



FINANCIAL STATEMENTS 2009 / 2010



Contents

Financial Trends Analysis	1
Financial Indicators	2
Key Performance Indicators	3
Capability Fund	5
Employees' Remuneration	10
Corporate Governance	10
Report of the Auditor-General	14
Income Statement	16
Statement of Comprehensive Income	17
Statement of Changes in Equity	18
Balance Sheet	20
Cash Flow Statement	21
Notes to the Financial Statements	23
Board Responsibility Statement	51
Directory	52

Financial Trends Analysis

GROUP	FY2010 \$000	FY2010 \$000 SCI Budget	FY2009 \$000	FY2008 \$000	FY2007 \$000	FY2006 \$000
Operating revenue	63,404	60,454	60,507	57,133	55,018	73,812
Interest received	410	146	179	39	48	106
Gain on disposal of property, plant and equipment	-	-	19	8	1,060	9,494
Revenue from trading	62,994	60,308	60,309	57,086	53,910	64,212
Depreciation and amortisation	5,164	5,449	5,102	4,985	5,399	6,517
Interest expense	-	-	23	660	1,035	1,913
Non-operating items loss/(gain)	-	-	-	143	1,010	7,712
Earnings/(deficit) before interest, tax and non-operating items*	1,648	1,526	562	1,309	(2,073)	532
Net surplus/(loss) before tax	2,158	1,672	732	543	(3,010)	507
Net surplus/(loss) after tax	168	1,672	731	543	(5,710)	(1,634)

	FY2010 \$000	FY2010 \$000 SCI Budget	FY2009 \$000	FY2008 \$000	FY2007 \$000	FY2006 \$000
<i>Funds employed</i>						
Equity	36,781	38,316	36,644	28,583	19,257	24,613
Borrowings	-	-	-	9	11,873	12,665
Other term liabilities	2,570	707	573	568	616	881
	39,351	39,023	37,217	29,160	31,746	38,159
<i>Use of funds</i>						
Working capital	6,530	5,269	3,617	(4,660)	(3,202)	(1,629)
Non-current assets	32,821	33,754	33,600	33,820	34,948	39,788
	39,351	39,023	37,217	29,160	31,746	38,159
Gearing %	NM	NM	NM	5.13%	39.25%	35.36%

*Non-operating items includes employee termination costs, disposal and impairment of property, plant and equipment and write-off of goodwill.

NM = Not meaningful

Financial Indicators

	FY2010 ACTUAL	FY2010 BUDGET	FY2009 ACTUAL	FY2008 ACTUAL	FY2007 ACTUAL
Earnings performance					
Revenue from trading (\$000)	62,994	60,308	60,309	57,086	53,910
Earnings/(deficit) before interest, tax and non-operating items (EBIT) (\$000)*	1,648	1,526	562	1,309	(2,073)
EBIT* margin (%)	2.6%	2.5%	0.9%	3.3%	-3.7%
Net profit margin (%)	0.3%	2.8%	1.2%	1.0%	-5.5%
Net surplus (loss) before tax (\$000)	2,158	1,672	732	543	(3,010)
Net surplus (loss) after tax (\$000)	168	1,672	731	543	(5,710)
EBIT* to average funds employed (%)	4.5%	4.1%	1.7%	4.3%	-5.8%
Return (EBIT*) on average equity (%)	4.5%	4.5%	1.7%	5.5%	-9.2%
Return (EBIT*) on assets (%)	3.5%	3.3%	1.2%	3.4%	-4.0%
Financial position					
Current ratio	1.60	1.63	1.44	0.52	0.61
Quick ratio	1.57	1.51	1.40	0.50	0.57
Average equity ratio	76.8%	81.0%	81.0%	61.0%	43.0%
Time interest covered	NM	NM	24.43	2.11	(1.95)
Gearing (debt component)	NM	NM	NM	5.13%	0.39
Opening shareholders' funds (\$000)	36,644	36,644	28,583	19,760	24,613
Closing shareholders' funds (\$000)	36,781	38,316	36,644	28,583	19,760
Average shareholders' funds (\$000)	36,713	37,480	32,614	24,172	22,187
Shareholders' funds to total assets (%)	73.20%	79.3%	80.67%	73.43%	49.31%
Crown nominal investment (\$000)	36,781	38,316	36,644	28,583	19,760
Total assets (\$000)	50,152	47,273	45,425	38,925	40,645
Other statistics					
Revenue from trading per FTE (\$000) YTD annualised	\$198.7	\$197.00	\$186.1	\$186.0	\$176.8
Number of staff (FTEs)					
– research teams	215	210	225	216	216
– research support	39	36	38	31	23
– general support and management	63	60	61	60	66
Total	317	306	324	307	305

*Non-operating items includes employee termination costs, disposal and impairment of property, plant and equipment and write-off of goodwill.

NM = Not meaningful

Key Performance Indicators

STRATEGIC PRIORITY ONE

Leverage the step change achieved in engagement with industry

MEASURE	METHOD	TARGET	OUTCOME
High-potential companies identified and engagement strategies developed	Identification completed, operational plans agreed for 2010/11 activities	6	Complete
Joint ventures or formal associations	Number – new	4	1
Start-up companies (spin-off or spin-out)	Number – new	0	0
Customer satisfaction	Satisfaction as expressed in surveys and post-project reviews	To satisfaction of Board	Customer feedback conducted at individual project level
Commissioned reports to users	Total number	As per contracted	494

STRATEGIC PRIORITY TWO

World-class technology development and application

MEASURE	METHOD	TARGET	OUTCOME
Peer-reviewed articles and publications	Number completed	190	138
Keynote and plenary presentations	Number completed	80	46
Publications on technical information and research results	Number completed	60	149
Visiting scientists (self-funded)	Visits over 3 months	5	3
Succession – science and engineering	Succession plan for all key positions in science and engineering reviewed and updated	To satisfaction of Board	Complete
Succession – executive	Succession plan for Executive Management positions reviewed and updated	To satisfaction of Board	Complete
R&D joint ventures	Number – new	3	3

STRATEGIC PRIORITY THREE

Developing opportunities for investment in novel technology and fostering emergence of new industries

MEASURE	METHOD	TARGET	OUTCOME
Licensing arrangements entered into	Number – new	8	3
New patents granted in NZ	Number completed	14	7
New patents granted overseas	Number completed	10	13
PSAF funds available	Value of projects approved	Available funding (\$1.049m per year) fully utilised over 3-year contract period	\$881,780

STRATEGIC PRIORITY FOUR

A financially strong IRL

MEASURE	METHOD	TARGET	OUTCOME
Establish long-term capital equipment investment schedule	Implementation of 10-year plan	Ongoing	Discussions proceeding with other organisations on sharing of some services and equipment
Establish long-term site/location development plans	Plan drawn up	Oct 2010 for approval	Plan before Board
Capital investment	Equal to budget	Budget	On track
Revenue	Revenue/budget	Budget	Revenue exceeded budget by \$2.6m
EBIT	EBIT/budget	Budget	EBIT was ahead of budget by \$0.1m
Cash flow	Operating cash flow	Budget	Cash flow from operating activities exceed budget by \$2.6m
Successful funding bids – FRST	Percentage of bids awarded	>50% of initial bids	47% of 15 applications progressed to 2nd stage of funding round. Of these, 57% (4) were awarded funding. One International Investment Opportunities Fund application also successful
Staff/HR development	Health and safety compliance	100%	Audits completed and IRL promoted to tertiary rating with ACC
Staff satisfaction	Annual staff survey	15% improvement	Improvement achieved
Full-time employees	Research teams	215	215
	Support	26	39
	Other support	55	63

Capability Fund

Each year the Crown Research Institutes receive Capability Funding through the Ministry of Research, Science and Technology to support and enhance long-term research capability. At IRL the funding is allocated in line with the Company's core purpose and the Strategic Plan and recognises both the relevance to industry and the scientific merit of the projects under consideration.

In the 2009/10 year, \$5.75m was allocated, with 19% of funding going to projects to maintain and enhance existing capabilities, 65% to projects to develop new and emerging capabilities and 16% towards capability in the "over the horizon" category, where projects offer the potential for fresh creative insight or new discoveries.

EXISTING CAPABILITIES (MAINTAIN AND ENHANCE)

CAPABILITY: Maintain modelling and analysis capability for computational requirements across physics, engineering and materials applications

ACTIVITY	2009/10 ACHIEVEMENT
Modelling of porous media and heat transfer in paper drying	Software has been developed to solve the model of permeability changes due to deposition in a reactive transport model. The porous media model has been used to understand important heat transfer processes in preparation for actual measurements from a paper production line.

CAPABILITY: Maintain and develop capability in energy technologies with particular emphasis on supporting transformation of the NZ energy infrastructure to sustainability

ACTIVITY	2009/10 ACHIEVEMENT
Develop new quantum dot (QD) photovoltaic (PV) cells that use low-cost materials and simple manufacturing techniques while delivering improved energy performance	A dense multilayer film of lead sulphate quantum dots has shown electronic coupling and quantum dots have been deposited on semiconductor surfaces. Three nanostructured surfaces suitable for QD deposition have been prepared showing highly directional electron/hole transport characteristics. Nanostructured titania and zinc oxide substrates have been doped to adjust the Fermi level for better electron acceptor characteristics.
Develop process to store and release concentrated solar power using IRL's IP in reactivated lime for CO ₂ storage	The potential heat transfer and storage capacity of lime and limestone have been analysed and the current status of concentrated solar thermal power technology surveyed. Two software models have been developed to describe an operating system covering collection of solar energy during the day and release during hours of darkness.
Nanomaterials for gas separation technology and energy industry	Tubular anodic alumina substrates have been successfully fabricated using commercially available aluminium alloy tubes and coated with a continuous film of palladium as a hydrogen filter. Anodic alumina material has been successfully used as a template for growing nickel nanowires and other more complex systems using a combination of other metals, including silver and copper.
Integration of advanced microenergy technologies for remote communities and hydrogen energy technologies for distribution and storage	A prototype remote SCADA logger hardware design has been produced for site monitoring and data collection with capability not available in existing products, including very low power needs, image capture and remotely controllable fast data snapshot capability. Catalyst-supported hydrogen combustion for a hydrogen-fuelled water heater has been developed to bench level using platinum-coated "wool". Planning work has been undertaken for a two-year trial of a Hylink hydrogen energy system on Maiti/Somes Island.

CAPABILITY: Enhance capability in supercritical fluid extraction (SFE) to support the NZ biotechnology sector

ACTIVITY	2009/10 ACHIEVEMENT
Particle formation for food and health products using SFE	Links have been established with industries with potential interest in particle drying and encapsulation processes developed in first year of project. Spray extraction technology has been transferred to a New Zealand company.

