



■ LIZ COUTTS CHAIRMAN



■ JOHN WALLEY



■ CRAIG STOBO

CHAIRMAN'S REPORT

In March this year, when delivering a speech on the opening of the new GlycoSyn facility on the Lower Hutt site, I described it as a milestone in the growing maturity and capability of Industrial Research. It is the logical extension of a process that has evolved over a decade, since the formation of this CRI.

From a position ten years ago of largely producing science funded from the public purse, then through a period of blending public good science and commercial contract science, Industrial Research is now advancing to commercialise its technology and start up new businesses.

On the occasion of the GlycoSyn opening I could not help but reflect on the progress of another project – BioPharm. In 1999 we upgraded our biopharmaceuticals manufacturing capability to be compliant with the international standard of GMP or “good manufacturing practice”. This meant that the products could be used for human medical trials and we were able to target a specialist niche market opportunity. A great deal of planning and sheer perseverance was required to bring this to fruition. Now I look back and recognise that through that process we were building a new business model for Industrial Research that is rapidly becoming its signature for the future.

While these ventures clearly have the Industrial Research stamp, they are very much in line with the Crown’s operating framework for CRIs published in February 2003. In it there is continuing emphasis on capability development as part of the innovation of New Zealand’s industry base. Extracting greater commercial value from science has become a basic tenet of the framework.

During this year Industrial Research has documented its business model based on the approach pioneered in recent years with projects such as BioPharm. The model identifies and qualifies what science has commercial potential and creates technology platforms on which commercial applications can be built. It identifies market needs and opportunities to ensure there is a customer for the product.

Industrial Research has made significant investments in the BioPharm and GlycoSyn facilities. The second downstream processing stream for the BioPharm plant was completed in October 2002 at a cost of \$4.3 million, a \$1.8 million second purification facility was near completion at year end and \$7.4 million was invested in the GlycoSyn facility opened in March. These strategic investments will constrain our financial position to invest in new projects, therefore an equity injection will be required for any new investments.

The Group reported a net loss after tax of \$578,000 for the year which reflected the decision to write off the goodwill of \$1.03 million in SRV Limited and Kruse Commentary Systems Limited.

At an operating level, operating earnings before interest were \$2,062,000 compared with last year’s result of \$2,433,000 which was disappointing. However this year’s result was impacted by costs associated with the transition to the new business model.



■ ALISON ANDREW



■ DENNIS CHAPMAN



■ RICHARD NOTTAGE



■ GEOFF MILNER

A strong, stable and financially sound organisation is essential to both grow and succeed. This is a key priority of the board.

We must also develop our people and ensure the process of creating value is sustainable. To that end, our human resource policies and practices are critical to the business. It is extremely pleasing that many of our staff have had their achievements recognised publicly. In particular, Dr Jeff Tallon was presented with the prestigious Rutherford Medal, New Zealand's premier science distinction.

We also take considerable pride in our social contribution to New Zealand society. We initiated a project that should utilise the skills and expertise resident in our polytechnics to offer, in partnership with Industrial Research, an accessible R&D resource for small and medium sized businesses. We contributed to the development of improved hazardous substance legislation and successfully met and exceeded the Government's call to conserve energy. Our technologies and the skills of our scientists are actively supporting Maori economic development in a range of projects.

All of the board subcommittees were active this year and played a vital role in assisting the board to discharge their corporate governance, strategic leadership and business performance monitoring responsibilities.

A new science advisory subcommittee was formed during the year to oversee the science selection and development process of the company, and at the same time, the capital expenditure subcommittee was disestablished with its responsibilities incorporated in the investments subcommittee.

The audit, finance and risk subcommittee initiated a structured risk management process and an internal audit programme.

From 1 July the IRL BioPharm establishment board was formed to govern the BioPharm business. Its role is to approve the strategic plan and ensure the business is positioned for growth.

I feel enormously optimistic about the next few years. A great deal has been achieved and now with a strong foundation of thinking and planning, excellent structures are in place to achieve new and challenging milestones.

I would like to thank my fellow board members for their support as I took over the chair of the company, first in an acting role and more latterly on an ongoing basis. I would also like to thank the chief executive for the leadership he is showing the organisation and the manner in which he and his managers seek to work co-operatively with the board.

