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Financial trends analysis

Group	FY2009 \$000	FY2009 \$000 SCI Budget*	FY2008 \$000	FY2007 \$000	FY2006 \$000	FY2005 \$000
Operating revenue	60,507	56,592	57,133	55,018	73,812	60,165
Interest received	179	-	39	48	106	23
Gain on disposal of property, plant and equipment	19	-	8	1,060	9,494	0
Revenue from trading	60,309	56,592	57,086	53,910	64,212	60,142
Depreciation and amortisation	5,102	6,120	4,985	5,399	6,517	6,448
Interest expense	23	574	660	1,035	1,913	1,465
Non-operating items	-	-	143	1,010	7,712	931
Earnings/(deficit) before interest, tax and non-operating items*	562	1,169	1,309	(2,073)	532	(6,068)
Net surplus/(deficit) before tax	732	454	543	(3,010)	507	(8,441)
Net surplus/(deficit) after tax	731	454	543	(5,710)	(1,634)	(5,371)

	FY2009 \$000	FY2009 \$000 SCI Budget*	FY2008 \$000	FY2007 \$000	FY2006 \$000	FY2005 \$000
Funds employed						
Equity	36,644	33,491	28,583	19,257	24,613	26,450
Borrowings	-	352	9	11,873	12,665	23,064
Other term liabilities	573	664	568	616	881	1,003
	37,217	34,507	29,160	31,746	38,159	50,517
Use of funds						
Working capital	3,617	(6,903)	(4,660)	(3,202)	(1,629)	(1,567)
Non-current assets	33,600	41,410	33,820	34,948	39,788	52,084
	37,217	34,507	29,160	31,746	38,159	50,517
Gearing %	0	16.20%	5.13%	39.25%	35.36%	46.76%

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

Financial indicators

	FY2009 Actual	FY2009 SCI Budget*	FY2009 Budget	FY2008 Actual	FY2007 Actual
Earnings performance					
Revenue from trading (\$000's) (2)	60,309	56,592	64,173	57,086	53,910
Earnings/(deficit) before interest, tax and non-operating items (EBIT) (\$000)*	562	1,169	2,742	1,309	(2,073)
EBIT* margin (%)	0.93%	2.07%	4.27%	3.29%	-3.74%
Net profit margin (%)	1.21%	0.80%	3.38%	0.95%	-5.48%
Net (loss) surplus before tax (\$000)	732	454	2,168	543	(3,010)
Net (loss) surplus after tax (\$000)	731	454	2,168	543	(5,710)
Return on net assets (%)	1.53%	3.50%	6.98%	4.58%	-10.49%
EBIT* to average funds employed (%)	1.69%	3.68%	8.08%	4.30%	-5.78%
Return (EBIT*) on average equity (%)	1.72%	3.68%	8.08%	5.47%	-9.19%
Return (EBIT*) on assets (%)	1.24%	2.17%	6.26%	3.36%	-3.95%
Financial position					
Current ratio	1.44	0.65	0.64	0.52	0.61
Quick ratio	1.35	0.65	0.57	0.51	0.63
Average equity ratio	0.81	0.62	0.78	0.61	0.43
Time interest covered	24.43	1.63	1.63	2.11	(1.95)
Gearing (debt component)	0	16.20%	0	5.13%	39.25%
Opening shareholders funds (\$000)	28,583	28,539	28,583	19,760	24,613
Closing shareholders funds (\$000)	36,644	33,491	39,279	28,583	19,760
Average shareholders funds (\$000)	32,614	31,743	33,931	24,172	22,187
Shareholders funds to total assets (%)	80.67%	62.06%	77.52%	73.43%	49.31%
Crown nominal investment (\$000)	36,644	33,491	39,279	28,583	19,760
Total assets (\$000)	45,425	53,968	48,621	38,925	40,645
Other statistics					
Revenue from trading per FTE (\$000)	186.14	164.03	202.44	185.95	176.75
Number of staff (FTEs)					
- research teams	225	247	219	216	216
- research support	38	38	38	31	23
- general support and management	61	60	60	60	66

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

1. The SCI targets are reported separately to the final budgeted figures for IRL. These figures were completed and submitted prior to the budget for the financial year being finalised. The face of the financial statements uses the final budgeted figures, not the SCI targets.
2. The SCI figures for revenues were prepared for the 2009 year net of external contract research costs with other similar entities. The reporting format used was in line with previous practice. The budget figures are prepared with all revenue figures shown as gross for external financial reporting purposes. The gross 2009 SCI operating revenue is \$64,169,000 after adding back external contract research costs.
3. IRL does not intend to pay a dividend to the Crown for the year ended 30 June 2009.

Key performance indicators

Strategic Priority One:

Engage with industry more effectively

Measure	Method	Target	Outcome
High-potential companies identified and engagement strategies developed	Identification completed, operational plans agreed for 2007/08 activities	5	Complete
New patents granted in New Zealand	Number completed	10	5
New patents granted overseas	Number completed	20	67
Licensing arrangements entered into	Number completed	8	3
Joint ventures or formal associations	Number completed	5	1
Commissioned reports to users	Number completed	Base to be established post-contracting with FRST (expected Sept-09)	494
Start-up companies (spin-off or spin-out)	Number completed	1	0
Customer satisfaction	Analysis of satisfaction as expressed in surveys and post-project reviews	To satisfaction of Board	Customer satisfaction survey at a project level

Strategic Priority Two:

Grow research, development and application excellence

Measure	Method	Target	Outcome
Peer reviewed articles and publications	Number completed	160	138
Keynote and plenary presentations	Number completed	60	46
Publications on technical information and research results	Number completed	50	149
Presentations on technical information and research	Number completed	60	126
Visiting scientists (self-funded)	Visits over three months duration	10	3
Establish project selection and management processes	Project management system revised and adopted	Apr-09	Complete

Succession – Science and Engineering	Succession Plan in place for all key positions in Science and Engineering	Plan to satisfaction of Board	Complete
Succession – Executive	Succession Plan for Executive Management positions	Plan to satisfaction of Board	Complete

Strategic Priority Three:
Organisational sustainability

Measure	Method	Target	Outcome
Establish long-term capital equipment investment schedule	Plan endorsed by Board	May-09	A three-year capital equipment plan currently in place is being extended to 10 years to include all capital requirements. Sharing of some services and equipment is being explored with other organisations.
Establish long-term site/location development plans		Nov-08	A space planning committee is operational and is dealing with current space needs. Work has commenced on defining long-term site and space requirements, which offer a significant challenge to IRL given the diversity of its operations.
Revenue	Revenue/budget	Budget	Revenue is up on 2008 by close to \$3.0m, although economic conditions have hampered this growth and the effects of the investments in business development.
EBIT	EBIT/budget	Budget	EBIT has ended being ahead of the SCI budget targets. Revenue growth despite an economic slow-down, cost controls and reduction of interests costs as the balance sheet has been rebuilt have all contributed to this performance.
Cash flow	Operating cash flow		Since 2008 and 2009, operating cash flows from operations were \$5.4m and \$5.6m respectively. This compares with (\$0.4m) in 2007 as a group. This has significantly rebuilt the balance sheet.
Staff/HR development	Health and safety compliance	100%	Audits completed and IRL promoted to Tertiary rating with ACC
Staff satisfaction	Annual staff survey	8% improvement 08/09	Improvement achieved
Capital investment	Equal to budget	Budget	On track

Complete analysis of existing revenue sources	Opportunities and deficiencies identified, new revenue model		Revenue pipelines across nine quarters being monitored. Client engagement plan for top 10 revenue customers (local and international) created. Value-based pricing strategy being developed.
Involvement in COREs, R&D Consortia, etc	Number completed	3	12
R&D joint venture	Number completed	2	4
Successful funding bids	% of bids awarded	>50% of initial bids	IRL submitted three proposals into the main FRST contestable investment round, one IIOF proposal, one High Tech TRST proposal, and one High Tech TRST Development application. All except one of these funding applications were successful, which represents an 83% success rate.
Full-time employees	Science	222	260
	Support	24	17
	Other	60	47

Strategic Priority Four:

Effectively deliver our mission

Measure	Method	Target	Outcome
Introduced comprehensive performance management	Balanced scorecard operational	May-09	Complete
Operational plans	Existence of operational plan for Corporate Support, Commercialisation and Business Development, and Science and Engineering	Progressive through year	Complete

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. In 2008/09, IRL received \$5.2m and used it to fund a total of 26 projects.