Supercritical water processing	A semi-continuous stirred tank and continuous tubular flow reactor plant has been constructed, important process factors identified and tests carried out using glucose as a model carbon source in the stirred tank apparatus producing streams of up to 36% total gas products.
Additional projects added during 2009/2010 year	
Build capability in battery monitoring technologies	An analysis was completed of existing battery impedance hardware/software and possible approaches outlined for improving performance of existing battery impedance sensors and designing of high-performance next generation products.

NEW AND EMERGING CAPABILITIES

CAPABILITY: Advanced organic materials for photonic technology to develop new photonic devices

ACTIVITY	2009/10 ACHIEVEMENT
Research new advanced materials for photonics devices and increase the optics measurement capability in the photonics team that will directly support the development of proof-of-concept photonics devices	Developed nanoparticles with improved photoluminescence using newly developed technique. A model has been developed to explain the photoluminescence and lifetime data. Key parameters have been calculated for optical amplification. Existing molecules, with minor changes in structure, have also been found to have potential as organic LEDs.
Develop capability in Electric Field Induced Second Harmonic (EFISH) measurement	An experimental apparatus for Second Harmonic Generation (SHG) has been successfully set up and an SHG standard reference sourced. The project was redirected to the use of electrically tuneable Bragg gratings for characterising our materials.

CAPABILITY: Imaging and detecting technology for medical applications to underpin the NZ medical devices industry

ACTIVITY	2009/10 ACHIEVEMENT
Retinal blood vessel flow measurement by laser speckle	A Fundus camera was modified to improve imaging and light quality and to reduce vibration. Phantom measurements have continued on blood after the earlier substitute (milk) proved unsuitable to ascertain the cause of variations in measurements.
Super resolution imaging	Algorithms have been developed to improve the quality of optical coherence tomography (OCT) images and evaluated numerically.

CAPABILITY: Assistive medical science and device technology through knowledge of human interface issues arising from the use of assistive devices and systems in physical therapies and rehabilitation

ACTIVITY	2009/10 ACHIEVEMENT
Science capability in modelling, virtual reality and application of high-level control systems developed on the basis of new rehabilitation technology development	A computer controllable wireless Arm Skate platform has been designed with three prototypes built. An OpenSim model of a subject performing motion capture experiments has been created and inverse kinematics problems solved for both "range of motion" and "random motion" experimental trials. The data have been analysed and resulting joint ranges of motion calculated for the relevant joints of the upper arms. A concept therapy system was created and tested on stroke survivors during a chronic rehabilitation therapy regime.
Computational modelling to assist design of orthopaedic implants	Finite element simulations have been undertaken to understand the magnitude and location of stresses on an implant.

CAPABILITY: New engineering capability around next generation power systems, including equipment based on HTS technology

ACTIVITY	2009/10 ACHIEVEMENT
Pulse Tube Refrigeration capability aimed at an eventual commercial NZ-developed cryocooler capability for use in an HTS sector	A pulse tube cryogenic refrigerator designed, constructed and tested. A low temperature of 49K was achieved with a refrigeration power of 55W at 77K.

Understanding the physical properties of HTS wire and Roebel cable	Equipment for transport loss has been completed ready to begin measurements. The magnet for providing the external magnetic field is complete and will now be calibrated.
Apply and develop technical capability (materials science, engineering and advanced operations research tools) to meet needs of NZ electricity distributors	An understanding has been gained of EDC smart grid requirements in an NZ context of low density distribution networks. Key principles and an approach to effectively use multivariate statistical analysis have been demonstrated to enable extraction of information from the wealth of data to be generated by smart grids. Initial targets have been identified to build smart grid capability and operability into NZ-manufactured power systems equipment.

CAPABILITY: In ICT and signal processing, including creative and strategic research initiatives

ACTIVITY	2009/10 ACHIEVEMENT
Development of IP cores: establish field-programmable gate array (FPGA) development capability to help establish a path for commercialisation of IRL ICT technologies	A number of new components have been implemented and tested, including a Reed-Solomon encoder/decoder, a convolutional encoder and Viterbi decoder, and WiMAX channel estimation and equalisation. The cores are being used in existing IRL commercial R&D projects.
Allow faster creation of game content using scanned data to rapidly create photo-realistic assets for games	Working with a games creation company, parallax occlusion has been applied to mapping with the aim to create a commercial game.

CAPABILITY: Develop capability in the field of vision-guided robotics (VGR) for automation applications, particularly in the handling of naturally varying objects

ACTIVITY	2009/10 ACHIEVEMENT
Develop techniques for a VGR to identify, locate and relocate naturally varying objects	A stereo camera has been fixed to the manipulator arm so that the robot can locate target objects in 3D space, follow and adapt to the surface profile. Novel algorithms have been developed to provide improved vision analysis and advanced path adaptation control.

CAPABILITY: New capability around functional materials using nanotechnology

ACTIVITY	2009/10 ACHIEVEMENT
Nanopore activation and control: Provide an alternative and faster route for piezo-driven devices to actuate an elastomeric nanopore using liquid crystals	A prototype adaptor has been constructed to translate the piezo movement to the symmetrical 4-way stretch required to actuate the nanopore-bearing polyurethane sheet. A Mark 2 version with tighter tolerances and less backlash is being constructed.
Capability in advanced nanoparticles for bioapplication using indium phosphide quantum dots as a less toxic replacement for cadmium-based quantum dots	A range of indium phosphide quantum dots has been made by modifying existing methods. Formation of core-shell nanoparticles has produced luminescent quantum dots with emissions ranging from blue to red and being used in the FRST "Fast Fluidic Microanalysis" programme.

CAPABILITY: Extension of capability in carbohydrate chemistry into new health and industrial areas to support NZ and international biotechnology sectors

ACTIVITY	2009/10 ACHIEVEMENT
Develop capability in fermentation, extraction, purification, structure determination and chemical synthesis of phosphoglycolipids and glycolipids in collaboration with NZ and international researchers	A strain of <i>Streptococcus pneumoniae</i> has been grown at IRL to provide biomass for glycolipid extraction. Six synthetic glycolipid targets have been synthesised.
Understand role of bifidobacteria and other lactic acid bacteria in the gastrointestinal system in human and animal immune systems	Analysis of seven strains shows differences in the composition and structure of the exopolysaccharides, both between species and between strains of same species.

CAPABILITY: New biomanufacturing capability in fermentation and advanced enzyme technologies

ACTIVITY	2009/10 ACHIEVEMENT
Develop fermentation system for NZ industry – including probiotics, pharmaceutical, cosmeceutical, nutraceutical, dairy and liquid biofuel sectors	Fermentation of six different anaerobic bacteria has been carried out for extraction of glycolipids. Successful replication and improved production of first thermophile for glycolipid extraction has been achieved. Collaborations have been established with Scion and Cawthron to provide processing support for the biofuels programme.
Development of new capability for the enzymatic modification of bioactive compounds	The level of sialylation using specific enzymes has been increased and scale-up has produced 25mg of material with sialylation of 75%. Lipid-soluble fractions from the skins of citrus fruits have been purified and analysed. Citrus fruit extracts have been bioconverted with fish oil.
Bioactives from meat waste products	Methods have been developed for enzyme immobilisation in lactose using various sepabeads and alternative methodologies.
Marine processing techniques to produce hydrogen and other products from biomass using high-pressure supercritical water	A process has been established for preparation of fish materials and evaluation carried out, including of available fish resources, provisional design and costing of commercial processing plant.
Potential plant-based nutra- and cosmeceuticals from NZ natural resources	Extracts of two native fungi showed significant activities against several enzymes. Both caffeic acid phenethyl ester (CAPE) and major flavonoids in NZ propolis have been quantified using simultaneous Ultra High Performance Liquid Chromatography and optimal conditions have been determined for larger-scale extraction. The chemical constituents present in feijoa extract have been isolated and their nature identified. Medical applications are being investigated.

CAPABILITY: Establish primary capabilities for traceable chemical measurement to develop standards

ACTIVITY	2009/10 ACHIEVEMENT
Establish primary capabilities for traceable chemical measurement based on Liquid Chromatography Mass Spectrometry (LCMS-MS) applied to tutin and hyenanchin levels in NZ honey	Various methods of extraction of tutin and hyenanchin from honey samples have been investigated. An analytical method has been investigated to determine quantities of tutin and hyenanchin present in honey samples. The limits of detection in pure and matrix samples using the various extraction and analytical methods have been investigated.
Additional projects added during 2009/10 year	
Develop the science and technology of self-sensing drug adhesion based on the gecko-foot concept	A literature review was completed of dry adhesive structures based on the gecko's foot. Simulations were performed on adhesive contact between rough and soft materials to identify suitability of new designs of setae structures. Collaboration with IRL materials researchers has produced anodised aluminium samples for testing.
Fluorescence techniques to characterise the properties of bovine urine to support short-term commercial prospects in the dairy sector in the control of livestock greenhouse gas emissions and development of a novel pregnancy test for dairy cows	Initial exploratory measurements have been conducted with The University of Auckland.

OVER THE HORIZON (DISCOVERY AND CREATIVE INSIGHT ACTIVITY)

CAPABILITY: Emergent science initiatives in carbohydrate chemistry

ACTIVITY	2009/10 ACHIEVEMENT
Utilising green chemistry to build aza-sugar manufacturing options	Synthesis has been achieved of the aza-derivative of D-lyxose in four high-yielding steps and, with view to scale-up, the reductive amination protocol used in the process has been improved. Sodium cyanoborohydride has been replaced with α -picoline borane to eliminate risk of producing toxic by-product hydrogen cyanide.
Synthesis of novel compounds mimicking heparin sulfates	Novel patent-protectable dendrimer-based clusters have been produced displaying sulphated gluco- and ido-configured mono- and di-saccharide units synthesised as potential mimics of heparin sulphate.
Investigation of potential novel heparin sulfates from paua waste	Proton NMR carried out of a glycoaminoglycan (GAG) preparation to assess GAG content and contaminants. An extraction protocol is being developed to increase the yield and purity of the HS from the paua viscera and muscle.
New capability for drug design using docking software to address the lack of protein-ligand docking capability within IRL	Modelling has been used to analyse issues with MIOX inhibitors and immucillin compounds synthesised at IRL and findings applied to improve bioactivity. An analysis was carried out to understand the binding modes for phosphatidylinositol mannoside (PIM) molecules to produce optimum immunomodulatory effect.

CAPABILITY: In ICT and signal processing, including creative and strategic research initiatives

ACTIVITY	2009/10 ACHIEVEMENT
Investigate research opportunities for the watt balance approach to linking the kilogram to the Planck constant via quantum electrical standards	AC voltage measurement requirements for oscillatory dynamic mode version of the watt balance have been investigated. An experimental device was designed for further research on gas-operated pressure balance performance and to investigate possible experiments for a watt balance. Five international watt balance experiments were visited to review current approaches to experimentation.
Quantum measurement and design of nanometre-sized devices for future electronic and mechanical applications	Behaviour of electron transport in double quantum dot and carbon nanotube transistors was studied and new theoretical tools developed to understand performance under different conditions.