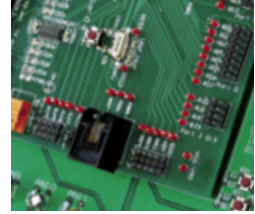
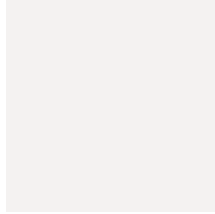
Finally, I would like to give my thanks and encouragement to the staff of Industrial Research. We have an exciting future because of what you have achieved in the past. You will all be called upon at times to break new ground both in your science and practice and the way these are applied. Our strength comes from a common purpose, and establishing a renewed purpose is our great achievement of 2002/03.

Liz Coutts
Chairman





■ NIGEL KIRKPATRICK CHIEF EXECUTIVE



CHIEF EXECUTIVE'S REPORT

This has been a milestone year, the significance of which will become evident as time gives us perspective on it. We have challenged ourselves with the question of how to best derive value from the excellent science Industrial Research has continued to produce over many years – and there is no doubt that the quality of much of our science is of world class.

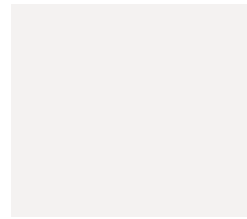
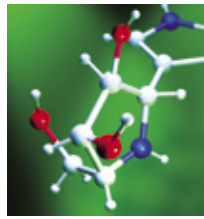
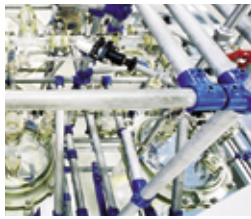
During the last decade Industrial Research has carefully and patiently built a bank of knowledge and expertise through contract research and development for both public and private sector clients. This is now an enormous asset from which even greater value can be derived for clients, for Industrial Research, for the staff and scientists involved and for New Zealand as a whole.

The next step requires a significant shift in emphasis. It involves taking some of our science assets and commercialising them, not just in a consultancy sense, but creating new and stand-alone businesses that may, for example, involve manufacturing, marketing of IP or some other form of related business enterprise.

There are two pillars of this strategy to derive value: excellent science and excellent commercial practice. Commercialisation is every bit as much a discipline as the development of science itself. Like science it requires vision, self belief and a solid infrastructure. With this in mind much of the development effort of 2002/03 was expended creating a well-worked model for commercial application of science.

Commercialisation is a process. There are two starting points. One is the right science. The other is in the market rather than the laboratory. It involves establishing customer need. The model we have created blends the science, technology and business development elements into a single process.

It is wrong to assume that an organisation that is good at science is also good at deriving value through commercialisation. There is also the danger that a commercially focused organisation may become overly pre-occupied with the process of commercialisation and diminish the role of science. These dangers can be avoided through a good business model and that is why we have taken time and care developing the model and consulting with all parties. Unless it is fully collaborative, it will not work.



Neither does this model envisage Industrial Research acting alone. Partnerships are a key part of our future. In science, partners may include other CRIs, universities and private research establishments both here and offshore. Commercial partners will include manufacturing organisations, investors and marketers. Our primary objective is to create value for New Zealand, not to own companies.

Deriving value requires vision of the potential value of core science through commercial application. Inevitably, both the science and the commercial products it may lead to will be placed on a global stage because true value for New Zealand comes from operating in a global market.

There will be difficult commercial judgements to make. For example, we will have to make difficult decisions about which science has the best potential for deriving value. Choosing the right partners will be important. In some industries there will be established players with strong balance sheets able to support major development. But particularly in the case of newer industries, there may not be the same access to partners and the process may require more of our resource and may take longer.

We now have a model for commercial application that is accepted throughout the organisation, by the board and by our shareholders and stakeholders, and this has been a major achievement of 2002/03. However, even as the model has been developing so also have some projects. The best example is the BioPharm project which is into its fifth year and is really beginning to achieve its potential.

During this year we have had to challenge conventional wisdoms. We have all been called on to look at new ideas and conceive our organisation differently from in the past. In a sense, two years of work have gone into one, with 'business as usual' and the overlay of building models for our future. My thanks to all staff for your positive attitudes, your effort and the act of faith in seeing it through.

The key to our success is leadership and this comes in many forms: individual scientists working on their projects, team leaders gaining the best from their team, the management team providing leadership across the organisation. Both passion and discipline are so important to that leadership. I would also like to acknowledge the support of the board and the shareholder. As management, we have had nothing but positive support and we intend to make good on that confidence.

Nigel Kirkpatrick
Chief Executive