Category A: Maintain and enhance existing capabilities

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
Maintain and develop an energy conversion capability in selected advanced clean energy technologies relevant to the New Zealand energy infrastructure to support its transformation to sustainability.	Development of low cost technology for capture of carbon dioxide resulting from fuel combustion using new processes for activation of lime structures.	<p>To further investigate the lime reactivation process:</p> <ul style="list-style-type: none"> to understand the dependence of particle strengthening on CO₂ conditions during dehydration to determine effect of varying hydration conditions to model lime-based capture with IRL's reactivation to predict the cost of energy incurred to complete PCT patent filing 	<p>Capability has been added to simultaneously remove SO₂ as well as CO₂ while maintaining the novel lime reactivation cycle.</p> <p>Modelling shows the system to have low energy consumption, making it viable for industrial use.</p> <p>A US patent application was filed in June 2009.</p>
	<p>Integration of advanced distributed energy technologies including:</p> <ul style="list-style-type: none"> micro-generation technologies for remote communities hydrogen energy technologies for distribution and storage. 	<p>Improvements to Remote System Control and Data Acquisition (SCADA) for control and monitoring of remote field trials.</p> <p>Hydrogen technologies to provide high-efficiency water heating for remote communities (IRL's Hylink concept).</p>	<p>Unique high-performance remote site hardware set which can be managed using the cellular network prototyped.</p> <p>Catalytic and catalyst-assisted combustor designs for zero-emission hydrogen heating for both cooking and hot water prototyped.</p>
Enhance nationally recognised capability in supercritical fluid extraction (SCFE) to support the NZ biotechnology sector.	New developments in SCFE through convergence with capability in bioactives from natural products, and advanced bioprocessing technologies.	Development of new processes for product formulation, drying and encapsulation using supercritical fluids.	Particle drying and encapsulation processes demonstrated. Developing collaboration with Auckland University School of Pharmacy and Massey University.
		<p>Supercritical water processing of natural biomass to fuel.</p> <p>Integrated supercritical fluid dewatering and de-fatting processes.</p>	<p>Research capability developed. Collaboration with Coal Research Ltd.</p> <p>Research into combination of conventional oil processing with supercritical fluid-based processing.</p>

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
Enhance internationally recognised capability in carbohydrate chemistry to support NZ and international biotechnology sectors.	Understand and synthesise new glycolipids for the therapeutic modulation of the immune system. Microbial antigen analysis and activity.	Strengthening international collaborations with LIAI, University of Wisconsin & University of Queensland. New collaborations with Harvard School of Medicine. Characterise the glycoconjugates from: <ul style="list-style-type: none"> a range of pathogenic bacteria which exhibit superior immunological activity bacteria that have beneficial effects on gut health to explore their potential to modulate the immune system and regulate allergic reactions, in collaboration with the University of Otago. 	Collaborations with University of Wisconsin and LIAI cemented and new collaborations initiated with Harvard and University of Queensland. Method to produce glycolipid from mycobacteria developed and extract progressed for treatment of disease. Chemical composition and structure of immunosuppressive extracellular polysaccharide from one bacteria determined and selective growth substrates for bacteria evaluated.
Maintain and grow capability in smart materials design and performance. This is integral to retaining key materials engineering expertise to support NZ's advanced engineering sectors including aerospace, manufacturing, marine and building infrastructure.	Advanced imaging and modelling techniques.	Demonstrate the use of advanced imaging and modelling techniques in non-destructive testing or medical imaging applications.	Capabilities developed in the modelling of <ul style="list-style-type: none"> optical scattering for Optical Coherence Tomography (OCT) imaging flexural waves scattering in thin plates. Imaging approaches for reducing speckles in OCT images have been formulated and are being evaluated using numerical and measurement data.
Further developing modelling and analysis capability to support a range of industrial sectors and, in particular, manufacturing, energy, medical and infrastructure.	Develop data analysis techniques for measurement uncertainty. Provide new capability to model flows in fractured media. Computational study of nonlinear optical chromophores using Time Dependent Density Functional Theory (TDDFT) algorithms.	Develop appropriate methods of data analysis meeting traditional criteria. Develop methods to model permeability changes that result from changing chemical states. Develop capability to undertake TDDFT calculations to predict properties of molecules and identify promising candidates.	A paper has been written to contrast the performances of old and new approaches in two simple measurement problems. Developed a framework to model a fractured media with a reactive transport simulator. Have calculated the relaxed structures and absorption spectra of several chromophores using TDDFT.

Category B: New & emerging capabilities

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
Develop an internationally recognised materials science niche in hydrogen storage, to support the emerging New Zealand hydrogen energy sector.	Development of new light element systems capable of storing hydrogen in chemically bound structures.	Strengthen international research ties, while building NZ capability. Organise and host a specialist hydrogen storage materials session at the 2009 AMN4 International Conference in Dunedin.	Strong research relationships reinforced with key international laboratories and researchers, including National University of Singapore and University of Oxford, who gave invited papers at AMN4 conference. Four papers published, three international conference presentations made. Synthesis of two new materials with hydrogen storage capacity exceeding US Department of Energy targets for transport use. Hydrogen release characteristics of these materials measured and chemical structures determined.
Magnet, coil and power systems equipment design in high temperature superconductor (HTS) technology.	HTS power systems equipment design, by contributing to an initial risk reduction project as a prelude to building a 1MVA prototype transformer. Pulse tube refrigeration capability aimed at an eventual commercial NZ-developed cryocooler capability for use in an HTS sector.	<ul style="list-style-type: none"> Develop modelling capability for 2G transformer coils including Roebel cable. Develop capability for measuring total AC loss in 2000 A Roebel cable. To develop capability in pulse tube refrigerators by designing and making a pulse tube refrigerator for our 20cc PWG then designing and making a pulse tube refrigerator to a specified cooling target. This target was set to the cooling requirement of an HTS NMR magnet, being 20W at 50K.	<ul style="list-style-type: none"> Basic modelling software complete; experimental validation still required. System design largely complete and manufacture of components underway. A pulse tube refrigerator was designed and made for our small, 20cc, pressure wave generator. 7W of cooling was achieved at 77K; the target was 10W and modelling predicted 12W at 77K. The design of the 20W at 50K pulse tube has been completed and manufacture is due to start in August 2009.
Develop materials capability at the nanoscale.	Using quantum dots in eye diagnosis.	Modify quantum dots with suitable biocompatible ligands.	Quantum dots were made and modified with biocompatible ligands in aqueous solution and their stability was monitored over a few months.

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
Develop materials capability at the nanoscale. (Cont).	Nanocomposites based on single-walled carbon nanotubes.	<p>Label eye tissue with the new quantum dot material.</p> <p>Modify the surface of carbon nanotubes with various dispersants, surfactants, peptides and proteins and study the near infrared fluorescence.</p>	<p>The new quantum dot materials were used to label cellular walls of tissue extracted from a rat's eye. The extent of labelling depends on the type of the bio-ligand.</p> <p>We have shown that the peptides could disperse the carbon nanotubes efficiently. Research is proceeding on how the peptides affect the Raman signals of the nanotubes.</p>
Develop world class capability in advanced organic materials for photonic technology to develop new photonic devices.	Ultra-short pulse nonlinear optics and advanced material synthesis including advanced glasses, glass-ceramics and polycrystalline samples.	<p>Explore new photonics research leading to new funding streams (eg, NERF, TRST).</p> <p>Increase the materials measurement capability in the Photonics team.</p>	<p>There has been involvement in Otago University-led photonics TRST applications with success in TRST B. Also a Marsden Fund application has progressed to the next round. There has been collaboration with Darmstadt and Leipzig Universities.</p> <p>Developed new capability and methods for:</p> <ul style="list-style-type: none"> researching the photostability of organic chromophores including the building of a new vacuum chamber poling organic chromophore thin films via the construction of a new corona poling system. <p>Contributed towards one journal and two conference papers.</p>
Develop world-class capability in imaging and detecting technology for medical applications, to underpin the New Zealand medical devices industry.	Retinal blood vessel flow measurement by laser speckle.	<p>Conduct laboratory phantom experiments to compare speckle measurements of arteriole flow with tissue perfusion.</p> <p>Find and modify a fundus camera to enable speckle measurements directly on the retina.</p>	<p>Comparison made between laser speckle and laser Doppler measurements of arteriole flow in tissue phantoms.</p> <p>A retinal (fundus) camera has been adapted to make speckle measurements on retinal blood vessels.</p>

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
Develop world-class capability in imaging and detecting technology for medical applications, to underpin the New Zealand medical devices industry. (Cont).	Circular dichroism spectroscopy for biomedical applications.	Set up capability to measure optical rotatory dispersion and circular dichroism spectra of molecules and verify operation using model systems.	A capability to measure optical rotatory dispersion and circular dichroism spectra of molecules has been set up using a spectroscopic ellipsometer. Performance of the system has been verified qualitatively using optical isomers of carvone. We are now determining a strategy to calibrate the system to enable quantitative measurement.
Develop capability in the field of vision-guided robotics (VGR) for automation applications, an enabling technology for the automatic handling and processing of naturally varying products.	Develop techniques for a vision-guided robot to identify, locate and relocate naturally varying objects.	Development of: <ul style="list-style-type: none"> integrated vision and robotic platform that will support path adjusted articulated motion 2D or 3D object recognition system to implement a strategy for object separation predictive model for adaptive control of the robotic path based on real-time visual feedback smart end-effector with on-board camera system. 	VGR platform constructed endowed with state-of-the-art vision, robotic and adaptive end effector capabilities to enable the development of intelligent strategies and algorithms that will serve as building blocks for future applications in the meat, horticulture and manufacturing industries.
Develop capability in ICT, including creative and strategic research initiatives.	Creation of computer game content.	<ul style="list-style-type: none"> Demonstrate a complete pipeline from scanner data to a game asset. Develop greater understanding of industry requirements through visits to gaming companies. Build synergy with Scene-scanner commercialisation. 	<ul style="list-style-type: none"> Game asset created in collaboration with the Media Design School. Visits to Metia Interactive Ltd and Areograph Cinematic Games have helped clarify our role, which will be to rapidly create high resolution models. The use of parallax occlusion mapping techniques will provide a means to bridge the gap between our scanned data and game content.