CAPABILITY: New materials for magnetic sensors

ACTIVITY	2009/10 ACHIEVEMENT
Research strongly correlated materials leading to large field range magnetic sensors	Half-metallic films have been produced and photolithography and etching of fine structures achieved, including five-terminal double perovskite, clover leaf Hall and Wheatstone Bridge configurations.

CAPABILITY: Microfluidics capability to support the emerging NZ nanotechnology sector

ACTIVITY	2009/10 ACHIEVEMENT
New tools for small-scale fluidics	Testing is being carried out on the predicted capillary dynamics for water droplets in surface-modified glass and polytetrafluoroethylene (PTFE) capillaries. Experimental evidence has been found that water droplets can spontaneously penetrate non-wetting capillaries.

Employees' Remuneration

Industrial Research Limited's employment philosophy is to recruit and retain high-calibre staff. The number of employees within the Group receiving remuneration and benefits above \$100,000 are included in the following table. During the year, compensation payments were made to nine employees totalling \$501,781 (2009: 2 employees totalling \$23,747).

	FY2010	FY2009
\$540,000 - \$549,999	-	1
\$500,000 - \$509,999	1	-
\$230,000 - \$239,999	1	-
\$220,000 - \$229,999	-	2
\$210,000 - \$219,999	2	1
\$200,000 - \$209,999	1	2
\$190,000 - \$199,999	-	-
\$180,000 - \$189,999	1	-
\$170,000 - \$179,999	1	1
\$160,000 - \$169,999	1	-
\$150,000 - \$159,999	5	11
\$140,000 - \$149,999	7	1
\$130,000 - \$139,999	6	2
\$120,000 - \$129,999	7	6
\$110,000 - \$119,999	7	7
\$100,000 - \$109,999	14	10

Corporate Governance

ROLES AND RESPONSIBILITIES

Under the Crown Research Institutes Act 1992, the operating principles of a Crown Research Institute are to:

- undertake research for the benefit of New Zealand
- pursue excellence in all their activities
- comply with applicable ethical standards
- promote and facilitate the application of the results of research and technological developments
- be a good employer
- exhibit a sense of social responsibility by having regard to the interests of the community.

ROLE OF THE BOARD OF DIRECTORS

The Board has a responsibility to protect and enhance the value of the Group in the interests of the Group and the Crown as shareholder. In terms of the Crown Research Institutes Act 1992 and the Crown Entities Act 2004 this includes responsibility for:

- the preparation of, and compliance with, the Group's Statement of Corporate Intent
- the overall management of the Group through the appointment of the Chief Executive Officer (CEO) and the monitoring of his performance.

From a strategic and governance perspective, the Board is responsible for:

- setting the strategic direction and policy
- appointing and delegating responsibility for IRL's management to the CEO
- monitoring the CEO's performance against established goals
- ensuring compliance with the law, accountability documents and government expectations
- ensuring the correct financial structure is in place.

COMPOSITION OF THE BOARD

The Board establishment is between two and nine (but is normally seven) non-executive directors who generally meet eight times per year and as required for strategic planning purposes. The directors are appointed by the shareholding Ministers in accordance with section 7 of the Crown Research Institutes Act 1992. The normal term of appointment is three years with reappointment at the discretion of the shareholding Ministers. The Board reviews its performance and the performance of each director annually. The formal evaluations are submitted to shareholding Ministers each year. In 2009/10, the Board met nine times.

KEY POLICIES

The Board is responsible for setting and determining key policies. Approved policies cover such areas as delegations of authority, risk management, treasury, regulatory compliance, and insurance. The delegations policy provides authority and responsibilities of staff and prescribes the process of financial delegation. The levels of financial delegation are reviewed periodically. Compliance with the many legal requirements under which the business operates is of utmost importance to the Board. IRL takes compliance with these statutes seriously and there is a constant process of initiatives to improve the level of compliance.

BOARD COMMITTEES

The Board has two sub-committees. The membership and terms of reference for the committees are reviewed regularly by the Board.

Audit and Risk Committee Membership

D Henry (Chair), I M Parton (until 31 December 2009), Keith McConnell, Catherine Drayton, Ray Thomson (from 1 January 2010).

The function of the Audit and Risk Committee is to assist the Board in carrying out its responsibilities regarding the following aspects:

- management's accounting practices
- risk management
- policies and controls relative to the Company's financial results
- review and make appropriate enquiry into the audit of the Company's accounts by the external auditors
- ensure compliance with statutory legislation
- investments in new activities, business entities or joint ventures
- divestment of existing activities or business entities
- capital expenditure valuations
- monitoring the investment portfolio of the Parent to improve the efficiency of the overall process at Board level.

This committee normally meets as required, but no less than four times a year. In 2009/10, five meetings were held.

Remuneration Committee Membership

K McConnell (Chair), M Ahie, M Simmons

This committee assists the Board in determining remuneration for the CEO. It also reviews remuneration and performance reviews of the executives who report directly to the CEO. In addition, it is responsible for oversight of the IRL Remuneration Strategy and its implementation. The Remuneration Committee meets only as required and during the 2009/10 year it met twice.

BOARD ATTENDANCES FOR 2009/10

	IRL BOARD	AUDIT & RISK	REMUNERATION
K McConnell (Chair) (from 30 September 2009)	8	4	2
M Ahie	9	n/a	2
C Drayton	9	5	n/a
D Henry	9	5	n/a
I M Parton (to 31 December 2009)	4	2	n/a
M Simmons	9	n/a	2
R Thomson	9	2	n/a

REGISTER OF INTERESTS

In conjunction with each Board meeting, the directors and CEO have declared the following interests:

K McConnell – Director and shareholder, Windflow Technology Limited; Director and shareholder (through Windflow Technology Limited), Wind Blades Limited; Chairman and shareholder (through Windflow Technology Limited), Wind Gears Limited; Director and shareholder, Engineering Recruiters Limited; Director of Advisory Board, AH Gears Limited.

M Ahie – Director, Bio Commerce Centre Limited; Director, Manawatu Investment Group Limited; Chief Executive and beneficial shareholder, Shirlaws New Zealand Limited; Director, Clearwater Limited; Director, Jama Property Limited; Trustee, Ripotautahi Whanau Trust; Trustee, The Jama Trust; Director, FMG; Director, MIG Nominee No. 1 Limited..

S G Coffey – Director, General Cable Superconductors Limited; Adjunct Professor, University of Queensland; Chair, Industrial Research Pty Limited; Chair, GlycoSyn Technologies Limited; Director, Science New Zealand; Director, Quest Reliability Limited; Director, MacDiarmid Institute for Advanced Materials and Nanotechnology; Director, Measurement Standards Laboratory of New Zealand Limited; Director, Superlink Developments Limited; Chair, HTS-110 Limited; Member, Massey University Industry Advisory Board; Honorary Teaching and Research Fellow, Massey University; Chair, IRL Charitable Trust.

C Drayton – Director, Hockey New Zealand; Director, Meridian Energy; Director, D C Estates Limited; Director, Ngai Tahu Holdings Limited; Councillor, Ngai Tahu Holdings Limited; Councillor, University of Canterbury; Director, Christchurch International Airport.

D Henry – Chair, Bullet Freight Systems Limited; Chair and shareholder, Androgenix Limited; Director, Burns & Ferrall Limited; Director and shareholder, Castaway Bay Vineyards Limited; Director and shareholder, Henry Manufacturing Limited; Director, Henry Viticulture Limited; Director and shareholder, Henry and Associates Limited; Director and shareholder, Riverhead Marlborough Wines Limited; Director, Maven Wines Limited; Director, Trust House Limited; Director and shareholder, Henry Machinery Limited; Chair, Hanover Finance Limited; Chair, United Finance Limited.

I M Parton (until 31 December 2009) – Deputy Chair, Watercare Services Limited; Chair, HTS-110 Limited; Chair, VT Fitzroy Limited; Member, Civil and Environmental Engineering Department Advisory Board; Trustee, University of Auckland Foundation; Trustee, University of Auckland Foundation; Councillor, University of Auckland Council; Trustee, AUEA Charitable Trust.

M Simmons – Director and shareholder, Biocatalyst Limited; Shareholder (through Biocatalyst Limited), InSyGen Therapeutics Limited; Director, Maurice Wilkins Centre for Molecular Biodiscovery; Chief Executive, Cure Kids Ventures Management Limited; Director and shareholder (through Biocatalyst Limited), Photonz Corporation Limited; Director, Kode Biotech Limited; Chair, NZBIO; Shareholder (through Biocatalyst Limited), Symansis (NZ) Limited; Chair, Foundation for Research, Science and Technology Biocommerce Advisory Group.

R Thomson – Director and shareholder, Wellington Drive Technologies Limited; Director and shareholder, Manuka Health New Zealand Limited; Director, Manuka Health Europe Limited; Director and shareholder, Xaia Limited; Director and shareholder, TS Limited; Shareholder, Inro.

INFORMATION USED BY DIRECTORS

No member of the Board of IRL, or any subsidiary, issued a notice requesting to use information received in their capacity as directors which would not otherwise have been available to them.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

The Parent indemnifies all directors named in this report and current and former officers of the Group against all liabilities (other than that to the Parent or member of the Group) which arise out of the performance of their normal duties as director or executive officer, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance.

INSURANCE COVER ON LIABILITY OR COSTS OF ANY MEMBER

During the year, the directors' and officers' liability insurance was renewed to cover risks normally covered by such policies arising out of acts or omissions of directors and employees in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions. The insurance cover is provided by QBE Insurance (International) Limited and Vero Liability Insurance Limited at a total cost of cover for the year to 30 November 2010 of \$23,902.

AUDITORS

The Board of Directors ratified the Auditor-General's appointment of PricewaterhouseCoopers as the auditors for the Group. The Board has adopted a policy to maintain the independence of the external auditors.

DIRECTORS' REMUNERATION TABLE

IRL BOARD OF DIRECTORS	IRL Board fees (\$)	Subsidiary fees (\$)	IRL Board fees (\$)	Subsidiary fees (\$)
	FY2010		FY2009	
K McConnell	48,333	-	-	-
B Rhoades	-	-	58,000	-
M Ahie	39,875	-	29,000	-
C Stobo	-	-	36,250	-
I Parton	14,500	-	29,000	-
C Drayton	29,000	-	29,000	-
D Henry	29,000	-	29,000	-
R Thomson	29,000	-	-	-
M Simmons	29,000	-	29,000	-
Total	218,708	-	239,250	-

COMPOSITION OF SUBSIDIARIES

The following persons held the office of director representing the interests of IRL on various subsidiary and associate company boards of directors. Except where disclosed elsewhere, no director of a subsidiary or associate company received any directors' fees or other benefits as a director.

