlled by the ultimate shareholder, the Crown.

Recognised amounts of identifiable assets acquired and liabilities assumed:

Book Value
Acquisition date
\$'000

Cash and cash equivalents	10,526
Trade receivables	216
Inventories and work in progress	1,432
Other current assets	2,989
Fixed assets and intangible assets	34,016
Investments	417
Less:	
Trade payables	(3,069)
Staff entitlements	(2,690)
Other current liabilities	(3,136)
Deferred tax liability	(128)
	<hr/>
	40,573

25. MAJOR BUDGET VARIANCE

Explanation of major budget variations in the statement of comprehensive income, statement of financial position, and statement of cash flows.

The budget is from the Callaghan Innovation Group Statement of Corporate Intent for the five months ended 30 June 2013.

Statement of comprehensive income

Revenue from the Crown is below budget due to lower than planned contestable funding and deferral of some Crown funding to 2014.

Revenue from the Crown - grants was not budgeted for in 2013 and is offset by grant expenditure.

Commercial revenue is below budget due to lower demand both domestically and overseas for Callaghan Innovation Research Limited research services.

Personnel costs are below budget due to lower than anticipated staff salary costs over the transitional work streams.

Science project costs are below budget due to lower Crown contestable funding and lower than planned travel costs.

Science subcontract costs are under budget due to delayed purchase of a 67% share in New Zealand Food Innovation (Auckland) Limited ("FoodBow!").

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

Finance income is above budget due to higher than planned cash balances resulting from lower than planned operational expenditure across the transition streams and lower than budgeted capital expenditure.

Impairment in investment in associate represents the impairment of Callaghan Innovation Research Limited investment in HTS-110 Limited.

The income tax credit was not budgeted and reflects the accounting loss incurred by the subsidiary company Callaghan Innovation Research Limited.

Statement of financial position

Cash and cash equivalents is above budget due to lower than planned expenditure by the transition work streams and lower than planned capital expenditure.

Crown debtor – grants was not budgeted in 2013 and is offset by grant obligations under current liabilities.

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

Income in advance is higher than budget due to the deferral of some Crown revenue obtained for research purposes to 2014.

Equity is higher than budget due to an above budget after tax operating surplus for 2013.

Statement of cash flows

Cash flows from operating activities is above budget due to below budget payments to suppliers and employees. Lower payments reflect the lower expenditure across the transition streams in Callaghan Innovation and the flow on impact on expenditure of obtaining below budget Crown contestable science funding.

Reconciliation: Statement of service performance to statement of comprehensive income

For the five months ended 30 June 2013	Output class	2013 \$000
Statement of service performance: outputs		
High-value manufacturing and services research	1	16,476
National measurement standards	2	2,402
Business R&D contract management	3	2,526
Total output revenue		21,404
Revenue from the Crown – grants income		39,589
Other contestable grants		7,276
Other revenue, including interest		8,125
Total revenue per statement of comprehensive income		76,394
Minus:		
Personnel costs		(17,902)
Science project and subcontract costs		(6,522)
Other expenses		(7,147)
Depreciation and amortisation expense		(2,522)
Grant expense		(39,589)
Total expenses per statement of comprehensive income		(73,682)
Financial income		182
Impairment on investment in associate		(417)
Tax credit		352
Operating profit		2,829

26. EVENTS AFTER THE BALANCE SHEET DATE

The Better by Lean programme was transferred to Callaghan Innovation 1 July 2013. A new partnership arrangement with ATEED (Auckland Tourism, Events, and Economic Development) to jointly fund and manage The FoodBowl was agreed on 1 August 2013.

On 28 August 2013 the Ministry of Business, Innovation and Employment announced the outcome of the latest contestable science investment round, in which Callaghan Innovation had placed several bids. Callaghan Innovation was unsuccessful in securing the level of funding assumed in our initial budgets. The failure to secure expected funding will have some impact on the financial performance of FY 2014 but we believe that the impact will not be material.

Independent Auditor's Report

To the Readers of Callaghan Innovation and Group's Financial Statements and Non-Financial Performance Information for the five months ended 30 June 2013.

The Auditor-General is the auditor of Callaghan Innovation and group. The Auditor-General has appointed me, Karen Shires, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and non-financial performance information of Callaghan Innovation and group on her behalf.

We have audited:

- the financial statements of Callaghan Innovation and group on pages 25 to 56 that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the five months ended 30 June 2013 and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of Callaghan Innovation and group on pages 21 to 24 that comprises the statement of service performance, which includes outcomes.

Opinion

In our opinion:

- the financial statements of Callaghan Innovation and group on pages 25 to 56:
- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect Callaghan Innovation and group's:
- financial position as at 30 June 2013; and
- financial performance and cash flows for the five months ended 30 June 2013.
- the non-financial performance information of Callaghan Innovation and group on pages 21 to 24:
 - complies with generally accepted accounting practice in New Zealand; and
 - fairly reflects Callaghan Innovation and group's service performance and outcomes for the five months ended 30 June 2013, including for each class of outputs:
 - the service performance compared with forecasts in the statement of forecast service performance dated 12 April 2013; and
 - the actual revenue and output expenses compared with the forecasts in the statement of forecast service performance dated 12 April 2013.

Our audit was completed on 3 September 2013. 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 we explain our independence.

Independent Auditor's Report continued

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 non-financial performance information are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information.

The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of Callaghan Innovation and group's financial statements and non-financial performance information that fairly reflect the matters to which they relate.

We consider internal control 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 Callaghan Innovation and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board;
- the appropriateness of the reported non-financial performance information within Callaghan Innovation and group's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information.

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

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

- comply with generally accepted accounting practice in New Zealand;
- fairly reflect Callaghan Innovation and group's financial position, financial performance and cash flows; and
- fairly reflect Callaghan Innovation and group's service performance and outcomes.

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

The Board's responsibilities arise from the Crown Entities Act 2004 and the Callaghan Innovation Act 2012.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

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.

Other than the audit, we have no relationship with or interests in Callaghan Innovation or any of its subsidiaries.



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



PricewaterhouseCoopers

Other Statutory Reporting Requirements

Ministerial Directives

(Sections 114 and 115 Crown Entities Act 2004)

No directives were given to Callaghan Innovation in writing by a Minister under any enactment for the five months ended 30 June 2013.

Enforcement of Acts

(Section 20(3) Crown Entities Act 2004)

No natural person acts were enforced against Callaghan Innovation in reliance on section 20 of the Crown Entities Act 2004 for the five months ended 30 June 2013.

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 five months ended 30 June 2013.

EMPLOYEE SALARY BANDS

	FY2013
\$220,00–\$229,999	1
\$100,000–\$109,999	2

For the five month period ended 30 June 2013

Directors' Remuneration

	Callaghan Innovation Board Fees (\$)	Subsidiary Fees (\$)
Callaghan Innovation Board of Directors		
Five months to 30 June 2013		
S Suckling*	126,750	-
M Allen	7,000	-
R Hapi	10,875	-
C Richardson	14,500	-
R Janes	10,000	-
P Maire	11,250	-
P Hunter	5,500	-
P Lockey	7,750	-
Total	193,625	-

*Ms Suckling was Executive Chair for this period

CallaghanInnovation

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