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
Develop capability in ICT, including creative and strategic research initiatives. (Cont).	Development of IP cores: Establish FPGA development capability within IRL to help establish a path for commercialisation of our ICT technologies. This capability is also intended to support New Zealand's ICT industry with their technology needs.	<ul style="list-style-type: none"> Establish joint venture with i2m Labs. Continue to establish IP core foundation library. Continue development of WiMAX baseband processor. Train wider IP cores development team. 	<ul style="list-style-type: none"> Heads of Agreement with i2M Labs signed. The IP core foundation library is now 55% complete. WiMAX baseband receiver is 90% to completion. Training of project team members is ongoing.
New capability in fermentation and advanced enzyme technologies.	<p>Anaerobic fermentation and photobioreactor technologies for producing nutraceutical and cosmeceutical ingredients and liquid biofuel.</p> <p>Advanced enzyme technologies for enhancing the biological activity of bioactive compounds with application in the pharmaceutical, nutraceutical and dairy industries.</p>	<p>Anaerobic fermentation development.</p> <p>Micro-algae and photobioreactor development.</p> <p>Development and improvement of enzymatic methods in the following areas:</p> <ul style="list-style-type: none"> Production of sialoglycoconjugates from whey ingredients. Enzymatic xenobiotic modification. Development of bioactive polyphenols with improved bioactivity. 	<p>A significant library of anaerobic bacteria has been established at IRL for the supply of material to the biofuel, bioconversion and nutraceutical programmes. Fermentation scale-up of several promising bacteria in the biofuel area.</p> <p>Collaboration with University of Canterbury, Landcare and Cawthron institute for the development of nutraceutical and cosmeceutical based micro algae.</p> <p>Design and build of a vertical column photobioreactor.</p> <ul style="list-style-type: none"> Method developed for the enrichment of sialylated compounds in whey. Method for the enzymatic glucuronidation of drugs has been improved and can be used for a wider range of compounds and for large-scale applications. Method developed for the enzymatic esterification of polyphenols naringin and neohesperidin giving high yields. Reliable analytical HPLC method developed to separate the esters from the starting material.

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
Extending measurement standards capability to traceable chemical measurement.	Establish primary capabilities for traceable chemical measurement based on Liquid Chromatography-Mass Spectrometry (LCMS-MS).	Develop a method to produce certified reference materials for tutin and hyenanchin in honey.	LC-MS and a number of other methods have been used to measure tutin in honey.

Category C: Over the Horizon (discovery and creative insight activity)

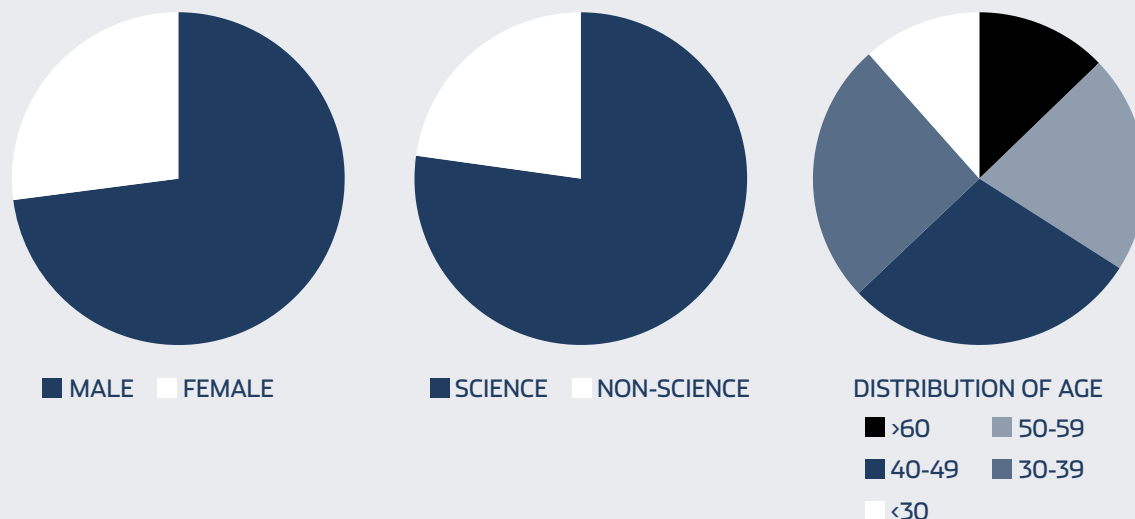
CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
New fundamental science in redefining the SI (International System) Quantum Limits.	Investigate research opportunities for the Watt balance approach to linking the kilogram to the Planck Constant via quantum electrical standards.	Investigate designs for a small watt balance.	A paper has been submitted for publication detailing a design for an oscillatory mode Watt balance.
	Quantum measurement and design of nanometre-sized devices for future electronic and mechanical applications.	Investigate electronic transport on carbon nanotubes and quantum dots.	Collaboration with Japanese and Korean researchers on how to control the accuracy of the electron transport in both materials.
Develop new internationally leading capability in new materials for magnetic sensors.	Research strongly correlated materials leading to large field range magnetic sensors.	<p>Explore market opportunities for magnetic sensors using advanced materials with end-users.</p> <p>Develop an understanding of magneto-transport measurements.</p> <p>Experiment with various strongly correlated materials to produce ceramic samples and create thin films structures by patterning and selective etching.</p>	<p>Magnetic Sensors Commercialisation, Marketing and Research Opportunities report is being prepared.</p> <p>Design underway of a high resistance magneto-transport rig to complement IRL's low resistance magneto-transport facility.</p> <ul style="list-style-type: none"> Thin TiO₂:3%Co films made on crystalline silicon and glass substrates. Double perovskite ceramic samples fabricated to make half-metallic thick films. Capability being developed in thin film structures, magneto-transport measurement, and thin film processing.

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
Emergent science initiatives in carbohydrate chemistry.	Microwave-assisted polysaccharide analysis.	To demonstrate the utility of this new technology, focus on the preparation of mixed partially methylated alditol acetate (PMAA) standards.	A literature method for methylation analysis of starch has been repeated, with conditions optimised for use of the microwave reactor system. PMAA mixtures have been prepared from seven standard methyl glycosides.
	Heparan sulphate from paua waste.	Isolate and characterise the structure and bioactivity of a previously unexamined NZ natural resource as the basis for added-value products for existing NZ industries.	Three crude glycosaminoglycan (GAG) extracts have been obtained from paua viscera, paua muscle and bovine kidney (as a standard), and the GAG content of these estimated. Anion-chromatography is being developed to isolate the GAG from the crude preparations.
	New reagents for aminohydroxylation of alkenes.	Evaluate the applicability of a newly discovered stable N-oxygenated carbamate reagent as the basis for an IP-protected manufacturing opportunity for NZ.	Although the reagent cannot be patent protected, it is proving efficacious in a variety of systems and is not currently used by others therefore it has practical utility and know-how advantage for IRL.
	Crystals for industry.	Create a facility dedicated to studying the crystallisation of small organic molecules to enhance both research and manufacturing outputs.	A lab has been set up to meet the requirements (low traffic and control of temperature and humidity) and required materials procured. Documentation of methods is in hand. Three small crystallite X-ray diffraction studies have been completed at Massey (PN) and the Australian Synchrotron.
	Novel clusters of heparin sulphates with anti-cancer activity.	Create IP around a new compound class with anti-cancer activity.	The first tetra-sulfated carbosilane glycomimetic has been synthesised by constructing a carbosilane core scaffold from commercially available tetraallylsilane, followed by coupling with four 2-acetamido-2-deoxy-β-D-glucoside 6-sulfate residues via linkers.

CAPABILITY	AREAS OF ACTIVITY	2008/09 FORECAST	2008/09 ACHIEVEMENT
<p>Develop an internationally recognised capability in microfluidics to support the emerging New Zealand nanotechnology sector.</p>	<p>New tools for small-scale fluidics.</p> <p>Field-operated materials and nanopore devices.</p>	<p>Address promising ideas arising from nano- and microfluidics work, including droplet uptake by small capillaries, the behaviour of dual-hemispherical “Janus” particles, and the dynamics of curved hydrophobic surfaces.</p> <p>Design and build an electromagnetically operated elastomeric pore device. Consider other options for actuation of such a variable nanopore.</p>	<p>The most promising topics for FRST bidding have been identified and experimental capability developed in several areas with significant publications in the pipeline. A strong connection has been established with a fledgling Australia-New Zealand microfluidics network.</p> <p>Membranes of elastomer filled with magnetically responsive, planar-oriented particles were prepared.</p> <p>An elastomeric magneto-activated annulus was placed within an annular electromagnet (ferrite pot core) with the controllable magnetic field exerting compression on the membrane and thereby changing the hole size in the centre of the membrane.</p> <p>Several magnetically responsive fillers have been tried to avoid inhibition of the curing of the silicone by iron-containing fillers, which has been a limiting factor in the development of a field-activated device.</p>

Human Resources

IRL workforce demographics



Employees' remuneration

IRL'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 two employees totalling \$23,747 (2008: two employees totalling \$143,045).