Bio-Sol Limited

R Furneaux

Industrial Research PTY Limited

S G Coffey

GlycoSyn Technologies Limited (Non-trading)

S G Coffey

Measurement Standards Laboratory of NZ Limited

S G Coffey

COMPOSITION OF ASSOCIATES

HTS-110 Limited

S G Coffey (Chair from 12 December 2009), A R Coupe, D Henry (from 18 May 2010), N Jordan, J F Maguire, I M Parton (Chair to 11 December 2009)

General Cable Superconductors Limited

C Birkett, R Buckley, S G Coffey, G Diack (Chair), R MacDonald

New Zealand Synchrotron Group Limited

IRL has a 6.75% shareholding in this company, which represents the New Zealand shareholding in the Australian Synchrotron. (Shareholder's representation J Lycett)

Industrial Research Charitable Trust

Administered by the Public Trust. Distribution of funds by Board of Directors.

S G Coffey (Chair), J Lycett, G McIrvine, B Marlow, A Gavriel



Report of the Auditor-General

To the readers of INDUSTRIAL RESEARCH LIMITED'S AND GROUP'S FINANCIAL STATEMENTS For the year ended 30 June 2010

The Auditor-General is the auditor of Industrial Research Limited (the Company) and the Group. The Auditor-General has appointed me, Karen Shires, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Company and Group, for the year ended 30 June 2010.

Unqualified opinion

In our opinion:

- The financial statements of the Company and Group on pages 16 to 50:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of:
 - the Company and Group's financial position as at 30 June 2010; and
 - the results of their operations and cash flows for the year ended on that date.
- Based on our examination, the Company and Group kept proper accounting records.

The audit was completed on 17 August 2010, and 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 of Directors and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date. The Board of Directors' responsibilities arise from the Crown Research Institutes Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Research Institutes Act 1992.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

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



Karen Shires

On behalf of the Auditor-General

Wellington, New Zealand



PricewaterhouseCoopers

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Industrial Research Limited for the year ended 30 June 2010 included on the Industrial Research Limited's website. The Industrial Research Limited's Board of Directors is responsible for the maintenance and integrity of the Industrial Research Limited's website. We have not been engaged to report on the integrity of the Industrial Research Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 17 August 2010 to confirm the information included in the audited financial statements presented on this website.

Legislation in New Zealand governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Income Statement

For the year ended 30 June 2010

	Notes	GROUP			PARENT	
		2010 ACTUAL \$000	2010 BUDGET Unaudited \$000	2009 ACTUAL \$000	2010 ACTUAL \$000	2009 ACTUAL \$000
Continuing operations						
Revenue – Crown	2	45,230	43,694	43,508	45,230	43,508
Revenue – Commercial	2	16,790	14,125	15,669	16,790	15,663
Total revenue		62,020	57,819	59,177	62,020	59,171
Other income	2	974	2,488	1,151	1,001	1,151
		62,994	60,307	60,328	63,021	60,322
Employee benefit costs	3	(30,324)	(28,134)	(28,177)	(30,324)	(28,177)
Science project and subcontract costs	3	(13,515)	(13,828)	(13,759)	(13,515)	(13,759)
Other expenses	3	(12,343)	(11,370)	(12,728)	(12,343)	(12,724)
Depreciation	9	(4,671)	(5,031)	(4,609)	(4,671)	(4,609)
Amortisation of intangible assets	10	(493)	(418)	(493)	(493)	(493)
Operating profit		1,648	1,526	562	1,675	560
Finance income		410	146	179	410	178
Finance costs		-	-	(23)	-	(23)
Share of surplus/(loss) of associate	12	100	-	14	-	-
Write-down of associate company	12	-	-	-	(3,131)	-
Operating profit/(loss) before income tax		2,158	1,672	732	(1,046)	715
Income tax expense	4	(1,990)	-	(1)	(1,990)	(1)
Operating profit/(loss) for the period		168	1,672	731	(3,036)	714

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

Statement of Comprehensive Income

For the year ended 30 June 2010		GROUP			PARENT	
		2010 ACTUAL	2010 BUDGET	2009 ACTUAL	2010 ACTUAL	2009 ACTUAL
Notes	\$000	Unaudited \$000	\$000	\$000	\$000	
	168	1,672	731	(3,036)	714	
Operating profit/(loss) for the period						
Other comprehensive (loss)						
Cash flow hedges	(31)	-	-	(31)	-	
Other comprehensive (loss) for the period	(31)	-	-	(31)	-	
Total comprehensive income/(loss) attributable to:						
- owners of the Company	137	1,672	731	(3,067)	714	

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

Statement of Changes in Equity

For the year ended 30 June 2010
Attributable to equity holders of the Company

	Notes	Share capital \$000	Cash flow hedge reserve \$000	Retained earnings \$000	Total equity \$000
GROUP					
Balance as at 1 July 2008		32,840	-	(4,257)	28,583
Comprehensive income					
Operating profit		-	-	731	731
Total comprehensive income		-	-	731	731
Transactions with owners					
Share issue	6	7,330	-	-	7,330
Balance as at 30 June 2009		40,170	-	(3,526)	36,644
Balance as at 1 July 2009		40,170	-	(3,526)	36,644
Comprehensive income					
Operating profit		-	-	168	168
Other comprehensive income					
Cash flow hedge reserve (net of tax)		-	(31)	-	(31)
Total comprehensive income		-	(31)	168	137
Balance as at 30 June 2010		40,170	(31)	(3,358)	36,781

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

For the year ended 30 June 2010
 Attributable to equity holders of the Company

	Notes	Share capital \$000	Cash flow hedge reserve \$000	Retained earnings \$000	Total equity \$000
PARENT					
Balance as at 1 July 2008		32,840	-	(1,036)	31,804
Comprehensive income					
Operating profit		-	-	714	714
Total comprehensive income		-	-	714	714
Transactions with owners					
Share issue	6	7,330	-	-	7,330
Balance as at 30 June 2009		40,170	-	(322)	39,848
Balance as at 1 July 2009		40,170	-	(322)	39,848
Comprehensive income					
Operating (loss)		-	-	(3,036)	(3,036)
Other comprehensive income					
Cash flow hedge reserve (net of tax)		-	(31)	-	(31)
Total comprehensive income		-	(31)	(3,036)	(3,067)
Balance as at 30 June 2010		40,170	(31)	(3,358)	36,781


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

Balance Sheet

As at 30 June 2010

	Notes	GROUP			PARENT	
		2010 ACTUAL \$000	2010 BUDGET Unaudited \$000	2009 ACTUAL \$000	2010 ACTUAL \$000	2009 ACTUAL \$000
EQUITY						
Issued capital	6	40,170	40,170	40,170	40,170	40,170
Hedge reserve	6	(31)	-	-	(31)	-
Accumulated losses	6	(3,358)	(1,854)	(3,526)	(3,358)	(322)
TOTAL EQUITY		36,781	38,316	36,644	36,781	39,848
<i>Represented by:</i>						
CURRENT ASSETS						
Cash and cash equivalents	5	12,442	8,150	6,341	12,442	6,315
Trade and other receivables	7	4,034	4,391	4,703	4,030	4,702
Derivative financial instruments	23	-	-	4	-	4
Inventories	8	855	978	777	855	777
Total current assets		17,331	13,519	11,825	17,327	11,798
NON-CURRENT ASSETS						
Financial assets at fair value through profit and loss	13	-	409	409	-	409
Investment in associates	12	1,379	1,305	1,279	1,379	4,509
Property, plant and equipment	9	30,593	31,587	31,220	30,593	31,220
Intangible assets	10	849	454	692	849	692
Total non-current assets		32,821	33,755	33,600	32,821	36,830
TOTAL ASSETS		50,152	47,274	45,425	50,148	48,628
CURRENT LIABILITIES						
Bank overdraft	5	-	-	39	-	39
Trade and other payables	19	4,919	4,083	3,882	4,915	3,881
Employee benefits	16	3,239	2,741	2,686	3,239	2,686
Interest-bearing loans and borrowings	15	-	-	4	-	4
Derivative financial instruments	23	21	-	-	21	-
Income in advance	17	2,622	1,427	1,597	2,622	1,597
Total current liabilities		10,801	8,251	8,208	10,797	8,207
NON-CURRENT LIABILITIES						
Employee benefits - provision for long service leave	16	580	707	573	580	573
Deferred tax liability	18	1,990	-	-	1,990	-
Total non-current liabilities		2,570	707	573	2,570	573
TOTAL LIABILITIES		13,371	8,958	8,781	13,367	8,780
NET ASSETS		36,781	38,316	36,644	36,781	39,848

K McConnell – Chairman
Date: 17 August 2010



D B Henry – Deputy Chariman
Date: 17 August 2010



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

Cash Flow Statement

For the year ended 30 June 2010		GROUP			PARENT	
		2010 ACTUAL	2010 BUDGET	2009 ACTUAL	2010 ACTUAL	2009 ACTUAL
Notes	\$000	Unaudited \$000	\$000	\$000	\$000	
CASH FLOWS FROM OPERATING ACTIVITIES						
<i>Cash was provided from:</i>						
	45,759	43,524	43,509	45,759	43,509	
Receipts from Crown						
	18,407	16,868	17,378	18,403	17,365	
Receipts from commercial customers						
	410	146	179	410	178	
Interest received						
	64,576	60,538	61,066	64,572	61,052	
<i>Cash was applied to:</i>						
	(25,226)	(25,488)	(27,407)	(25,245)	(27,399)	
Payments to suppliers						
	(29,232)	(27,595)	(28,033)	(29,233)	(28,033)	
Payments to employees						
	-	-	(23)	-	(23)	
Interest paid						
	(54,458)	(53,083)	(55,463)	(54,478)	(55,455)	
Net cash flows from operating activities	20	10,118	7,455	10,094	5,597	
CASH FLOWS FROM INVESTING ACTIVITIES						
<i>Cash was provided from:</i>						
	1	-	19	1	19	
Sale of property, plant and equipment						
	350	-	-	350	-	
Receipt of long-term receivable for sale of subsidiary	7					
	429	-	-	479	-	
Sale of investments						
	780	-	19	830	19	
<i>Cash was applied to:</i>						
	(4,486)	(5,578)	(4,159)	(4,486)	(4,159)	
Purchase of property, plant and equipment						
	(268)	-	(426)	(268)	(426)	
Purchase of intangible assets						
	-	-	(702)	-	(702)	
Purchase of long-term investments						
	(4,754)	(5,578)	(5,287)	(4,754)	(5,287)	
Net cash flows from investing activities						
	(3,974)	(5,578)	(5,268)	(3,924)	(5,268)	
CASH FLOWS FROM FINANCING ACTIVITIES						
<i>Cash was provided from:</i>						
	-	-	7,330	-	7,330	
Issue of ordinary shares						
	-	-	7,330	-	7,330	
<i>Cash was applied to:</i>						
	-	-	(1,215)	-	(1,215)	
Repayment of term debt						
	(4)	(4)	(246)	(4)	(246)	
Finance lease principal payments						
	(4)	(4)	5,869	(4)	5,869	
Net cash flows from financing activities						
	(4)	(4)	5,869	(4)	5,869	

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

Cash Flow Statement (continued)

For the year ended 30 June 2010	GROUP			PARENT		
		2010 ACTUAL	2010 BUDGET	2009 ACTUAL	2010 ACTUAL	2009 ACTUAL
	Notes	\$000	Unaudited \$000	\$000	\$000	\$000
Net increase in cash and cash equivalents		6,140	1,873	6,204	6,166	6,198
Cash and cash equivalents at the beginning of the year		6,302	6,277	98	6,276	78
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		12,442	8,150	6,302	12,442	6,276
<i>Cash balance at end of the year comprises:</i>						
Cash, call deposits and bank overdraft		12,442	8,150	6,302	12,442	6,276
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		12,442	8,150	6,302	12,442	6,276

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

Notes to the Financial Statements

For the year ended 30 June 2010

1. CORPORATE INFORMATION

The financial statements of Industrial Research Limited and its subsidiaries are for the year ended 30 June 2010.

