



CHAIRMAN'S REPORT

Like many New Zealand businesses in the industrial and manufacturing area, we have had a year full of challenges and opportunities. As the year progressed we saw evidence of belt-tightening reflected in our contract work. Despite that, the company has had a successful year.

This has mainly been due to rigorous efforts to contain costs and operate more efficiently and effectively during a period when revenue growth opportunities were restricted by the economic downturn. I am therefore delighted to report that we have achieved a net profit after tax of \$0.7m – a considerable improvement on our forecast in the Statement of Corporate Intent. I can also report that IRL remains free of debt, a position that is vital in the current economic conditions and is one of the factors that has allowed us to present a healthy financial picture. At the same time, a review of IRL's infrastructural assets (for example, land and buildings) is being carried out with a view to improving their utilisation, and options will be developed for discussion with the shareholders in the new financial year.

Along with the programme of financial vigilance, a commitment to engagement with industry has been another feature in our success this year. A strategic approach has helped identify gaps and shown us clear pathways for the commercialisation of our research and development (R&D) and the transfer of technology to the industrial sector. The R&D competition launched in March 2009, *What's Your Problem New Zealand?*, promises to improve our relationship with New Zealand industry still further. The competition has been a huge success, and has underlined the support and recognition by New Zealand industry of the importance of research and development as a key to opening marketing opportunities and, indeed, our future economic growth. A total of 105 entries was received from a range of sectors. The idea for the *What's Your Problem New Zealand?* competition came out of IRL's Leadership Development Programme – initiated in 2007/08 – and is a tremendous endorsement of the programme's worth in encouraging leadership throughout the organisation. I would like to thank all those staff in IRL who have contributed to the success of the competition and acknowledge their energy and enthusiasm and their dedication to making it happen.

Another important initiative is the formation of Ovine Automation Ltd (OAL), which will see IRL and Millers Mechanical providing research and development expertise to a consortium of major meat companies to automate crucial

parts of the meat processing chain. A recent survey by the Ministry of Agriculture and Forestry as part of a report on the state of the meat industry identified investment in R&D as one of the key factors in assisting industry profitability. Initiatives such as Ovine Automation Ltd are a timely development in boosting performance.

A major achievement during the year is the private-public research partnership developed with a range of companies to produce ground-breaking new products based on IRL's high temperature superconductor (HTS) R&D work. This move is crucial if New Zealand is to take advantage of the potential of HTS as a replacement technology in energy, magnet and generator applications as well as in a range of new products that can benefit from its energy efficiency and small size. The partnership includes companies that have been long-term supporters in the commercialisation of IRL's HTS research, including American Superconductor Ltd and General Cable. But it also includes companies that, while they have not been involved to date, see the potential of the technology to diversify their business and give them new market opportunities and believe the time is right to act to roll out the technology.

It is also pleasing to report on our R&D agreement signed with FOMANA Capital Ltd, the investment arm of the Federation of Māori Authorities. The Māori sector is another area where R&D has great economic potential. Settlements under the Treaty of Waitangi have resulted in a significant asset base but the issue is making a commercial return on those assets. At present the bulk of the Māori economy is concentrated in the primary sector and as a result is subject to the fluctuations of the commodity market. Under the agreement with FOMANA, research by IRL's Integrated Bioactive Technologies Group (IBT) is identifying valuable ingredients with potential for nutraceuticals and cosmeceuticals.

Research by IBT is also the subject of an agreement with Nutriventures Ltd – the major shareholder in Nelson-based natural products producer Nutrizal. Under this agreement, the company will have the option to license new intellectual property (IP) arising from IRL's Foundation for Research,

Science and Technology (FRST)-funded High Value Lipids project, with Nutriventures contributing co-funding for the project. The IBT Group has already made a big contribution to New Zealand's natural products industry through the discovery of valuable bioactive ingredients in primary products, plants and herbs and this agreement will see that contribution increase.

During 2008/09, we signed a collaboration agreement with our counterpart in Taiwan, the Industrial Technology Research Institute, or ITRI. Although it is much larger than IRL (it has around 6,000 staff to our 300) its role is very similar and their areas of expertise fit well with ours. Our first projects are to work on the further development and commercialisation of two of IRL's assistive devices prototypes and the benefits of the partnership are already clear. One of these devices – a hand-held dynamometer designed to be used by health professionals to test muscle strength – is now well down the commercialisation path thanks to ITRI's expertise in bringing down production costs. The other device, an upper arm exercise for brain trauma treatment that is linked to a computer game, is undergoing clinical trials in both Taiwan and New Zealand.

GlycoSyn continues to make a contribution to our financial performance. GlycoSyn specialises in the development and small-scale manufacture of small molecules, peptides, carbohydrates and the multi-step synthesis of active pharmaceutical ingredients for pre-clinical and clinical trials. Although affected by the economic recession, resulting in lower revenue than forecast, great efforts by staff to contain and reduce costs have been successful and there have been significant improvements in the pipeline of work and hence in revenue growth in the future. As noted in last year's report, IRL has embarked on a plan to ensure that GlycoSyn can be developed to take advantage of market opportunities through the identification and involvement of a suitable external investor.

Congratulations go to the IRL staff who have been honoured in a series of awards during the year. Among them, Jeff Tallon was named a Companion of the New Zealand Order of Merit and IRL's Superconductor Roebel Cable team was awarded the 2008 Royal Society of New Zealand Cooper Medal. IRL scientists also took two of the three major medals awarded in 2008 by the New Zealand Association of Scientists: natural products chemist Lai Yeap Foo received the Marsden Medal while carbohydrate chemist Graeme Gainsford was awarded the Shorland Medal.

Our scientists were also recognised by industry. Tim Kemmitt received an award for his work on photovoltaics for solar

power generation while Andreas Luxenburger was named NZBIO Young Biotechnologist of the Year.

I would also like to acknowledge people outside IRL who have worked with us over the year. Phil O'Reilly, Chief Executive of Business New Zealand, has been a strong supporter of the role R&D can play in New Zealand and we have appreciated his support for the *What's Your Problem New Zealand?* competition. I would also like to thank the judges who gave their time to the competition and especially Chief Judge Garth Carnaby and his colleagues Garry Diack, Chris Kelly, Drew Stein, Ken Taylor and Bob Thomson. Our thanks also go to those who were part of the panel that decided the finalists list of 10 companies.

Once again the Board would like to pay tribute to the commitment and dedication of IRL staff and to Shaun Coffey and the senior leadership team for their resilience and tenacity during this period.

This year sees the departure of two Board members who have made a significant contribution to IRL. Brian Rhoades, who has been Chairman for the past three years, brought to the board table his background in science, management and governance and a commitment to, and belief in what IRL can do for New Zealand. The Board acknowledges Brian's tremendous contribution to IRL. We also farewell Craig Stobo, who has been a director for six years, including a term as Deputy Chairman. His sound judgement and knowledge of the financial sector have been vital in helping us return to profitability. We wish them well for the future.



Michael Ahie Acting Chairman