* During the 2009 year the Chief Executive received two bonus payments, being performance entitlements for 2008 and 2009.

	FY2009	FY2008
\$540,000 - \$549,999*	1	-
\$410,000 - \$419,999	-	1
\$220,000 - \$229,999	2	-
\$210,000 - \$219,999	1	-
\$200,000 - \$209,999	2	1
\$190,000 - \$199,999	-	1
\$180,000 - \$189,999	-	-
\$170,000 - \$179,999	1	-
\$160,000 - \$169,999	-	2
\$150,000 - \$159,999	11	6
\$140,000 - \$149,999	1	4
\$130,000 - \$139,999	2	4
\$120,000 - \$129,999	6	5
\$110,000 - \$119,999	7	5
\$100,000 - \$109,999	10	6

Corporate Governance

Roles and responsibilities

Under the Crown Research Institute 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 Institute 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 Institute 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 2008/09, the Board met eight 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, I M Parton, B Rhoades, C Stobo (Chair)

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 2008/09, five meetings were held.

Remuneration Committee Membership

B Rhoades (Chair), I M Parton, M Ahie

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 2008/09 year it met three times.

Board attendances for 2008/09

	IRL Board	Audit & Risk Committee	Remuneration Committee
M Ahie	7	n/a	3
D Henry	8	5	n/a
C Drayton	6	n/a	n/a
I M Parton	8	5	2
B Rhoades, Chair	8	5	3
C Stobo, Deputy Chair	8	5	n/a
M Simmons	7	n/a	n/a

Register of interests

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

M Ahie – Director, Bio Commerce Centre Ltd; Director, Manawatu Investment Group Ltd; Chief Executive, Shirlaws New Zealand Ltd; Director, Shirlaws Coaching Ltd and Shirlaws Pty Ltd; beneficial shareholder, Shirlaws New Zealand Ltd; Director, Clearwater Ltd; Director, Jama Property Ltd; Trustee, Ripotautahi Whanau Trust; Trustee, The Jama Trust.

S G Coffey – Director, General Cable Superconductors Ltd; Adjunct Professor, University of Queensland; Director, Industrial Research Pty Ltd; Chair, GlycoSyn Technologies Ltd, Director, Science New Zealand; Director, Quest Reliability Ltd; Director, MacDiarmid Institute for Advanced Materials and Nanotechnology; Director, Measurement Standards Laboratory of New Zealand Ltd; Director, Superlink Developments Ltd; MTP Matcor Pte Ltd; Director HTS-110 Ltd.

C Drayton – Director, Hockey New Zealand; Director, Meridian Energy; Director, D C Estates Ltd.

D Henry – Chair, Bullet Freight Systems Ltd; Chair, Androgenix Ltd; Director, Burns & Ferrall Ltd; Director, Castaway Bay Vineyards Ltd; Director, Keratec Ltd; Director, Henry Manufacturing Ltd; Director, Henry Viticulture Ltd; Director, Henry and Associates Ltd; Director, Riverhead Marlborough Wines Ltd; Director, Maven Wines Ltd; Director, Trust House Ltd; Director, Wool Equities Ltd; Chair, Hanover Finance Ltd; Chair, FAI Finance Ltd; Chair, United Finance Ltd; Chair, Hanover Capital Ltd.

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

B Rhoades – Principal, Brian L Rhoades and Associates Ltd; Director, Superlink Developments Ltd.

M Simmons – Director and shareholder, Biocatalyst Ltd; Shareholder (through Biocatalyst Ltd), InSynGen Therapeutics Ltd; Director, Maurice Wilkins Centre for BioDiscovery; Chief Executive, Cure Kids Ventures Management Ltd; Director and shareholder (through Biocatalyst Ltd), Photonz Corporation Ltd; Director, Kode Biotech Ltd; Deputy Chair, NZBIO; Shareholder (through Biocatalyst Ltd), Symansis (NZ) Ltd.

C Stobo – Chair, Appello Services Ltd; Chair, AMP Huami Management Ltd; Chair, OGC Consulting Group Ltd; Director, Saturn Portfolio Management Ltd and Saturn Investment New Zealand Ltd; Chair, Elevation Capital Management Ltd; Chair, Southwest Trustee Ltd; Director, AH Stobo Ltd and Stobo Group Ltd; Trustee, Stobo Family Trust.

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) Ltd and Vero Liability Insurance Ltd at a total cost of cover for the year to 30 November 2009 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 (\$)
FY2009			FY2008	
B Rhoades	58,000	-	58,000	-
C Stobo	36,250	-	37,075	8,333
A Mazzoleni	-	-	27,350	19,667
I M Parton	29,000	-	29,000	13,125
D Henry	29,000	-	29,000	-
M Ahie	29,000	-	29,000	-
M Simmons	29,000	-	21,750	-
C Drayton	29,000	-	-	-
Total	239,250	-	231,175	41,125
External directors of subsidiaries				
A Coupe	-	-	-	20,333
J Cunningham	-	-	-	8,333
J L Walley	-	-	-	8,333
Total	239,250	-	231,175	78,124

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 Ltd

R Furneaux

GlycoSyn Technologies Ltd (Non-trading)

S G Coffey

Industrial Research PTY Ltd

S G Coffey, J Maleki

Measurement Standards Laboratory of NZ Ltd

S G Coffey

Sonic Ray Technology Ltd

G McIrvine, P Weatherly
(Shareholding sold 31 March 2009)

Superlink Developments Ltd

S G Coffey, J McDonald, B Rhoades (Chair)

Composition of associates

HTS-110 Ltd

S G Coffey, A Coupe, N Jordan, J Maguire, I M Parton (Chair)

General Cable Superconductors Ltd

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

New Zealand Synchrotron Group Ltd

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, S Siriwardena

Report of the Auditor-General

To the readers of
INDUSTRIAL RESEARCH LIMITED AND GROUP'S FINANCIAL STATEMENTS
For the year ended 30 June 2009

The Auditor-General is the auditor of Industrial Research Limited (the Company). 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 2009.

Unqualified Opinion

In our opinion:

- the financial statements of the Company and Group on pages 22 to 53;
 - comply with generally accepted accounting practice in New Zealand; and
 - comply with International Financial Reporting Standards; and
 - fairly reflect/give a true and fair view of:
 - the Company and Group's financial position as at 30 June 2009; and
 - the results of its operations and cash flows for the year ended on that date
- based on our examination the Company kept proper accounting records.

The audit was completed on 25 August 2009 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 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 2009 and the results of its 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 section 21 of 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 Company of Chartered Accountants of New Zealand.

We have no relationship with or interests in the Company and Group other than in our capacity as auditors.

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Company and Group for the year ended 30 June 2009 included on the Company's website. The Company's Board is responsible for the maintenance and integrity of the Company's website. We have not been engaged to report on the integrity of the Company'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/from these 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 25 August 2009 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 statements may differ from legislation in other jurisdictions.



Karen Shires

On behalf of the Auditor-General

Wellington, New Zealand



PricewaterhouseCoopers

Income Statement

For the year ended 30 June 2009

	Notes	GROUP			PARENT	
		2009 ACTUAL	2009 BUDGET	2008 ACTUAL	2009 ACTUAL	2008 ACTUAL
		\$000	<i>Unaudited</i> \$000	\$000	\$000	\$000
Revenue – Crown	2	43,508	45,954	40,205	43,508	40,205
Revenue – Commercial	2	15,669	15,946	15,300	15,663	15,298
Total revenue		59,177	61,900	55,505	59,171	55,503
Other income	2	1,151	2,273	1,589	1,151	1,583
(Loss)/gain financial assets through profit and loss		(69)	-	223	(69)	223
		60,259	64,173	57,317	60,253	57,309
Employee benefit costs	3	(28,177)	(29,074)	(26,677)	(28,177)	(26,677)
Science project and subcontract costs	3	(13,759)	(14,288)	(12,195)	(13,759)	(12,195)
Other expenses	3	(12,659)	(11,949)	(12,047)	(12,655)	(11,981)
Depreciation	9	(4,609)	(5,534)	(4,441)	(4,609)	(4,441)
Amortisation of intangible assets	10	(493)	(586)	(544)	(493)	(544)
Operating profit (loss)		562	2,742	1,413	560	1,471
Finance income		179	-	39	178	39
Finance costs		(23)	(574)	(660)	(23)	(1,303)
Share of surplus/(loss) of associate		14	-	(249)	-	-
Profit before income tax		732	2,168	543	715	207
Income tax expense	4	(1)	-	-	(1)	-
PROFIT FOR THE YEAR		731	2,168	543	714	207