Industrial Research Limited is a limited liability entity registered under the Companies Act 1993 incorporated and domiciled in New Zealand. The address of the registered office is Gracefield Research Centre, 69 Gracefield Road Lower Hutt.

Industrial Research Limited operates as a Crown Research Institute that uses world-class research and advanced technology to assist industry and add value to New Zealand's economy.

These consolidated financial statements have been approved for issue by the Board of Directors on 17 August 2010.

Basis of preparation

The financial statements for the "Parent" are for Industrial Research Limited as a separate legal entity.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993, the Financial Reporting Act 1993, the Crown Entities Act 2004 and the Crown Research Institutes Act 1992.

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 financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$000).

(a) New Standards adopted by the Group during the period

- NZ IAS 23 (amendment) Borrowing costs
This requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing the borrowing costs has been removed. The Group applied the amendment from 1 July 2009 but it is currently not applicable to the Group as there are no qualifying assets.
- NZ IAS 1 (Revised) Presentation of Financial Statements
The revised standard prohibits the presentation of items of income and expense that are "non-owner changes in equity" in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement (the statement of comprehensive income). The Group has applied IAS 1 (revised) from 1 July 2009. The adoption of this revised standard has resulted in cash flow hedge movements being treated as comprehensive income.
- NZ IFRS 7 Financial Instruments: Disclosures (amendment)
The amendment requires enhanced disclosure about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy using a three-level hierarchy:
 - Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
 - Inputs other than quoted prices included in level 1 that are observable for asset or liability either directly (as prices) or indirectly (derived from prices) (level 2)
 - Inputs for assets or liabilities that are not based on observable market data (unobservable inputs) (level 3).
- NZ IFRS 3 Business Combinations and NZAS 27 Consolidated and Separate Financial Statements
There are a number of changes arising from the revised NZ IFRS 3 Business Combinations and amended NZ IAS 27 Consolidated and Separate Financial Statements. The revisions to the standards apply to all business combinations after 1 July 2009. The main changes are that: acquisition related costs are recognised as an expense in the income statement in the period they are incurred; earn-outs and contingent considerations will be measured at fair value at the acquisition date; however, remeasurement in the future will be recognised in the income statement; step acquisitions, impacting equity interests held prior to control being obtained, are remeasured to fair value, with gains and losses being recognised in the income statement. Similarly, where control is lost, any difference between the fair value of the residual holding and its carrying value is recognised in the income statement; and while control is retained, transactions with minority interests would be treated as equity transactions.

(b) Standards adopted early by the Group

- NZ IFRS 9 Financial Instruments
NZ IFRS 9 (released and approved in December 2009) represents the beginning of rewriting the current financial instruments standard, NZ IAS 39. It reduces the classifications and measurement method available for financial assets from four to two, being amortised cost or fair value through profit or loss. Further amendments to policies applied under NZ IAS 39 are expected but not yet finalised. At this stage it is expected that NZ IFRS 9 as currently released will have limited (if any) impact on the Group.

No other standards have been adopted by the Group before the effective date of the standards.

Statement of compliance

The financial statements comply with generally accepted accounting practice in New Zealand, which includes New Zealand equivalents to International Financial Reporting Standards as applicable to a profit oriented entity ("NZ IFRS"). The financial statements comply with International Financial Reporting Standards ("IFRSs").

Basis of consolidation

The consolidated financial statements comprise the financial statements of Industrial Research Limited and its subsidiaries, associates and joint ventures as at 30 June 2010 ("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 Industrial Research Limited has control.

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at fair value of the assets given and liabilities incurred at the date of exchange. Identifiable assets and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Investment in associate

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

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

The financial statements of the associate are used by the Group to apply the equity method. The reporting dates of material associate's and the Group are identical and both use consistent accounting policies.

The investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this, when applicable in the consolidated statement of changes in equity.

Investments in subsidiaries and associates (Parent)

Investments in subsidiaries and associates in the Parent financial statements are stated at cost less impairment.

Interest in joint venture operation

The Group's interest in jointly controlled entities is accounted for by proportionate consolidation. The Group combines its share of the joint venture's individual income and expenses, assets and liabilities and cash flow on a line by line basis with similar items in the Group financial statements.

Foreign currency translation

Both the functional and presentation currency of Industrial Research Limited and its subsidiaries is New Zealand dollars (\$).

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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of overseas subsidiaries are translated into the presentation currency of Industrial Research Limited at the rate of exchange ruling at the balance sheet date and the income statement is translated at the weighted average exchange rates for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Property, plant and equipment

Land, buildings, plant and equipment is stated at historical cost less accumulated depreciation and any impairment in value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying value only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The cost of self-constructed assets includes the cost of all materials used in construction, direct labour on the project, costs of obtaining Resource Management Act consents, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs.

Depreciation rates and residual values are reviewed every year and are calculated on a straight-line basis to allocate their cost to their residual values over the estimated useful life of the asset as follows:

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

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. 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.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognised.

Borrowing costs

Borrowings are initially recognised at fair value plus transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (plus transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) are capitalised as part of the cost of that asset.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are not capitalised are expensed as incurred.

Intangible assets

(a) Research and development costs

Research costs are expensed as incurred.

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

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

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

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

(b) Computer software

Acquired computer software licenses 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.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(c) 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.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an 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, loans and receivables, and available for sale. 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 22).

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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

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

Gains or losses arising from changes in the fair value of the "Other financial assets at fair value through profit or loss" category are presented in the income statement within other revenue or other expenses, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

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. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Derecognition of financial instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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 either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) 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 fair values or cash flows of hedged items.

(i) Fair Value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) 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.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting or hedge accounting has not been adopted. Changes in the fair value of these derivative instruments are recognised immediately in 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
- Work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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.

Trade and other receivables

Trade receivables, which generally have 30 to 90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for impairment is made when collection of the full amount is no longer probable. Bad debts are expensed to the income statement when identified.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity 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.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial

year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in the income statement as finance costs.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Revenue

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:

Grants

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

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

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 intended to compensate.

Where the grant relates to an asset, the fair value is credited to an income in advance account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Rendering of services (commercial revenue)

Revenue from research contract services is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours 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.

Royalty income

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

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.

Dividend income

Dividend income is recognised when the shareholders' right to receive the payment is established.

Employee benefits

(a) Bonus plans

The Group recognises a liability and expense for bonuses based on a number of performance objectives that takes into consideration both quantitative and qualitative criteria. The Group recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement age or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance date are discounted to their present value.

(c) Long service leave and retiring grants

Long service leave and retiring grants are payable to employees who were employed by the Department of Scientific and Industrial Research prior to 1 July 1992. These obligations are valued annually by completion of an independent actuary valuation or by internal valuation. Consideration is given to expected future salary levels, experience of employee departures and periods of service.

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, and 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

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Share capital

Ordinary shares are classified as equity; incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax from the proceeds.

Changes in accounting policies

Accounting policies have been applied on a basis consistent with the prior year.

2. REVENUE

	GROUP		PARENT	
	2010 ACTUAL \$000	2009 ACTUAL \$000	2010 ACTUAL \$000	2009 ACTUAL \$000
REVENUE AND OTHER INCOME				
<i>Crown revenue:</i>				
Foundation for Research, Science and Technology	33,212	31,948	33,212	31,948
Ministry of Research, Science and Technology	11,510	11,012	11,510	11,012
The Royal Society of New Zealand	508	548	508	548
Total Crown	45,230	43,508	45,230	43,508
<i>Commercial revenue:</i>				
Commercial – domestic	7,563	8,509	7,599	7,277
Commercial – overseas	4,313	6,356	4,277	7,587
Royalty and licensing income	4,914	804	4,914	799
Total commercial revenue	16,790	15,669	16,790	15,663
TOTAL REVENUE	62,020	59,177	62,020	59,171
OTHER INCOME				
Gain on sale of property, plant and equipment	-	19	-	19
Equipment rental	912	1,058	912	1,058
Superlink Joint Venture	9	-	36	-
Other income	53	74	53	74
Total other income	974	1,151	1,001	1,151
TOTAL INCOME	62,994	60,328	63,021	60,322

3. EXPENDITURE

	GROUP		PARENT	
	2010	2009	2010	2009
	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000
EMPLOYEE BENEFIT COSTS				
– Salary and wages	28,422	26,995	28,422	26,995
– Employer contribution to superannuation funds	305	230	305	230
– Severance payments	1,008	24	1,008	24

GROUP AND PARENT

	2010	2009
	ACTUAL	ACTUAL
	\$000	\$000
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 Industrial Research Limited. The 2010 balance includes payments to a number of long-term employees.		
Severance payments	1,008	24
Number of employees	19	2

	GROUP		PARENT	
	2010	2009	2010	2009
	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000
Science project expenses (including R&D expenses)	13,515	13,759	13,515	13,759
Repairs and maintenance	1,998	1,551	1,998	1,551
Premises and utility expenses	3,946	3,412	3,946	3,412
Other expenses				
Auditors' fees				
– for auditing the financial statements	94	90	94	90
– for other assurance services	-	-	-	-
– for other services	-	-	-	-
Bad debt expense	9	66	9	66
Directors' fees	219	239	219	239
Donations	10	1	10	1
Movement in provision for impairment in trade debtors	(33)	(12)	(33)	(12)
Rent and lease expenses	437	612	437	612
Loss of disposal of fixed assets	60	-	60	-
Foreign exchange losses	108	458	108	458
Intellectual property (patents)	680	1,183	680	1,183
Insurance	941	951	941	951

4. TAXATION

	GROUP		PARENT	
	2010	2009	2010	2009
	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000
Major components of income tax expense for the year ended 30 June 2010 and 30 June 2009.				
INCOME STATEMENT				
<i>Current income tax:</i>				
Current income tax charge	632	255	640	255
Utilisation of losses not previously recognised	(673)	(465)	(681)	(465)
Temporary differences – deferred tax buildings depreciation	1,990	211	1,990	211
Temporary differences – deferred tax other	41	-	41	-
Total tax expense reported in the income statement	1,990	1	1,990	1
RECONCILIATION OF INCOME TAX EXPENSE				
Operating profit before income tax	2,158	732	(1,046)	715
Tax at current rate of 30%	647	220	(314)	215
<i>Adjustment to taxation:</i>				
Capital loss/(gains)	(6)	21	(6)	21
Write-down of associate company	-	-	939	-
Fair dividend rate	6	7	6	7
Non-deductible expenses	15	11	15	11
Earnings of associates/joint venture	(30)	(4)	-	-
Prior period adjustments	-	1	-	1
Utilisation of losses not previously recognised	(673)	(465)	(681)	(465)
Changes in buildings tax depreciation	1,990	-	1,990	-
Other temporary differences not recognised	41	211	41	211
Total tax expense	1,990	1	1,990	1
Tax expense from continuing operations	1,990	1	1,990	1

5. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2010	2009	2010	2009
	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000
Cash at bank and in hand	442	841	442	815
Term deposits less than six months	12,000	5,500	12,000	5,500
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	12,442	6,341	12,442	6,315

The carrying value of cash at bank and term deposits with maturities less than six months approximates their fair value.