The accompanying accounting policies and notes form an integral part of the financial statements

Statement of Changes in Equity

For the year ended 30 June 2009

		GROUP			PARENT	
		2009 ACTUAL	2009 BUDGET	2008 ACTUAL	2009 ACTUAL	2008 ACTUAL
Notes		\$000	<i>Unaudited</i> \$000	\$000	\$000	\$000
Net surplus for the year, comprising						
	Parent shareholder's interest	731	2,168	543	714	207
Total recognised income and expenses for the year						
		731	2,168	543	714	207
Contribution from owners						
	Share issue	6	7,330	7,330	8,280	7,330
	Amalgamation of subsidiary	11	-	-	-	2,307
Movement in equity for the year						
		8,061	9,498	8,823	8,044	10,794
Equity at beginning of the year as previously reported						
		28,583	29,781	19,190	31,804	20,440
	Prior period adjustment	9	-	570	-	570
	Equity at beginning of the year	28,583	29,781	19,760	31,804	21,010
EQUITY AT END OF THE YEAR						
		6	36,644	39,279	39,848	31,804

The accompanying accounting policies and notes form an integral part of the financial statements

Balance Sheet

As at 30 June 2009

	Notes	GROUP			PARENT	
		2009 ACTUAL	2009 BUDGET	2008 ACTUAL	2009 ACTUAL	2008 ACTUAL
		\$000	<i>Unaudited</i> \$000	\$000	\$000	\$000
EQUITY						
Issued capital	6	40,170	40,170	32,840	40,170	32,840
Accumulated losses	6	(3,526)	(891)	(4,257)	(322)	(1,036)
TOTAL EQUITY		36,644	39,279	28,583	39,848	31,804
<i>Represented by:</i>						
CURRENT ASSETS						
Cash and cash equivalents	5	6,341	2,333	98	6,315	78
Trade and other receivables	7	4,703	2,713	4,201	4,702	4,192
Derivative financial instruments	23	4	-	-	4	-
Inventories	8	777	544	806	777	806
Total current assets		11,825	5,590	5,105	11,798	5,076
NON-CURRENT ASSETS						
Financial assets at fair value through profit and loss	13	409	478	478	409	478
Investment in associates	12	1,279	2,243	563	4,509	3,807
Trade and other receivables	7	-	-	350	-	350
Property, plant and equipment	9	31,220	39,512	31,670	31,220	31,670
Intangible assets	10	692	798	759	692	759
Total non-current assets		33,600	43,031	33,820	36,830	37,064
TOTAL ASSETS		45,425	48,621	38,925	48,628	42,140
CURRENT LIABILITIES						
Bank overdraft	5	39	-	-	39	-
Trade and other payables	19	3,882	4,651	4,676	3,881	4,670
Employee benefits	16	2,686	2,483	2,575	2,686	2,575
Derivative financial instruments	23	-	-	7	-	7
Interest-bearing loans and borrowings	15	4	600	1,456	4	1,456
Income in advance	17	1,597	1,051	1,051	1,597	1,051
Total current liabilities		8,208	8,785	9,765	8,207	9,759
NON-CURRENT LIABILITIES						
Employee benefits – provision for long service leave	16	573	557	568	573	568
Interest-bearing loans and borrowings	15	-	-	9	-	9
Total non-current liabilities		573	557	577	573	577
TOTAL LIABILITIES		8,781	9,342	10,342	8,780	10,336
NET ASSETS		36,644	39,279	28,583	39,848	31,804

Director



M Ahie
Deputy Chairman

Date: 25 August 2009

Director



D B Henry
Director

Date: 25 August 2009

Cash Flow Statement

For the year ended 30 June 2009

	GROUP			PARENT	
	2009 ACTUAL	2009 BUDGET	2008 ACTUAL	2009 ACTUAL	2008 ACTUAL
	Notes \$000	Unaudited \$000	\$000	\$000	\$000
CASH FLOWS FROM OPERATING ACTIVITIES					
<i>Cash was provided from:</i>					
Receipts from Crown	43,509	45,955	40,205	43,509	40,205
Receipts from commercial customers	17,378	20,055	16,047	17,365	16,041
Interest received	179	-	39	178	39
	61,066	66,010	56,291	61,052	56,285
<i>Cash was applied to:</i>					
Payments to suppliers	(27,407)	(26,023)	(23,393)	(27,399)	(23,325)
Payments to employees	(28,033)	(29,179)	(26,876)	(28,033)	(26,875)
Interest paid	(23)	(574)	(660)	(23)	(660)
	(55,463)	(55,776)	(50,929)	(55,455)	(50,860)
Net cash flows from operating activities	20	5,603	10,234	5,597	5,425
CASH FLOWS FROM INVESTING ACTIVITIES					
<i>Cash was provided from:</i>					
Sale of property, plant and equipment	19	-	8	19	8
	19	-	8	19	8
<i>Cash was applied to:</i>					
Purchase of property, plant and equipment	(4,159)	(13,357)	(3,313)	(4,159)	(3,313)
Purchase of intangible assets	(426)	(625)	-	(426)	-
Purchase of long-term investments	(702)	-	-	(702)	-
	(5,287)	(13,982)	(3,313)	(5,287)	(3,313)
Net cash flows from investing activities	(5,268)	(13,982)	(3,305)	(5,268)	(3,305)
CASH FLOWS FROM FINANCING ACTIVITIES					
<i>Cash was provided from:</i>					
Issue of ordinary shares	7,330	7,330	8,280	7,330	8,280
	7,330	7,330	8,280	7,330	8,280
<i>Cash was applied to:</i>					
Loan to associate	-	-	-	-	(42)
Repayment of term debt	(1,215)	(1,085)	(10,447)	(1,215)	(10,447)
Finance lease principal payments	(246)	(262)	(530)	(246)	(530)
	(1,461)	(1,347)	(10,977)	(1,461)	(11,019)
Net cash flows from financing activities	5,869	5,983	(2,697)	5,869	(2,739)

The accompanying accounting policies and notes form an integral part of the financial statements

Cash Flow Statement (continued)

For the year ended 30 June 2009

	GROUP			PARENT	
	2009 ACTUAL	2009 BUDGET	2008 ACTUAL	2009 ACTUAL	2008 ACTUAL
Notes	\$000	<i>Unaudited</i> \$000	\$000	\$000	\$000
Net increase/(decrease) in cash, cash equivalents and bank overdrafts	6,204	2,235	(640)	6,198	(619)
Cash, cash equivalents and bank overdrafts at beginning of year	98	98	738	78	697
CASH, CASH EQUIVALENTS AT END OF YEAR	6,302	2,333	98	6,276	78
<i>Cash balance at end of year comprises:</i>					
Cash and on call deposits	6,302	2,333	98	6,276	78
CASH, CASH EQUIVALENTS AT END OF YEAR	6,302	2,333	98	6,276	78

The accompanying accounting policies and notes form an integral part of the financial statements

Notes to the Financial Statements

For the year ended 30 June 2009

1. CORPORATE INFORMATION

The financial statements of Industrial Research Limited and its subsidiaries are for the year ended 30 June 2009.

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 25 August 2009.

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 1993. The financial statements have also been prepared on a historical cost basis, except for derivative financial instruments which are at fair value through the profit and loss.

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

(a) Standards adopted early by the Group

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

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- NZ IAS 23 (amendment), "Borrowing costs" (effective from 1 January 2009). 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 those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 July 2009 but it is currently not applicable to the Group as there are no qualifying assets.
- NZ IAS 1 (Revised) is applicable to annual reporting periods beginning on or after 1 January 2009. The Group has not adopted this standard early. It requires the presentation of a statement of comprehensive income but will not affect any of the amounts recognised in the financial statements. If the Group makes a prior period adjustment or reclassifies items in the financial statements, they will need to disclose a third balance sheet, at the beginning of the comparative period.
- NZ IFRS 8 Exposure Draft No 116 Operating Segments – Amendment to NZ IFRS 8 has been issued by the New Zealand Institute of Chartered Accountants proposing to align the scope of NZ IFRS 8 Operating Segments with IFRS 8 Operating Segments. The International Financial Reporting Standard for Operating Segments (IFRS 8) limits operating segment disclosure to companies whose equity or debt securities are publicly traded. As Industrial Research Limited does not have any such instruments NZ IFRS 8 would not apply, the Group is currently assessing the impacts of NZ IFRS 8 in case ED 118 is not approved as a standard.

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 each year ("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 the associate 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.

All 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 statements are 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

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

(b) Computer software

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

Computer software development costs recognised as assets are amortised over their estimated useful lives (between three and five years). Costs of maintaining computer software are expensed as incurred.

Gains or losses arising from derecognition 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 uncertainty of deriving economic benefits from the commercial use of 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 or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Derivatives are also categorised as at fair value through profit or 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 as 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 derecognition 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

The Group enters into derivative financial instruments such as foreign currency contracts. Such derivative financial instruments are stated at fair value.