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

	GROUP		PARENT	
	2010	2009	2010	2009
	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000
Cash at bank and in hand	442	841	442	815
Term deposits less than three months	12,000	5,500	12,000	5,500
Bank overdraft	-	(39)	-	(39)
	12,442	6,302	12,442	6,276

6. EQUITY

	GROUP		PARENT	
	2010	2009	2010	2009
	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000
SHARE CAPITAL				
Balance at beginning of the year	40,170	32,840	40,170	32,840
Share issue made during the period	-	7,330	-	7,330
CLOSING SHARE CAPITAL	40,170	40,170	40,170	40,170
HEDGE RESERVE				
Balance at beginning of the year	-	-	-	-
Fair value loss for the period	(31)	-	(31)	-
BALANCE AT END OF THE PERIOD	(31)	-	(31)	-
ACCUMULATED LOSSES				
Balance at beginning of the year	(3,526)	(4,257)	(322)	(1,036)
Operating profit (loss) for the period	168	731	(3,036)	714
BALANCE AT END OF THE PERIOD	(3,358)	(3,526)	(3,358)	(322)
TOTAL EQUITY				
Balance at beginning of the year	36,644	28,583	39,848	31,804
Movements during the period	137	8,061	(3,067)	8,044
BALANCE AT END OF THE PERIOD	36,781	36,644	36,781	39,848
SHARE CAPITAL	2010	2010	2009	2009
	NUMBER	\$000	NUMBER	\$000
Issued and paid up capital				
Movements in the Company's issued ordinary shares were as follows:				
Shares at the beginning of the year	37,377,876	40,170	30,571,964	32,840
Shares issued during the period	-	-	6,805,912	7,330
SHARES AT THE END OF THE PERIOD	37,377,876	40,170	37,377,876	40,170

All issued shares are fully paid and have no par value.

Each share is ranked equally and confers on the holder the right to vote at any general meeting of the company.

A total of 6,805,912 shares (\$7,330,000) was issued to the Crown during the year ended 30 June 2009.

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.

7. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2010	2009	2010	2009
	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000	ACTUAL \$000
CURRENT				
Trade receivables	3,051	3,014	3,047	3,014
Less: Provision for impairment	(111)	(143)	(111)	(143)
	2,940	2,871	2,936	2,871
Accrued income	166	358	166	358
Income tax receivable	2	1	2	1
Other receivables	16	30	16	29
Settlement due from disposal of subsidiary	-	350	-	350
Prepayments	910	1,093	910	1,093
	4,034	4,703	4,030	4,702

The carrying amounts of trade receivables are equivalent to fair values.

Trade receivables includes amounts due from related party. See note 25 for details.

(a) Provision for impairment

At 30 June 2010 trade receivables of \$111,000 (30 June 2009: \$143,000) were considered impaired. The impaired receivables were from a number of customers.

	GROUP	
	2010	2009
	ACTUAL \$000	ACTUAL \$000
Opening balance	143	155
Recognised during the year	37	54
Released	(60)	-
Utilised	(9)	(66)
CLOSING BALANCE	111	143

(b) Past due but not impaired

At 30 June 2010 trade receivables of \$468,000 (30 June 2009: \$880,000) 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	
	2010	2009
	ACTUAL \$000	ACTUAL \$000
Within 1 month	328	751
Within 1 to 3 months	23	36
Beyond 3 months	117	93
	468	880

8. INVENTORIES

	GROUP	
	2010	2009
	ACTUAL \$000	ACTUAL \$000
Raw materials and consumables	331	465
Work in progress	524	312
	855	777

9. PROPERTY, PLANT AND EQUIPMENT

	LAND ASSETS \$000	BUILDINGS ASSETS \$000	PLANT ASSETS \$000	CAPITAL WORK IN PROGRESS \$000	TOTAL ACTUAL \$000
1 JULY 2009					
Cost	3,001	41,954	45,695	648	91,298
Accumulated depreciation	-	(24,102)	(35,976)	-	(60,078)
Carrying amount	3,001	17,852	9,719	648	31,220
FOR THE YEAR ENDED 30 JUNE 2010					
Carrying amount at 1 July 2009	3,001	17,852	9,719	648	31,220
Additions	-	268	3,616	603	4,487
Transfers from capital work in progress	-	68	412	(863)	(383)
Disposals	-	(45)	(15)	-	(60)
Depreciation	-	(2,223)	(2,448)	-	(4,671)
Carrying amount at 30 June 2010	3,001	15,920	11,284	388	30,593
Cost	3,001	41,153	47,708	388	92,250
Accumulated depreciation	-	(25,233)	(36,424)	-	(61,657)
Carrying amount	3,001	15,920	11,284	388	30,593
1 JULY 2008					
Cost	3,001	41,542	42,960	308	87,811
Accumulated depreciation	-	(21,806)	(34,335)	-	(56,141)
Carrying amount	3,001	19,736	8,625	308	31,670
FOR THE YEAR ENDED 30 JUNE 2009					
Carrying amount at 1 July 2009	3,001	19,736	8,625	308	31,670
Additions	-	396	2,506	1,281	4,183
Transfers from capital work in progress	-	15	906	(941)	(20)
Disposals	-	-	(4)	-	(4)
Depreciation	-	(2,295)	(2,314)	-	(4,609)
Carrying amount at 30 June 2010	3,001	17,852	9,719	648	31,220
Cost	3,001	41,954	45,695	648	91,298
Accumulated depreciation	-	(24,102)	(35,976)	-	(60,078)
Carrying amount	3,001	17,852	9,719	648	31,220

Restriction on title

In relation to the transfer of land, shareholding Ministers shall have regard to the principles of the Treaty of Waitangi in accordance with section 10 of the Crown Research Institutes Act 1992. The Lower Hutt properties have Treaty of Waitangi caveats registered against their respective titles.

In addition the property owned by the Company has a caveat on this land as required by section 31 of the Crown Research Institutes Act 1992, which maintains the general provisions of the Public Works Act 1986. The Company complies with section 31 of the Crown Research Institutes Act 1992.

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. For material damage cover in Wellington the excess is 5% of the site value (capped at \$2,500,000), in Auckland this is 1% and 2.5% for Christchurch. On current insured values this would equate to an excess of \$2,500,000 of the sum insured value of \$246,000,000 for buildings, plant and equipment for the Gracefield site.

Finance leases

Included in plant assets at 30 June 2010 are assets capitalised under finance leases with a cost of \$nil (30 June 2009: \$6,303) together with accumulated depreciation of \$nil (30 June 2009: \$328).

10. INTANGIBLE ASSETS

	GROUP AND PARENT
	2010
	PURCHASED SOFTWARE
	\$000
BALANCE AT 1 JULY 2009	
Cost	4,854
Accumulated amortisation	(4,162)
Opening carrying amount	692
FOR THE YEAR ENDED 30 JUNE 2010	
Additions	267
Capital work in progress	383
Amortisation charge	(493)
BALANCE AT 30 JUNE 2010	
Cost	5,504
Accumulated amortisation	(4,655)
Closing carrying amount	849
BALANCE AT 1 JULY 2008	
Cost	4,428
Accumulated amortisation	(3,669)
Opening carrying amount	759
FOR THE YEAR ENDED 30 JUNE 2009	
Additions	426
Amortisation charge	(493)
BALANCE AT 30 JUNE 2009	
Cost	4,854
Accumulated amortisation	(4,162)
Closing carrying amount	692

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 2010	30 June 2009
Measurement Standards Laboratory of New Zealand Limited	Non-operating – name protection	100%	100%
Industrial Research Pty Limited	Research contracts – trading	100%	100%
GlycoSyn Technologies Limited	Non-operating – name protection	100%	100%
Superlink Developments Limited	Bare trustee of certain intellectual property	67%	67%
Bio-Sol Limited	Non-operating – for involvement in consortium	100%	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.

12. INVESTMENT IN ASSOCIATES

Name of entity	Principal activities	Interest held by the Group	
		30 June 2010	30 June 2009

DETAILS OF ASSOCIATES

Significant associates comprise the following. The financial data shown is for the associate as a whole.

Name of entity	Principal activities		
HTS-110 Limited	Commercialisation of superconductor activity	49.76%	49.76%
		\$000	\$000
	Total assets	3,523	2,663
	Total liabilities	(2,166)	(1,505)
	Total revenue	4,054	2,934
	Net surplus	161	28
General Cable Superconductors Limited	High temperature superconductor cable manufacturer	49.00%	49.00%
		\$000	\$000
	Total assets	3,417	3,826
	Total liabilities	(169)	(386)
	Total revenue	641	-
	Net (loss)	(192)	(1,237)

All entities are incorporated in New Zealand.

General Cable Superconductors Limited's balance date is 31 December.

HTS-110 Limited's balance date is 30 June.

	GROUP	
	2010 \$000	2009 \$000
RESULTS OF ASSOCIATES		
Share of surplus	100	14
Total recognised revenues and expenses	100	14
INTERESTS IN ASSOCIATES		
Carrying amount at beginning of year	1,279	563
Share of total recognised revenues and expenses	100	14
Purchase of convertible notes	-	702
	1,379	1,279

The Group investment in General Cable Superconductors Limited is nil as the investment is considered impaired. The write-down of the parent company investment in HTS-110 Limited of \$3,131,000 (2009: \$nil) is to bring the parent company accounts into alignment with the Group accounts.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	GROUP AND PARENT	
	2010 \$000	2009 \$000
American Superconductor Corporation	-	409
	-	409

American Superconductor Corporation shares are owned by Superlink Developments Limited, a joint venture company owned 67% by Industrial Research Limited and 33% by Meridian Energy Limited (note 14). The American Superconductor shares were sold during the year.