The Group has a policy of taking foreign exchange forward cover on large contracts in order to preserve profit margins.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Group’s derivative financial instruments are not designated as hedging instruments for accounting purposes. Accordingly, derivative financial instruments are reported as financial instruments at fair value through profit or loss.

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 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 incomes

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 take 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 nor taxable profit or loss
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

tax assets and unused tax losses, can be utilised.

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

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

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

Goods and services tax

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, is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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 estimates

During the year the useful life for office furniture, fittings and equipment was reviewed. As a result of the review the useful life for office furniture, fittings and equipment has been changed from 3 to 5 years to 3 to 10 years.

Changes in accounting policies

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

2. REVENUE

	GROUP		PARENT	
	2009 ACTUAL \$000	2008 ACTUAL \$000	2009 ACTUAL \$000	2008 ACTUAL \$000
REVENUE				
Crown revenue				
Foundation for Research, Science and Technology	31,948	28,617	31,948	28,617
Ministry of Research, Science and Technology	11,012	11,008	11,012	11,008
The Royal Society of New Zealand	548	580	548	580
Total Crown	43,508	40,205	43,508	40,205
Commercial revenue				
Commercial – domestic	7,278	7,303	7,277	7,303
Commercial – overseas	7,587	7,619	7,587	7,619
Royalty and licensing income	804	378	799	376
Total commercial revenue	15,669	15,300	15,663	15,298
Total Revenue	59,177	55,505	59,171	55,503

2. REVENUE *(continued)*

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
OTHER INCOME				
Gain on sale of property, plant and equipment	19	8	19	8
Equipment rental	1,058	776	1,058	776
Other income	74	805	74	799
Total other income	1,151	1,589	1,151	1,583
TOTAL INCOME	60,328	57,094	60,322	57,086

3. EXPENDITURE

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Employee benefit costs				
– Salary and wages	26,995	25,492	26,995	25,492
– Employer contribution to superannuation funds	230	222	230	222
– Redundancy	24	143	24	143

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.

	GROUP AND PARENT	
	2009	2008
	\$000	\$000
Severance payments	24	143
Number of employees	2	2

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Science project and subcontract costs	13,759	12,195	13,759	12,195
Repairs and maintenance	1,551	1,362	1,551	1,362
Premises and utility expenses	3,412	3,434	3,412	3,434
Other expenses				
Auditors' fees				
– for auditing the financial statements	90	97	90	95
– for other assurance services	–	–	–	–
– for other services	–	–	–	–

3. EXPENDITURE *(continued)*

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Bad debt expense	66	41	66	41
Directors' fees	239	309	239	231
Movement in provision for impairment in trade debtors	(12)	96	(12)	96
Rent and lease expenses	612	685	612	685
Foreign exchange losses	458	57	458	57
Intellectual property (Patents)	1,183	587	1,183	587
Insurance	951	917	951	917
Loss/(gain) on revaluation of financial assets at fair value through profit and loss	69	(223)	69	(223)

4. TAXATION

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000

Major components of income tax expense for the years ended 30 June 2009 and 30 June 2008.

Income statement

Current income tax

Current income tax charge	255	587	255	587
Derecognition of losses	(465)	(524)	(465)	(524)
Derecognition of temporary differences	211	(63)	211	(63)
Total tax expense reported in the income statement	1	-	1	-

Reconciliation of income tax expense

Profit before income tax	732	543	715	207
Tax at current rate of 30% (2008: 33%)	220	179	215	67
Adjustment to taxation:				
Capital loss/(gains)	21	(74)	21	(74)
Fair dividend rate	7	4	7	4
Non deductible expenses	11	151	11	151
Loss utilisation by subsidiaries	-	-	-	195
Earnings of associates/joint venture	(4)	82	-	-
Prior period adjustments	1	189	1	189
Derecognition of losses	(465)	(502)	(465)	(503)
Derecognition of temporary differences	211	(29)	211	(29)
Total tax expense	1	-	1	-
Tax expense from continuing operations	1	-	1	-

Unrecognised deferred tax assets

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Deferred tax assets have not been recognised in respect of the following items:				
Unrecognised temporary differences (note 18)	8,056	7,712	8,056	7,712
Tax losses	12,342	13,552	12,342	13,552

5. CASH AND CASH EQUIVALENTS

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Cash at bank and in hand	841	98	815	78
Term deposits less than three months	5,500	–	5,500	–
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	6,341	98	6,315	78

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

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

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Cash at bank and in hand	841	98	815	78
Term deposits less than three months	5,500	-	5,500	-
Bank overdraft	(39)	-	(39)	-
	6,302	98	6,276	78

6. EQUITY

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
SHARE CAPITAL				
Balance at beginning of the year	32,840	24,560	32,840	24,560
Share issue made during the year	7,330	8,280	7,330	8,280
CLOSING SHARE CAPITAL	40,170	32,840	40,170	32,840

6. EQUITY (continued)

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
ACCUMULATED LOSSES				
Balance at beginning of the year	(4,257)	(4,800)	(1,036)	(3,550)
Net surplus for the year	731	543	714	207
Amalgamation of subsidiary (note 11)	–	–	–	2,307
BALANCE AT END OF THE YEAR	(3,526)	(4,257)	(322)	(1,036)
TOTAL EQUITY				
Balance at beginning of the year	28,583	19,760	31,804	21,010
Movements during the year	8,061	8,823	8,044	10,794
BALANCE AT END OF THE YEAR	36,644	28,583	39,848	31,804

SHARE CAPITAL

	2009	2009	2008	2008
	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	30,571,964	32,840	21,763,454	24,560
Shares issued during the year	6,805,912	7,330	8,808,510	8,280
SHARES AT END OF THE YEAR	37,377,876	40,170	30,571,964	32,840

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.

On 16 September 2008, the Company issued 6,296,296 shares at \$1.08 per share to the Crown.

On 23 February 2009, The Company issued 509,616 shares at \$1.04 per share to the Crown.

7. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2009	2008	2009	2008
	ACTUAL	ACTUAL	ACTUAL	ACTUAL
	\$000	\$000	\$000	\$000
Current				
Trade receivables	3,014	3,296	3,014	3,296
Less: Provision for impairment	(143)	(155)	(143)	(155)
	2,871	3,141	2,871	3,141
Accrued income	358	182	358	182
Income tax receivable	1	9	1	9
Other receivables	30	23	29	14
Settlement due from disposal of subsidiary	350	–	350	–
Prepayments	1,093	846	1,093	846
	4,703	4,201	4,702	4,192
Non-current				
Settlement due from disposal of subsidiary	–	350	–	350
	–	350	–	350

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 2009 trade receivables of \$143,000 (30 June 2008: \$155,000) were considered impaired. The impaired receivables were from a number of customers.

	GROUP	
	2009 ACTUAL \$000	2008 ACTUAL \$000
Opening balance	155	62
Recognised during the year	54	155
Released	–	(35)
Utilised	(66)	(27)
CLOSING BALANCE	143	155

(b) Past due but not impaired

At 30 June 2009 trade receivables of \$880,000 (30 June 2008: \$1,093,000) 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	
	2009 ACTUAL \$000	2008 ACTUAL \$000
Within 1 month	751	848
Within 1 to 3 months	36	73
Beyond 3 months	93	172
	880	1,093

8. INVENTORIES

	GROUP	
	2009 ACTUAL \$000	2008 ACTUAL \$000
Raw materials and consumables	465	569
Work in progress	312	237
	777	806

9. PROPERTY, PLANT AND EQUIPMENT

	Land Assets \$000	Building Assets \$000	Plant Assets \$000	Capital Work in Progress \$000	Total \$000
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 2008	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 2009	3,001	17,852	9,719	648	31,220

9. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Land Assets \$000	Building Assets \$000	Plant Assets \$000	Capital Work in Progress \$000	Total \$000
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

	Land Assets \$000	Building Assets \$000	Plant Assets \$000	Capital Work in Progress \$000	Total \$000
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1 July 2007

Cost	3,001	39,778	35,861	159	78,799
Accumulated depreciation	–	(17,995)	(27,511)	–	(45,506)
Carrying amount	3,001	21,783	8,350	159	33,293

For the year ended at 30 June 2008

Carrying amount at 1 July 2007	3,001	21,783	8,350	159	33,293
Additions	–	250	1,908	664	2,822
Transfers from capital work in progress	–	72	443	(515)	–
Disposals	–	–	(4)	–	(4)
Depreciation	–	(2,369)	(2,072)	–	(4,441)
Carrying amount at 30 June 2008	3,001	19,736	8,625	308	31,670

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

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.

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 \$245 million for buildings, plant and equipment for the Gracefield site.

Finance leases

Included in plant assets at 30 June 2009 are assets capitalised under finance leases with a cost of \$6,303 (30 June 2008: \$1,257,000) together with accumulated depreciation of \$328 (30 June 2008: \$603,000).

Prior period adjustment

During the 2008 year a system calculation error was noted such that certain buildings' depreciation charge was calculated over a useful life of 15 years rather than 40 years.

The impact of this prior period adjustment is disclosed in equity for the 2008 year.