14. JOINT VENTURE

The Group has a 67% participating interest in Superlink joint venture. The principal activity is high temperature superconducting intellectual property management. The joint venture partner is Meridian Energy Limited.

	GROUP AND PARENT	
	2010 \$000	2009 \$000
Share of revenue	-	7
Share of expenses	-	(4)
SHARE OF NET SURPLUS/(DEFICIT)	-	3
Cash at bank	-	26
Trade receivables	-	1
Trade creditors	-	(1)
NET ASSETS EMPLOYED IN THE JOINT VENTURE	-	26

Superlink joint venture has the same balance date as the parent company. Superlink joint venture was wound up during the year and net assets distributed to the joint venture partners.

15. BORROWINGS

	GROUP AND PARENT	
	2010 \$000	2009 \$000
Current portion		
Capitalised finance lease obligations	-	4
TOTAL CURRENT BORROWING	-	4

The carrying value of borrowings is equivalent to fair value.

Industrial Research Limited has a short-term advances facility with the National Bank which is unsecured. Industrial Research Limited has given a negative pledge agreement with the bank.

	GROUP AND PARENT	
	2010 \$000	2009 \$000
TERM LIABILITY MATURITY PROFILE		
Years of maturity		
2009/2010	-	4
TOTAL BORROWINGS	-	4

Interest rates

Weighted average effective interest rates on borrowings (%)

Capitalised lease obligations - 13.52%

	GROUP AND PARENT	
	2010 \$000	2009 \$000
GROSS FINANCE LEASE OBLIGATIONS		
No later than 1 year	-	4
Later than 1 year and no later than 5 years	-	-
Later than 5 years	-	-
	-	4
Future finance charges on finance leases	-	-
Present value of finance lease liabilities	-	4
<i>The present value of finance lease liabilities is as follows:</i>		
No later than 1 year	-	4
Later than 1 year and no later than 5 years	-	-
Later than 5 years	-	-
	-	4

16. EMPLOYEE BENEFITS ACCRUAL

	GROUP AND PARENT	
	2010 \$000	2009 \$000
CURRENT		
Employee entitlements	1,098	555
Long service and retiring leave	126	100

Annual leave	1,940	1,987
Sick leave	75	44
	3,239	2,686
CURRENT		
Long service and retiring leave	580	573

17. INCOME IN ADVANCE

	GROUP AND PARENT	
	2010	2009
	\$000	\$000
Government and other grants received in advance	2,622	1,597

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

18. DEFERRED TAX ASSET

	GROUP AND PARENT	
	2010	2009
	\$000	\$000
DEFERRED TAX		
<i>Recognised:</i>		
Tax depreciation at 28%	(1,990)	-
<i>Unrecognised:</i>		
Tax depreciation at 30%	54	553
Tax depreciation at 28%	475	-
Provisions and accruals at 30%	123	942
Provisions and accruals at 28%	627	-
Intellectual property and other at 28%	332	922
Tax effect of temporary differences	1,611	2,417
Tax effect of unrecognised temporary differences	1,611	2,417
Tax effect of recognised and unrecognised temporary differences	(379)	2,417

In the 2010 Budget Statement the government announced and subsequently enacted legislation to effectively remove tax deductions for depreciation on buildings with expected lives of 50 years or more. The accounting standard NZ IAS 12 requires Industrial Research Limited to recognise the obligation to pay more tax in the future as a result of this change. The deferred tax liability of \$1,990,000 represents the increase in future tax payable as a result of the legislative change effective 1 April 2011.

TAX LOSSES		
New Zealand	10,454	12,342
TAX EFFECT OF TAX LOSSES		
New Zealand 30%	-	3,703
New Zealand 28%	2,927	-
Portion of tax losses not recognised	2,927	3,703

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

19. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2010 ACTUAL \$000	2009 ACTUAL \$000	2010 ACTUAL \$000	2009 ACTUAL \$000
CURRENT PORTION				
Trade creditors	2,745	1,652	2,745	1,652
Sundry creditors	29	1	29	-
Goods and services tax (GST) payable	221	426	217	426
Other payables and accruals	1,924	1,803	1,924	1,803
	4,919	3,882	4,915	3,881

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

Trade payables includes amounts due to related parties. See note 25 for details.

20. RECONCILIATION OF PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		PARENT	
	2010 ACTUAL \$000	2009 ACTUAL \$000	2010 ACTUAL \$000	2009 ACTUAL \$000
Operating profit/(loss) for the period	168	731	(3,036)	714
<i>Add/(less) non-cash items:</i>				
Depreciation	4,671	4,609	4,671	4,609
Amortisation of intangible assets	493	493	493	493
Revaluation of financial assets through profit and loss	-	69	-	69
Movement in deferred tax	1,990	-	1,990	-
Reclassification realised profit on sale of investments	(20)	-	(56)	-
Share of earnings retained by associates	(100)	(14)	-	-
Write-down of associate company (note 12)	-	-	3,131	-
Movement in hedge reserve	(31)	-	(31)	-
Deficit/(surplus) on sale of plant and equipment	60	(19)	60	(19)
<i>Add/(less) movements in working capital:</i>				
Trade and other receivables	318	(159)	322	(167)
Inventory	(77)	28	(77)	28
Trade and other payables	2,646	(135)	2,627	(130)
NET CASH FLOWS FROM OPERATING ACTIVITIES	10,118	5,603	10,094	5,597

21. 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 year 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 2010 and 30 June 2009 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 2010 at \$706,000 (2009: \$673,000). Adjusting the discount rate up/down 1.0% results in a decrease/increase of the 2010 retiring/long service leave liability balance and hence end of year profit before tax of \$36,000 decreases/increases (2009: \$45,000 decreases/increases).

(b) Deferred tax asset recognition

The Company has gross tax losses of \$10,454,000 (2009: \$12,342,000). The directors are of the opinion that due to the uncertainty of the company generating future taxable profits, a deferred tax asset to recognise the benefit of future tax losses will not be recognised (2009: \$nil).

Critical judgements in applying the entity's accounting policies

Revenue recognition

The Group holds revenue in advance of \$2,622,000 (2009: \$1,597,000).

A significant source of revenue for Industrial Research Limited 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 accounts.

Embedded derivative

The convertible notes held in HTS-110 Limited can only be converted to equity when an additional equity raising of at least \$2m is undertaken by HTS-110 Limited after 16 July 2008 but before 30 June 2011. If the equity raising does not occur then the notes will automatically be redeemed for cash on 16 July 2011. The notes carry an initial interest rate of 0%. Interest can be refixed after 30 June 2010 with the agreement of HTS-110 Limited and the holders of the notes. The conversion to equity (if equity raising occurs) is based on the face value of the notes outstanding (\$702,000) divided by the conversion price. The conversion price is equal to 75% of the average issue price per share of all ordinary shares issued prior to 30 June 2011 as part of the equity raising.

The convertible notes include an embedded derivative as if the equity raising occurs the holder will get shares at a discounted price. In the directors' view a reliable valuation of the embedded derivative cannot be obtained and neither can a reliable estimate of the valuation of the whole instrument.

Therefore as permitted under IAS 39 Financial Instruments: Recognition and Measurement, the convertible notes have been measured at cost less any impairment.

22. FINANCIAL INSTRUMENTS BY CATEGORY

	GROUP		PARENT	
	\$000	\$000	\$000	\$000
	LOANS AND RECEIVABLES	DERIVATIVES USED FOR HEDGING	LOANS AND RECEIVABLES	DERIVATIVES USED FOR HEDGING
AS AT 30 JUNE 2010				
FINANCIAL ASSETS				
Cash and cash equivalents	12,442	-	12,442	-
Trade and other receivables	3,122	-	3,118	-
	15,564	-	15,560	-

	GROUP		PARENT	
	\$000 LIABILITIES MEASURED AT AMORTISED COST	\$000 DERIVATIVES USED FOR HEDGING	\$000 LIABILITIES MEASURED AT AMORTISED COST	\$000 DERIVATIVES USED FOR HEDGING
FINANCIAL LIABILITIES				
Trade and other payables	4,919	-	4,915	-
Derivative financial instruments	-	21	-	21
	4,919	21	4,915	21

	GROUP		PARENT	
	\$000 LOANS AND RECEIVABLES	\$000 FAIR VALUE THROUGH PROFIT AND LOSS	\$000 LOANS AND RECEIVABLES	\$000 FAIR VALUE THROUGH PROFIT AND LOSS
AS AT 30 JUNE 2009				
FINANCIAL ASSETS				
Cash and cash equivalents	6,341	-	6,315	-
Trade and other receivables	3,609	-	3,608	-
Derivative financial instruments	-	4	-	4
Financial assets through profit and loss	-	409	-	409
	9,950	413	9,923	413

	GROUP		PARENT	
	\$000 LIABILITIES MEASURED AT AMORTISED COST	\$000 FAIR VALUE THROUGH PROFIT AND LOSS	\$000 LIABILITIES MEASURED AT AMORTISED COST	\$000 FAIR VALUE THROUGH PROFIT AND LOSS
FINANCIAL LIABILITIES				
Bank overdraft	39	-	39	-
Trade and other payables	3,882	-	3,881	-
Loans and borrowings	4	-	4	-
	3,925	-	3,924	-

The only financial assets held at fair value are foreign exchange contracts; these are level 2 instruments in the fair value hierarchy.

23. 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 internationally and is exposed to foreign exchange risk arising from various currency exposure, primarily with respect to the US dollar and Australian dollar. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

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 their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward exchange contracts.

Group finance treasury policy is to hedge between 50% and 100% of anticipated cash flows (mainly overseas revenue receipts and purchase of materials). A process of natural hedge and forward cover contracts is used to hedge foreign currency risk. Between 60% and 70% of foreign currency receipts are used to purchase goods payable in foreign currency. Forward cover contracts are utilised to repatriate remaining foreign currency balances.

Forward exchange contract volatility on designated hedged transactions is accounted for through the cash flow hedge reserve. For the year ended 30 June, the balance of the cash flow hedge reserve representing unexpired designated hedged foreign exchange contracts was \$31,000 (2009: \$nil).

At 30 June 2010, if the currency had strengthened/weakened by 10% against the US dollar with all other variables held constant, post-tax profit for the year (Group and Parent) would have been: strengthened \$52,000 loss, weakened \$63,000 profit (2009: strengthened \$63,000 loss, weakened \$77,000 profit) as the result of foreign exchange gains/losses on translation of US dollar denominated trade receivables/payables.