10. INTANGIBLE ASSETS

	GROUP AND PARENT	
	2009 Purchased software \$000	
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

	GROUP AND PARENT	
	2008 Purchased Software \$000	
Balance at 1 July 2007		
Cost		3,934
Accumulated amortisation		(3,125)
Opening carrying amount		809
For the year ended 30 June 2008		
Additions		494
Amortisation charge		(544)
Balance at 30 June 2008		
Cost		4,428
Accumulated amortisation		(3,669)
Closing carrying amount		759

Finance leases

Included in intangible assets at 30 June 2009 are assets capitalised under finance leases (leased software) with a cost of \$nil (30 June 2008: \$965,000) together with accumulated amortisation of \$nil (30 June 2008: \$806,000).

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	
		2009	2008
Measurement Standards Laboratory of New Zealand Limited	Non-operating – name protection	100%	100%
Industrial Research Pty Limited	Non-operating – name protection in Australia	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.

Amalgamation of subsidiary

On 14 April 2008 Innovation Finance Limited was amalgamated into the Parent. Until the date of amalgamation, Innovation Finance Limited had been a wholly owned subsidiary of the Parent. Under the amalgamation the parent took control of all the assets of Innovation Finance Limited and assumed responsibility for its liabilities. Innovation Finance Limited has been removed from the New Zealand register of companies.

Summary of effect of the amalgamation of Innovation Finance Limited

	PARENT
	2008 \$000
Investment in associate company	3,807
Intercompany receivable	9,812
Accrued expenses	(2)
	13,617
Carrying amount of shares in amalgamated company	(11,310)
Balance recognised in the statement of movements in equity	2,307

12. INVESTMENT IN ASSOCIATES

	Interest Held by the Group	
	2009	2008

Details of associates

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

Name of entity	Principal activities	Interest Held by the Group	
		2009	2008
HTS-110 Limited	Commercialisation of superconductor activity	49.76%	49.76%
		\$000	\$000
	Total assets	2,663	1,290
	Total liabilities	(1,505)	(217)
	Total revenue	2,934	2,480
	Net profit/(loss)	28	(500)

All entities are incorporated in New Zealand.
All entities have a balance date of 30 June.

Results of associates

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Share of surplus/(loss) before income tax	14	(249)	–	–
Total recognised revenues and expenses	14	(249)	–	–

Interests in associates

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Carrying amount at beginning of year	563	812	3,807	–
Acquisition of associate from subsidiary		–	–	3,807
Share of total recognised revenues and expenses	14	(249)	–	–
Purchase of additional shares (Note 21)	702	–	702	–
	1,279	563	4,509	3,807

On 14 April 2008 Innovation Finance Limited was amalgamated with Industrial Research Limited and the investment in HTS-110 transferred to Industrial Research Limited.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOST

	GROUP AND PARENT	
	2009 \$000	2008 \$000
American Superconductor Limited	409	478
	409	478

The American Superconductor Corporation shares are owned by Superlink Developments Limited, a joint venture company owned 67% by Industrial Research Limited, 33% by Meridian Energy Limited (note 14). American Superconductor shares are quoted on NASDAQ.

14. JOINT VENTURE

The Group has a 50% 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	GROUP
	2009 \$000	2008 \$000
Share of revenue	7	10
Share of expenses	(4)	(15)
SHARE OF NET SURPLUS/(DEFICIT)	3	(5)
Cash at bank	26	20
Trade receivables	1	8
Trade creditors	(1)	(5)
NET ASSETS EMPLOYED IN THE JOINT VENTURE	26	23

Superlink joint venture has the same balance date as the parent company.

15. BORROWINGS

	GROUP AND PARENT	
	2009 \$000	2008 \$000
Current portion		
Capitalised finance lease obligations	4	250
Energy Efficiency and Conservation Authority	–	3
National Bank term advances facility	–	1,203
TOTAL CURRENT BORROWING	4	1,456
Non-current portion-unsecured		
Energy Efficiency and Conservation Authority	–	9
TOTAL NON-CURRENT BORROWING	–	9

The carrying value of borrowings is equivalent to fair value.

The National Bank term advances facility is unsecured; however Industrial Research Limited has undertaken a negative pledge agreement with the bank.

TERM LIABILITY MATURITY PROFILE

	GROUP AND PARENT	
	2009 \$000	2008 \$000
Years of Maturity		
2008/2009	–	1,456
2009/2010	4	3
2010/2011	–	3
2011/2012	–	3
TOTAL BORROWINGS	4	1,465
Interest rates		
Weighted average effective interest rates on borrowings (%)		
Term advances facility	–	9.30%
Energy Efficiency and Conservation Authority loan	–	–
Capitalised lease obligations	13.52%	9.28%
Gross finance lease obligations		

	GROUP AND PARENT	
	2009 \$000	2008 \$000
No later than 1 year	4	255
Later than 1 year and no later than 5 years	–	–
Later than 5 years	–	–
	4	255
Future finance charges on finance leases	–	(5)
Present value of finance lease liabilities	4	250
The present value of finance lease liabilities is as follows:		
No later than 1 year	4	250
Later than 1 year and no later than 5 years	–	–
Later than 5 years	–	–
	4	250

16. EMPLOYEE BENEFITS ACCRUAL

	GROUP AND PARENT	
	2009 \$000	2008 \$000
Current		
Employee entitlements	555	671
Long service and retiring leave	100	93
Annual leave	1,987	1,732
Sick leave	44	79
	<u>2,686</u>	<u>2,575</u>
Non-current		
Long service and retiring leave	573	568

17. INCOME IN ADVANCE

	GROUP AND PARENT	
	2009 \$000	2008 \$000
Government and other income received in advance	1,597	1,051

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

18. DEFERRED TAX ASSET

	GROUP AND PARENT	
	2009 \$000	2008 \$000
Deferred tax		
Tax depreciation	553	669
Provisions and accruals	942	940
Intellectual property and other	922	936
Tax effect of unrecognised temporary differences	(2,417)	(2,545)
Tax effect of unrecognised temporary differences	–	–
Unrecognised tax losses		
New Zealand	12,342	13,552
Tax effect of unrecognised tax losses		
New Zealand 30%	3,703	4,066

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

19. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
CURRENT PORTION				
Trade creditors	1,652	1,813	1,652	1,813
Sundry creditors	1	319	–	313
Goods and services tax (GST) payable	426	145	426	145
Other payables and accruals	1,803	2,399	1,803	2,399
Total trade and other payables	<u>3,882</u>	<u>4,676</u>	<u>3,881</u>	<u>4,670</u>

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

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

20. RECONCILIATION OF PROFIT WITH CASH FLOWS FROM

	GROUP		PARENT	
	2009 \$000	2008 \$000	2009 \$000	2008 \$000
Profit after tax	731	543	714	207
<i>Add/(less) non-cash items:</i>				
Depreciation	4,609	4,441	4,609	4,441
Amortisation of intangible assets	493	544	493	544
Revaluation of financial assets through profit and loss	69	(224)	69	(224)
Share of earnings retained by associates	(14)	249	–	–
Non cash interest	–	–	–	643
(Surplus)/deficit on sale of plant and equipment	(19)	(8)	(19)	(8)
<i>Add/(less) movements in working capital:</i>				
Trade and other receivables	(159)	(680)	(167)	(677)
Inventory	28	64	28	64
Trade and other payables	(135)	433	(130)	435
NET CASH FLOWS FROM OPERATING ACTIVITIES	5,603	5,362	5,597	5,425

21. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation 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 for 2008 and 2009 was calculated internally using a discounted cash flow model.

Using the discounted cash flow model the liability was calculated for 2009 at \$673,000 (2008: \$661,000).

Adjusting the discount rate up/down 1.0% results in an increase/decrease of the 2009 retiring/long service leave liability balance and hence end of year profit before tax of \$45,000.

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments is determined by valuations received from the Group's bankers. The foreign exchange contract valuations have been disclosed in the balance sheet and income statement for each year. The net impact of valuing these contracts at 30 June 2009 at a mark to market valuation was a net surplus of \$4,000 (2008: loss \$7,000).

(c) Deferred tax asset recognition

The Company has gross tax losses of \$12,342,000 (2008: \$13,552,000) which have not been recognised as an asset in these financial statements. The Company has a recent history of losses or marginal profits. The Directors are of the opinion that it is not yet probable that the Company will generate sufficient taxable income in future periods in order to meet the recognition criteria in NZ IAS 12: Income Tax. Should a pattern of taxable income be established in the next 12 months the the Directors will look to recognise a deferred tax asset representing their view of tax losses that will probably be utilised over the next three years.

Critical judgements in applying the entity's accounting policies

Revenue recognition

The Group holds revenue in advance of \$1,597,000 (2008: \$1,051,000).

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.

Based upon this assessment, total revenue in advance as a percentage of total income at 30 June 2009 was 2.6% of total revenue (2008: 1.8%).

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 2010. If the equity raising does not occur then the notes will automatically be redeemed for cash on the 16 July 2010. The notes carry an initial interest rate of 0%.

Interest can be refixed after 30 July 2009 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 2010 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 can not be obtained 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 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
Financial liabilities				
Bank overdraft	39	–	39	–
Trade and other payables	3,882	–	3,881	–
Loans and borrowings	4	–	4	–
	3,925	–	3,924	–
As at 30 June 2008				
Financial assets				
Cash and cash equivalents	98	–	98	–
Trade and other receivables	3,696	–	3,687	–
Financial assets through profit and loss	–	478	–	478
	3,794	478	3,785	478
Financial liabilities				
Trade and other payables	4,676	–	4,670	–
Loans and borrowings	1,465	–	1,465	–
Derivative financial instruments	–	7	–	7
	6,141	7	6,135	7

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 expenses.

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.

To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Group uses forward contracts transacted through Group finance. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Group finance treasury policy is to hedge between 75% and 100% of anticipated cash flows (mainly overseas revenue receipts and purchase of materials). A process of natural hedge and forward cover contracts are used to hedge foreign currency risk. Between 60% and 70% of foreign currency receipts are used to purchase goods payable in foreign currency. Forward cover contracts are utilised to repatriate remaining foreign currency balances.

At 30 June 2009, if the currency had weakened/strengthened 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 \$63,000 loss, weakened \$77,000 profit (2008: strengthened \$42,000 loss, weakened \$52,000 profit) as the result of foreign exchange gains/losses on translation of US dollar denominated trade receivables/payables.

At 30 June 2009 (Group and Parent), if the currency had weakened/strengthened by 10% against the Australian dollar with all other variables held constant, post-tax profit for the year would have been: strengthened \$13,000 loss, weakened \$16,000 profit (2008: strengthened \$22,000 loss, weakened \$27,000 profit) as the result of foreign exchange gains/losses on translation of Australian dollar denominated trade receivables/payables.

(b) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from term borrowings. Borrowing issued at variable rates exposes the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose 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.

During 2008 and 2009 the Group's borrowings were denominated in New Zealand dollars.

The Group analyses its interest rate exposure on a periodic basis. Based on these periodic analyses the impact on post-tax profit of a 0.1% shift would be a maximum increase/decrease of \$nil (2008: \$7,000).

As at balance date the Group had not used interest rate swaps to hedge interest rate risk (2008: 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, and interest rate swaps and options.

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.

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

	30 June 2009		30 June 2008	
	Credit Limit \$000	Balance \$000	Credit Limit \$000	Balance \$000
National Bank of New Zealand	5,100	39	15,100	1,203

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.

	Less than 1 Year \$000	Between 1-2 Years \$000	Between 2-5 Years \$000	Over 5 Years \$000
At 30 June 2009				
Cash and cash equivalents	6,341	–	–	–
Trade and other receivables	3,609	–	–	–
Derivative financial instruments	4	–	–	–
Financial assets through profit and loss	409	–	–	–
Bank overdraft	(39)	–	–	–
Finance lease	(4)	–	–	–
Trade and other payables	(3,882)	–	–	–
At 30 June 2008				
Cash and cash equivalents	98	–	–	–
Trade and other receivables	3,346	350	–	–
Financial assets through profit and loss	478	–	–	–
Loans and borrowings	(1,206)	(3)	(6)	–
Finance lease	(250)	–	–	–
Derivative financial instruments	(7)	–	–	–
Trade and other payables	(4,676)	–	–	–

The table below analyses the Group's 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.

	Less than 1 Year \$000	Between 1-2 Years \$000	Between 2-5 Years \$000	Over 5 Years \$000
--	------------------------------	-------------------------------	-------------------------------	--------------------------

At 30 June 2009

Forward foreign exchange contracts

– cash flow hedges

Inflow 151 – – –

	Less than 1 Year \$000	Between 1-2 Years \$000	Between 2-5 Years \$000	Over 5 Years \$000
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At 30 June 2008

Forward foreign exchange contracts

– cash flow hedges

Inflow 522 – – –

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 \$7,330,000 in the 2009 year (2008: \$8,280,000). This consisted of shareholder equity injection \$4,500,000 (2008: \$8,000,000), equity investment funding \$2,300,000 (2008: \$nil) and Measurement Standards Laboratory capital funding \$530,000 (2008: \$280,000).

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, that restricts shareholding in the Group to the Crown. There has been no material change in the management of capital during the year.

During 2009 the Group's strategy was to maintain the gearing ratio below 45%. The gearing ratios at 30 June 2009 and 2008 were as follows:

	GROUP	
	2009	2008
Total loans and borrowings	4	1,465
Less: cash and cash equivalents	(6,302)	(98)
Net debt	(6,298)	1,367
Total equity	36,644	28,583
Total debt plus equity	30,346	29,950
Gearing ratio	0	5%

25. RELATED PARTY DISCLOSURES

	GROUP AND PARENT	
	2009 \$000	2008 \$000

KEY MANAGEMENT PERSONNEL COSTS

Salary and other short-term benefits (including severance payments where applicable)	1,198	1,030
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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.

	PARENT	
	2009 \$000	2008 \$000

Related party transactions

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

Transactions during the period were:

Interest to Innovation Finance Limited	–	643
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With entities associated with directors or entities associated with directors' close family members

Transactions during the period were:

	GROUP AND PARENT	
	2009 \$000	2008 \$000

Sales of services and general recoveries	1,413	794
Purchase of services	1,055	1,110

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.

Sales

Director	Related Party	Relationship	GROUP AND PARENT	
			2009 \$000	2008 \$000
Brian Rhoades	Institute of Geological and Nuclear Sciences Limited	Brother is an employee	-	111
Ian Parton	VT Fitzroy Limited	Chairman/director	47	18
Ian Parton	HTS-110 Limited	Chairman/director	898	661
Ian Parton	The University of Auckland	Council member	463	-
Ian Parton	Watercare Services Limited	Director	5	4
Amounts due from The University of Auckland			42	-
Amounts due from VT Fitzroy Limited			1	-

Purchases

Director	Related Party	Relationship	GROUP AND PARENT	
			2009 \$000	2008 \$000
Brian Rhoades	Institute of Geological and Nuclear Sciences Limited	Brother is an employee	-	46
Ian Parton	VT Fitzroy Limited	Chairman / director	-	1
Ian Parton	HTS-110 Limited	Chairman / director	1,042	1,053
Ian Parton	The University of Auckland	Council member	7	-
Maxine Simmons	NZ Bio	Member	4	10
David Henry	Burns and Ferrall Limited	Director	1	-
Amounts owed to The University of Auckland			2	-

Transactions with associate companies

	GROUP AND PARENT	
	2009 \$000	2008 \$000
Industrial Research Limited is a 49.76% shareholder in HTS-110 Limited. All transactions with HTS-110 Limited are at arm's length.		
Sales of services and general recoveries	898	661
Purchase of services	1,042	1,053
Amounts owed to HTS-110 Limited	122	-
Amounts due from HTS-110 Limited	215	81

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 Chairperson of the Board of Industrial Research Limited. During the year research funding of \$44,300 (2008: \$nil) was received from the Industrial Research Charitable Trust.

26. COMMITMENTS AND CONTINGENCIES

CAPITAL COMMITMENTS

	GROUP AND PARENT	
	2009 \$000	2008 \$000
Commitments for capital expenditure contracted	2,048	2,481
TOTAL CAPITAL COMMITMENTS	2,048	2,481

OPERATING COMMITMENTS

	GROUP AND PARENT	
	2009 \$000	2008 \$000
Commitments for non-cancellable operating leases and other operating commitments:		
Not later than one year	1,549	1,847
Later than one year and not later than five years	4,713	4,134
Later than five years	-	438
TOTAL OPERATING COMMITMENTS	6,262	6,419

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

CONTINGENCIES

There were no known contingent liabilities at balance date (2008: 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 2009 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 22 to 53 are signed for and on behalf of the Board and were authorised for issue on the date set out below.



M Ahie / Deputy Chairman



D B Henry / Director

Date: 25 August 2009

DIRECTORY

Board of Directors

Michael Ahie, Wellington

Catherine Drayton, Auckland

David Henry, Auckland

Keith McConnell, Auckland
(from 1 Sept 2009)

Ian Parton, Auckland

Brian Rhoades, Nelson
Chairman
(until 30 June 2009)

Maxine Simmons, Auckland

Craig Stobo, Auckland
Deputy Chairman
(until 30 June 2009)

Ray Thomson, Auckland
(from 1 July 2009)

Secretary, Jeff Lycett

Executive

Chief Executive
Shaun Coffey

GM Science and Technology
Barry Marlow

GM Commercialisation and
Business Development
Suki Siriwardena

GM Corporate Services
George McIrvine

Executive Officer
Jeff Lycett

Chief Financial Officer
Andrew Gavriel
(from 3 July 2009)

Associate Company

HTS-110 Ltd
Chief Executive
Donald Pooke
www.hts-110.com

Joint Venture Company

General Cable
Superconductors Ltd
CEO (Acting)
Andrew Priest

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Karen Shires, with the assistance
of PricewaterhouseCoopers
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Wellington 6140
On behalf of the Controller
and Auditor General

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Wellington 6011

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