At 30 June 2010, if the currency had strengthened/weakened by 10% against the Australian dollar with all other variables held constant, post-tax profit for the year (Group and Parent) would have been: strengthened \$nil loss, weakened \$nil profit (2009: strengthened \$13,000 loss, weakened \$16,000 profit) as the result of foreign exchange gains/losses on translation of Australian dollar denominated trade receivables/payables.

At 30 June 2010, the Group has forward foreign exchange contracts for the sale and purchase of currencies to cover firm foreign currency denominated receipts and payments. Details of forward foreign exchange contracts outstanding at balance date are:

	GROUP			
	FOREIGN CURRENCY		CONTRACT VALUE	
	thousands		NZ \$000	
	2010	2009	2010	2009
OUTSTANDING CONTRACTS				
Bank buys				
United States dollar	\$2,034	-	\$2,926	-
British pound	£38	-	\$91	-
Singapore dollar	\$148	\$138	\$153	\$151
Australian dollar	\$1,420	-	\$1,732	-
Bank sells				
United States dollar	\$401	-	\$588	-

All forward foreign exchange contracts are due for settlement within 12 months of balance date except for one AUD Par Forward contract scheduled for completion January 2012.

(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.

The Group's interest rate risk can arise from term borrowings. Borrowing issued at variable rates exposes the Group to cash flow interest rate risk. Borrowings issued at fixed rates exposes the Group to fair value interest rate risk. Group policy is to maintain at least 30% of its borrowings in fixed rate instruments so as to minimise its exposure to fluctuating interest rates. No borrowings were held at 30 June 2010 (2009: \$nil).

(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 AA- 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 Industrial Research Limited 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.

	GROUP			
	30 JUNE 2010		30 JUNE 2009	
	CREDIT LIMIT \$000	BALANCE \$000	CREDIT LIMIT \$000	BALANCE \$000
National Bank of New Zealand	5,100	-	5,100	-

The table below analyses the Group's financial assets and liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

AT 30 JUNE 2010	LESS THAN 1 YEAR \$000	BETWEEN 1-2 YEARS \$000	BETWEEN 2-5 YEARS \$000	OVER 5 YEARS \$000
Cash and cash equivalents	12,442	-	-	-
Trade and other receivables	3,124	-	-	-
Derivatives used for hedging	(21)	-	-	-
Trade and other payables	(4,919)	-	-	-

AT 30 JUNE 2009	LESS THAN 1 YEAR \$000	BETWEEN 1-2 YEARS \$000	BETWEEN 2-5 YEARS \$000	OVER 5 YEARS \$000
Cash and cash equivalents	6,341	-	-	-
Trade and other receivables	3,609	-	-	-
Financial assets through profit and loss	409	-	-	-
Derivative financial instruments	4	-	-	-
Bank overdraft	(39)	-	-	-
Finance lease	(4)	-	-	-
Trade and other payables	(3,882)	-	-	-

The table below analyses the Group derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

AT 30 JUNE 2010	LESS THAN 1 YEAR \$000	BETWEEN 1-2 YEARS \$000	BETWEEN 2-5 YEARS \$000	OVER 5 YEARS \$000
Forward foreign exchange contracts				
– cash flow hedges				
Inflow	4,902	-	-	-
Outflow	(588)	-	-	-
AT 30 JUNE 2009	LESS THAN 1 YEAR \$000	BETWEEN 1-2 YEARS \$000	BETWEEN 2-5 YEARS \$000	OVER 5 YEARS \$000
Forward foreign exchange contracts				
– cash flow hedges				
Inflow	151	-	-	-

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

24. CAPITAL RISK MANAGEMENT

The Group capital includes share capital and accumulated losses.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company issued share capital of \$nil in the year ended 30 June 2010 (2009: \$7,330,0000).

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital.

Net debt is calculated as total borrowings (including "current and non-current" borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

The Group's capital requirements are restricted by the Crown Entities Act 2004, which restricts shareholding in the Group to the Crown.

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

During 2010 the Group's strategy was to maintain the gearing ratio below 45%. The gearing ratios at 30 June 2010 were as follows:

	GROUP	
	2010 \$000	2009 \$000
Total loans and borrowings	-	4
Less: Cash and cash equivalents	(12,442)	(6,302)
Net debt	(12,442)	(6,298)
Total equity	36,781	36,644
Total debt plus equity	24,339	30,346
Gearing ratio	-	-

25. RELATED PARTY DISCLOSURES

	GROUP	
	2010 \$000	2009 \$000
KEY MANAGEMENT PERSONNEL COSTS		
Remuneration and other short-term benefits	1,973	1,420
Severance payments	29	-
Directors' fees (non-executive directors)	219	239
Other benefits other than remuneration and other short-term cash benefits	-	-
	2,221	1,659

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

General

The Government of New Zealand is 100% shareholder in Industrial Research Limited. All transactions with other state owned enterprises and government departments and agencies are at arm's length, and are not considered to fall within the intended scope of disclosure of related party transactions.

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

All members of the Group are considered to be related parties of Industrial Research Limited. This includes the subsidiaries identified in note 11, the associated entities in note 12 and the joint venture identified in note 14.

Related party transactions

Industrial Research Limited is the parent company of a number of subsidiary companies.

During the year the parent company recorded revenue of \$35,500 being sale of research services to Industrial Research Pty Limited (2009: \$nil). There were no other transactions recorded with subsidiary companies (2009: \$nil). Amount due from Industrial Research Pty Limited \$35,500 (2009: \$nil).

	GROUP AND PARENT	
	2010 \$000	2009 \$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	1,694	1,413
Purchase of services	2,061	1,054

Goods are sold based on arm's length 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.

			GROUP AND PARENT	
SALES			2010 \$000	2009 \$000
Director	Related party	Relationship		
Keith McConnell	Windflow Technology Limited	Director	18	-
Ian Parton	VT Fitzroy Limited	Chairman/director	21	47
Ian Parton	The University of Auckland	Council member	532	463
Ian Parton	Watercare Services Limited	Director	7	5
Maxine Simmons	Photonz Corporation Limited	Director and shareholder	40	-
Ray Thomson	Manuka Health New Zealand Limited	Director and shareholder	66	-
Catherine Drayton	University of Canterbury	Councillor	30	-

Amounts due from The University of Auckland	-	42
Amounts due from University of Canterbury	12	-
Amounts due from VT Fitzroy Limited	-	1
Amounts due from Windflow Technology Limited	3	-

GROUP AND PARENT

PURCHASES			2010	2009
Director	Related party	Relationship	\$000	\$000
Ian Parton	The University of Auckland	Council member	26	7
Catherine Drayton	University of Canterbury	Council member	485	543
Maxine Simmons	NZBIO	Executive member	7	4
Michael Ahie	Shirlaws New Zealand Limited	Chief Executive	11	-
David Henry	Burns and Ferrall Limited	Director	-	1
Amounts owed to The University of Auckland			-	2
Amounts owed to University of Canterbury			78	-

PARENT

TRANSACTIONS WITH ASSOCIATE COMPANIES	2010	2009
	\$000	\$000
Industrial Research Limited is a 49.76% shareholder in HTS-110 Limited. All trading transactions with HTS-110 Limited are at arm's length.		
Sales of services and general recoveries	980	898
Purchase of services	1,532	1,042
Amounts owed to HTS-110 Limited	504	122
Amounts due from HTS-110 Limited	116	215
Industrial Research Limited is a 49% shareholder in General Cable Superconductors Limited. All trading transactions with General Cable Superconductors Limited are at arm's length.		
Sales of services and general recoveries	425	660
Purchase of services	156	-
Amounts owed to General Cable Superconductors Limited	165	-
Amounts due from General Cable Superconductors Limited	53	63

During the year a number of transactions occurred with the Industrial Research Charitable Trust. The Industrial Research Charitable Trust is administered by the Public Trust and its aim is to provide research funding for young scientists. The Trustees of the Industrial Research Charitable Trust are appointed by the Chairman of the Board of Industrial Research Limited. During the year research funding of \$40,300 (2009: \$44,300) was received from the Industrial Research Charitable Trust.

26. COMMITMENTS AND CONTINGENCIES

	GROUP AND PARENT	
	2010 \$000	2009 \$000
CAPITAL COMMITMENTS		
Commitments for capital expenditure contracted	2,425	2,048
TOTAL CAPITAL COMMITMENTS	2,425	2,048

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

	GROUP AND PARENT	
	2010 \$000	2009 \$000
OPERATING COMMITMENTS		
Commitments for non-cancellable operating leases and other operating commitments:		
Not later than one year	1,575	1,549
Later than one year and not later than five years	3,480	4,713
Later than five years	-	-
TOTAL OPERATING COMMITMENTS	5,055	6,262

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

CONTINGENCIES

There were no known contingent liabilities at balance date (2009: nil).

27. EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after balance date.

Board Responsibility Statement

The Board of Industrial Research Limited has the responsibility for:

- (a) The preparation of the annual financial statements and the judgments used therein.
- (b) Establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the opinion of the management, the annual financial statements for the financial year ended 30 June 2010 fairly reflect the financial position and operations of Industrial Research Limited. This statement is issued in accordance with section 155 Crown Entities Act 2004.

The annual report and the financial statements presented on pages 16 to 50 are signed for and on behalf of the Board and were authorised for issue on the date set out below.



K McConnell – Chairman



D B Henry – Deputy Chairman

Date: 17 August 2010

DIRECTORY

Board of Directors

Keith McConnell, Auckland
Chairman (from 1 September 2009)

Michael Ahie, Wellington
Deputy Chairman (until 30 June 2010)

Catherine Drayton, Auckland

David Henry, Auckland
Deputy Chairman (from 1 July 2010)

Ian Parton, Auckland
(until 31 December 2009)

Maxine Simmons, Auckland

Ray Thomson, Auckland

Jan Evans-Freeman, Christchurch
(from 1 July 2010)

Secretary, **Jeff Lycett**

Executive

Shaun Coffey Chief Executive

Drew Stein Deputy Chief Executive,
GM Industry Engagement

Barry Marlow GM Advanced Manufacturing
Technologies, Director Research Office

Vikki Smithem GM Industrial Biotechnologies

Tim Armstrong Director Measurement
Standards Laboratory

George McIrvine GM Shared Services

Andrew Gavriel Chief Financial Officer

Jeff Lycett Executive Officer

Associate Company

HTS-110 Ltd

Donald Pooke Chief Executive

www.hts-110.com

Joint Venture Company

General Cable Superconductors Ltd

Andrew Priest Chief Executive Officer

Auditors

Karen Shires,

with the assistance of PricewaterhouseCoopers

113-119 The Terrace

PO Box 243

Wellington 6140

On behalf of the Controller and Auditor-General

Patent Attorneys

A J Park

Huddart Parker Building

1 Post Office Square

PO Box 949

Wellington 6140

Baldwins

342 Lambton Quay

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Wellington 6140

Bankers

The National Bank of New Zealand

1 Victoria Street

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